Report of the Portfolio Committee on Trade and Industry on their oversight visit to Gauteng and Mpumalanga from 19 to 22 April 2022, dated 31 May 2022

The Portfolio Committee on Trade and Industry having visited the National Regulator for Compulsory Specifications (NRCS) and the South African Bureau of Standards (SABS) to assess their progress in terms of implementing their turnaround strategy and the resolution of their audit findings; the Mpumalanga Department of Economic Development and Tourism (DEDT) to engage on progress made with the development of the Nkomazi Special Economic Zone (SEZ) and the Ekandustria Industrial Park; and private enterprises that have received funding from the Department of Trade, Industry and Competition (DTIC), the Industrial Development Corporation (IDC), and the National Empowerment Fund (NEF), reports as follow:

1. Introduction

In terms of section 42(3) of the Constitution of the Republic of South Africa, 1996, the National Assembly must scrutinise and oversee Executive action. The National Assembly through the Portfolio Committee on Trade and Industry oversees the work of the DTIC and its entities to ensure that national priorities such as economic transformation, spatial integration and the development of rural economies, and the creation of decent employment are met. The DTIC's main mandate is to facilitate the creation of an environment conducive to industrialisation and regional economic development that facilitates economic transformation. Furthermore, it facilitates regional and international trade and investment, promotes exports, regulates companies and ensures consumer protection. In this regard, it maintains the technical infrastructure to support these objectives.

1.1. Purpose of the visit

There was a dual purpose of the visit. Firstly, the Committee visited the NRCS and the SABS to follow up on progress made in implementing their turnaround strategies, as part of ongoing oversight over these two entities. In terms of the NRCS, the key focus areas were the implementation of systems and/or processes to resolve the inaccurate estimation of levy revenue; and the implementation of the Information and Communication Technology (ICT) Modernisation Project. In terms of SABS, the key focus areas were (i) the resolution of matters affecting the financial viability of the SABS, as well as the implementation of the turnaround processes and a new business model to improve its financial viability; and (ii) the management of its property at the Groenkloof Campus in terms of the maintenance of its ageing infrastructure.

Secondly, the Committee focused on industrialisation and the expansion of the manufacturing base to ensure economic development, transformation opportunities, and job creation in Mpumalanga. In this regard, it visited the Ekandustria Industrial Park in Bronkhorstspruit, Gauteng, which is owned and managed by the Mpumalanga Economic Growth Agency (MEGA). During this visit it also engaged the Mpumalanga DEDT and the DTIC on the development of the Nkomazi SEZ. Furthermore, the Committee engaged the Mpumalanga DEDT, the MEGA and the DTIC on the developments and plans for the Ekandustria Industrial Park.

Furthermore, it visited a number of projects funded by the DTIC, the IDC, or the NEF in the Gert Sibande and the Nkangala District Municipalities in Mpumalanga. These engagements were focused on the effectiveness of industrial financing by the DTIC and its two Development Finance Institutions (DFIs).

1.2. Delegation

The following Members of Parliament participated in the oversight:

- Mr Z Burns-Ncamashe (African National Congress (ANC)),
- Mr M Cuthbert (Democratic Alliance (DA)),
- Ms J Hermans (ANC) (Chairperson),
- Mr C Malematja (ANC),
- Mr S Mbuyane (ANC),
- Ms R Moatshe (ANC),
- Ms N Motaung (ANC),
- Mr W Thring (African Christian Democratic Party), and
- Mr M Tshwaku (Economic Freedom Fighters).

The Committee was supported by the following members of staff:

- Mr A Hermans, Committee Secretary;
- Ms Z Madalane, Researcher;
- Ms Y Manakaza, Committee Assistant; and
- Ms M Sheldon, Content Advisor.

1.3. Purpose of the report

This report captures the substantive discussions the Committee had during the oversight visit. The Committee Secretaries can be contacted for access to the detailed presentations from the NRCS, the SABS, and the Mpumalanga DEDT.

2. National Regulator for Compulsory Specifications

The NRCS was established on 1 September 2008, as a national regulatory agency under the NRCS Act (Act No. 5 of 2008). Its mandate is to promote public health and safety, environmental protection and fair trade through the development and administration of compulsory specifications and/or technical regulations. In addition, it considers products for pre-market approval (including the issuing of Letters of Authority (LOAs)) and engages in market surveillance activities at the ports of entry and within the domestic market to ensure compliance with the requirements of the compulsory specifications and technical regulations.

These activities seek to protect consumers and the environment against unsafe and harmful products. Where products are found to be non-compliant, the NRCS may impose administrative sanctions through sales or import restraints, withdrawal of NRCS approval, product recalls, confiscation and destruction of these products, or the return of imported products to their country of origin. These sanctions are at the cost of the manufacturer or importer of the non-compliant products.

Furthermore, the NRCS administers the Legal Metrology Act (Act No. 9 of 2014) and the National Building Regulations and Building Standards Act (Act No. 103 of 1977), as well as other delegated legislation or regulations that fall under other departments as far as they relate to compulsory specifications to protect human health and safety, and the environment; and to ensure fair trade.

2.1. Background

Historically, the NRCS has been faced with two main challenges, among others, namely (i) the audit qualification linked to levy revenue collection, and (ii) the slow implementation of the ICT Modernisation Project which is meant to assist in addressing some of the challenges that the entity faces. In 2018, the NRCS developed and started implementing a turnaround strategy to overcome these challenges.

2.1.1. Estimation of Levy Revenue

The NRCS had been receiving qualified audit opinions from the Auditor-General of South Africa (AGSA) since the 2013/14 financial year. This was consistently attributed to a ‘technical’ revenue qualification in terms of the completeness and cut-off of levy revenue.

In this regard, the NRCS Act requires that any person who imports, sells, or supplies a commodity or product manufactured, built, or imported, to which a compulsory specification applies, must pay fees (levies) to the NRCS as prescribed by the regulations. The NRCS informed the Committee that it had only been estimating its levy revenue based on the companies it had registered, had issued pre-market approvals to, or had identified through its market surveillance inspections (so-called known companies). However, the basis for the audit qualification relating to revenue completeness had been that:

- There were companies submitting levy declaration forms and declaring levies to the NRCS which were not registered by the NRCS (“unknown”) as per the regulation.
- The estimation methodology used by the NRCS had not factored in the official economic growth statistics for the 2018 calendar year and assumed that there should be a 10 percent increase in units to be declared by all levy payers across all different sectors of the economy. This means that the NRCS assumed that the levies would not be affected by bad economic conditions, which was unrealistic.

- Approximately 15 percent of the levy declarations had been estimated to achieve the 100 percent levy declarations.
- There had been a failure to reverse accruals.
- There had been a failure to consistently charge the R500 administrative penalty fee for all levy payers who had not submitted returns.

Furthermore, the AGSA had found that the levy revenue had not been effectively distributed into the correct financial year to account for so-called cut-off revenue. The NRCS had explained that its levy declaration periods were linked to the calendar year with four mandatory periods for production figures to be declared as per the regulation and two bi-annual levy periods that were accompanied by payments. The first bi-annual period covers 1 January to 30 June and the second covers 1 July to 31 December. Whilst the quarterly forms are used for reporting purposes, first quarter (January to March) declaration forms are used to correctly account for the revenue in the correct financial year. However, the industry was not complying with the requirement to submit the quarterly declarations and there were no stringent penalty mechanisms to force them to, which may require a legislative amendment.

In order to address the cut-off service revenue finding, the NRCS had proposed that a proper referencing system for payments should be developed, so that each application for an approval certificate or a LOA could be linked to a payment.

In terms of the estimation methodology, the NRCS informed the Committee that it had completed the position paper on levies in a bid to resolve the audit qualification. The estimation methodology would be utilised to estimate levies for regulated companies that fail to comply with the NRCS Act and Regulations with regards to levy declarations. The NRCS had been in consultation with the AGSA on whether the methodology, if implemented, could address the qualification.

In February 2022, the NRCS had updated the Committee on progress made in this regard. It indicated that the AGSA had once again given its financial statements a qualified audit opinion for the 2020/21 financial year due to the levy revenue estimation. However, at the time, the following progress had made to resolve the revenue qualification:

- The team had re-estimated levies for the 2020/21 financial year and Internal Audit had been in the process of auditing these estimations.
- The AGSA would have started an interim audit mid-February to attempt to resolve any findings before the final Annual Financial Statements for the 2021/22 financial year were due for submission.
- The levy declaration forms that had been sent out in July 2021 had also been amended to change the declaration per quarter and instead leave it open for the entire six-month period to assist with the estimation process.
- An Enterprise Resource Planning (ERP) system had been developed to allow customers to capture declarations online thereby reducing human error. The system had been planned to go live at the end of January 2022 and would assist going forward.
- The Estimation Process for the 2021/22 financial year was planned to start in mid-January 2022 to ensure that it would be ready for the AGSA by end of February 2022, and the January to March declarations would be treated as an adjustment entry.

2.1.2. ICT Modernisation Project

The NRCS had been working on its ICT Modernisation Project[1] since 2016. This Project is meant to:

- Improve the efficiency of its services to its customers;
- Transform it from a paper-based to a digital-processing environment;
- Integrate support and core functions that will assist with the company registration process and levy payments (increased revenue);
- Add mobility to the inspectors/field workers through web-based and mobile technologies;
- Improve information accessibility for employees, clients, and other stakeholders;
- Increase collaboration with its stakeholders or partners in information sharing; and
- Improve data integrity, security, and accessibility.

[1] NRCS (2016)

Key processes that had been targeted for automation were the processing of LOAs and the estimation and collection of levy revenue.

The Project has been wrought with challenges leading to delays in implementation, such as a lack of the requisite skills internally, resignations of key employees central to the implementation of the project, and procurement process challenges. In 2019, some interventions had been made including the:[2]

- Establishment of the Audit, Risk and Compliance Committee to spearhead this project, and oversee its implementation;
- Appointment of the Chief Information Officer (CIO) through a secondment from the State Information Technology Agency; and
- The process to appoint a Supply Chain Manager which had been set to be finalised by 24 December 2019.

Additionally, as part of its turnaround strategy, the NRCS had informed the Committee that the former Department of Trade and Industry (DTI) had seconded Financial and Information Technology specialist staff from the Companies and Intellectual Property Commission to ensure that the entity received a clean audit.

The ICT modernisation project had prioritised key components, namely:

- The ERP System, which includes modules for financial management, human capital, asset management, etc. A consortium of two service providers had been appointed in October 2020 to implement SAGE 300 and other solutions. The Human Capital Management Payroll and Leave modules went live in June 2021, and the Finance, Supply Chain, and Facilities modules went live in November 2021. The Performance Management and the Revenue modules had been due to go live in February 2022.[3]

- Upgrading and stabilising the existing JD Edwards system, which was an accounts management system, to resolve all audit findings.[4]

- The Regulatory System/Operations System focused on the core areas. To date, eForms had been implemented for online registration for meat products and was being tested. The Resource Company Bid for the Regulatory System should have been finalised by March 2020.[5] The Risk-Based Approach rules had been incorporated by March 2020. Furthermore, One Resources had been appointed in August 2021 to document User Requirements and all core processes for all Business Units. This had been completed in December 2021. The NRCS had been finalising its Bid Specification document to develop an automated regulatory system, which should have been completed in January 2022, with the tender being published by February 2022.[6]

- Upgrading the ICT infrastructure. In this regard, the ICT bandwidth had been upgraded to enable all users to have adequate online access to the NRCS Network to ensure employees productivity regardless of location. The NRCS Network had been reviewed to consider all the Regional Offices that form part of the Organisational Wide Area Network (WAN). The Scope of Work for refreshing the WAN had been developed. The Project initiative had been aimed to be completed by January 2022.[7]

- Ensuring data integrity, back-up, archiving and security of its systems. With the assistance of Gartner, a comprehensive review of the NRCS Security posture had been conducted. A high level scope of work to adopt a fit for purpose Security as a Service model had been defined considering the Gartner report's recommendations. Real-Time Security Monitoring and Endpoints

[2] Portfolio Committee on Trade and Industry (2019)
[3] NRCS (2022a)
[4] NRCS (2021)
[5] NRCS (2020a and 2020b)
[6] NRCS (2022a)
[7] NRCS (2021)

Security, as well as Vulnerability Management and Remediation and Incidence Response, had been implemented.[8]

In spite of some progress that had been made, the NRCS had still reported challenges in terms of inadequate internal capacity to implement the Modernisation Project; inefficient functional processes and inadequate capacity to support and drive the Project's key initiatives; and the need to develop a customised system to meet the requirements of its operating model.[9]

2.2. Outcomes from the engagement with the NRCS

2.2.1. Estimation of Levy Revenue[10]

The NRCS informed the Committee that the basis for the continual revenue audit qualification was as a result of the financial year that runs from 1 April to 31 March. The levy period, however, runs from January to December. This historical qualification related to the accruing, estimation and accounting of revenue for 3 months (January to March) of the financial year. However, the NRCS is expected to estimate this revenue based on customer history and record it in the relevant period. The qualification for the 2020/21 financial year related to the recording of revenue in the incorrect financial year period, based on the customers' declaration forms.

To address the revenue audit qualification, the NRCS informed the Committee that it had re-estimated levies for the 2020/21 financial year. This process would have normally started in May, with financial statements due on 31 March of the following year, but a decision was taken to start this process in December to ensure that the opening balances were correct. These estimations had been submitted to the NRCS's internal auditing unit, that was currently in the process of verifying these estimations. These estimations had also been submitted to the AGSA, with the Office supporting the start of an interim audit in mid-February in an effort to resolve any findings before the final Annual Financial Statements were due for submission. Furthermore, the levy declaration forms that had been sent out in July had been amended to change the declaration period per quarter instead of leaving it open for six months, which would also assist with the estimation process. The NRCS informed the Committee that an ERP system had been developed that allows customers to capture their declarations online, which would significantly reduce human error on the NRCS' part. The estimation process for the 2021/22 financial period started in January to ensure that it would be ready for submission by the end of February to the AGSA. However, the January to March declaration would be treated as an adjustment entry.

2.2.2. ICT Modernisation Project[11]

The NRCS informed the Committee that there were three main categories in terms of systems enhancement within the NRCS with the focus on (i) the Network Upgrade and the Documentation Management System, (ii) the ERP Solution, and (iii) Regulatory Systems. In terms of the network, it had completed the upgrade of its central network connection bandwidth between its regional offices to enhance connection speed. At the same time, the NRCS was in process of finalising the scope of work to upgrading the network switches as well as the Wi-Fi Access Points to enhance connectivity.

Furthermore, it informed the Committee that it had revamped its website to ensure ease of navigation for information by its consumers/customers. Currently, the NRCS is in the process of upgrading its documentation management system by adopting Microsoft SharePoint as a content repository and records management solution system.

With regard to the ERP System, the NRCS informed the Committee that, in June 2021, it had activated the automation of the Finance, Human Capital Management and Payroll, Supply Chain, Facilities and Warehousing business processes. It was continuously monitoring and reviewing these process solutions to ensure that lessons learned during the implementation phase would be incorporated to ensure the optimisation of these systems, as it affects multiple functions across the system.

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[8] Ibid
[9] NRCS (2022a)
[10] NRCS (2022b)
[11] Ibid

In terms of the regulatory system solution, the NRCS had concluded its business requirement and processes with a draft specification document finalised in January 2022. The NRCS had appointed a bid committee to drive the Supply Chain Management process to appoint a competent service provider. However, the tender process had been delayed by the Constitutional Court ruling with regard to the Preferential Procurement Policy Framework Act (PPPFA) (Act No. 5 of 2000) Regulations. Approval had since been granted by National Treasury to proceed with the project with the tender being finalised soon.

With regard to the modernisation of the ICT system, the NRCS highlighted its roadmap for 2021-23. Its intention was to complete its modernisation process during the 2022/23 financial year with (i) the implementation of the Central Regulatory and Workflow System, (ii) the enhancement of the ICT Governance and Cybersecurity Controls, (iii) the implementation of phase 2 of the ERP system which includes modules for Audit, Risk and Legal, and (iv) the implementation of the Customer Contact Centre Solution.

With the ERP solution mentioned earlier, a module for revenue management was still outstanding. The NRCS also intended to enhance its communication with the content to external stakeholders as well as proceeding with the record management in terms of containing the repository management through Microsoft SharePoint. Furthermore, the focus of central regulatory system would be the implementation of key components which would include Artificial Intelligence and Drones to enhance the inspection process, as well as the LOA application process. The intention was to drastically reduce the timeframe of the LOA approval process where an applicant submits all the necessary documentation.

The ultimate goal was to enhance customer interaction through these processes. From an inspection perspective, the aim was to incorporate technology for inspectors to submit all necessary documentation immediately once they concluded an inspection. This would enable managers to monitor and check the performance of inspectors when they conduct their inspections, which would also include the processing of LOAs. Furthermore, it would eliminate the manual capturing of information which would provide real-time data for managers to evaluate/manage performance.

The NRCS informed the Committee that cybersecurity has become a major concern and that it was enhancing its controls, not necessarily only through policies and processes, but also through the necessary technology to enhance its cybersecurity. This was to ensure that information on mobile devices as well as within the internal environment, was secured so that it would only be accessible to the relevant people in a particular process.

The NRCS informed the Committee that its intention was to establish a contact centre solution which was aimed at enabling customers to have access to its officials regardless of their location. This would further enhance customer engagement with the NRCS.

2.2.3. Irregular expenditure and fraud[12]

The Chief Financial Officer (CFO) of the NRCS informed the Committee that the NRCS has regularised all irregular expenditure contracts, except for two outstanding matters. For the 2021/22 financial year, no new irregular expenditure had been recorded. With respect to the recurring irregular expenditure, the NRCS informed the Committee that in terms of its Bloemfontein Office space, a new service provider had been appointed with the NRCS taking occupation on 1 July 2022, which would eliminate the irregular expenditure in this regard. Appointment of service providers that would follow proper procurement management process and would eliminate irregular expenditure had been secured. Consequence management had been implemented that resulted in the demotion of the responsible official, with a new person having been appointed to deal with facility management to minimise these irregular expenditures. The NRCS informed the Committee that it had applied to National Treasury for the condonation of these irregular expenditures.

In terms of the one ICT contract, the NRCS informed the Committee that it had appointed a service provider to facilitate its tender process around its ICT modernisation. However, officials had

[12] Ibid

advertised the call for the public to submit bids for only 14 days instead of the required 21 days in terms of its procurement policy without the necessary authorisation by the Accounting Officer. This had resulted in irregular expenditure. In terms of the framework of National Treasury, whenever irregular expenditure occurs a committee must be appointed to investigate and determine who is accountable and liable for the irregular expenditure.

With regard to the incidence of fraud, the NRCS informed the Committee that the disciplinary hearing was ongoing and that it had been postponed until the end of May. It was hopeful that the matter could be finalised swiftly, but that would depend on the extent of evidence provided during the disciplinary proceedings.

2.2.4. Market Surveillance or Inspections

The purpose of market surveillance especially within the areas of Electro-technical, Automotive, and the Chemical, Mechanical and Materials, is to ensure safety and health of consumers, as well as the protection of environment. Most of the non-compliance relates to safety requirements, which would be products that fall short of the necessary safety standards. With respect to Legal Metrology in ensuring fair trade, most of the non-compliance identified relates to products being underweight and mislabelled. In relation to Foods and Associated Products, most for the non-compliance relates to sub-standard foods not fit for human consumption.

To date, the NRCS through its market surveillance activities discovered non-compliant products to the value of R268 million[13]. It also informed the Committee that it conducts targeted market surveillance on high risk products in relation to manufacturers, importers and builders.

As part of its oversight visit, the Committee was taken through three types of inspections that the NRCS conducts as part of its mandate, namely on the dispensing of fuel at fuel stations, food and associated products, and on automotives, specifically minibus taxis.

2.2.4.1. Fuel Dispensing Inspection

During the Committee's visit, the NRCS conducted a visit to a petrol station as part of it market surveillance activities to verify whether the petrol station complies with compulsory specifications, meaning that consumer receives the correct amount of litres of petrol it paid for.

As part of its legal metrology mandate, the NRCS appoints designated laboratories as verification officers of measuring instruments to ensure that they are calibrated and are measuring accurately within the tolerance or margin of error scope of 0,05 percent. These laboratories and their technical staff must be South African National Accreditation System (SANAS) approved. The NRCS then develops inspection plans to test and verify the findings of these appointed verification officers across a range of measuring instruments. These plans have a national footprint and inspections by its 26 inspectors are usually unannounced. It also indicated that the owners of the measuring instruments pay the verification officers to ensure that their instruments are calibrated.

The NRCS demonstrated how it conducts an inspection of fuel dispensing instruments. During the fuel dispensing inspection, the NRCS inspector confirms that there is a valid verification certificate and a SE number on the instrument. These are valid for 18 months and the instrument is sealed after the verification. The seal indicates the year the instrument was last verified. Several tests are conducted to determine the accuracy of the volume of fuel dispensed, as well as the accuracy of the Rand value calculated at the pump. These include a fast and slow test, nozzle burst test and back drainage test.

2.2.4.2. Food and Associated Products Inspection

In terms of food and associated products inspection, the NRCS is mandated to inspect all fresh, frozen and canned fisheries products, as well as canned and processed meat by the Department of Health. It is also accepted as the competent authority by a number of countries to provide a health

[13] Ibid

guarantee for exports of these products. It inspects the raw material and processing facilities in terms of biological, chemical, e.g. levels of histamine and presence of heavy metals, and packing material requirements. Packing material is important to ensure that commercially sterile products are not compromised. Furthermore, it checks that the food labelling requirements are met.

In terms of canned meat, it inspects the fat and protein content. In terms of canned fish, it inspects the bone/meat ratio, drained weight, appearance and packing material.

It has also recently started implementing the new regulations on processed meats to curb exposure to listeria. In this regard, it samples products from factories and retailers. The focus is on food safety and thus high risk products, namely ready to eat products. Currently, it inspects about 400 samples a day.

The NRCS is also assisting Fish and Fishery Products exporters especially bivalve molluscs exporters to China by registering firms on the new electronic system of the importing country.

2.2.4.3. Homologation laboratory/Minibus Inspection

The NRCS is mandated by the Department of Transport to inspect certain vehicle components or systems for homologation purposes. These are usually new vehicles before they are introduced into the market or vehicles that have been converted. Once the relevant vehicle systems or components have been approved, the model and/or vehicle is registered on the electronic National Administration Traffic Information System and becomes the responsibility of the relevant transport authorities.

The NRCS emphasised that it only inspects these vehicles and is not responsible to test any of the systems or components. Some of the systems and/or components that are subject to compulsory specifications are the braking system, seat belts, seats and carriages, lights, glass, and tilt angle and rolling of the vehicle. Each application should be accompanied by all the relevant test results from accredited laboratories, which the NRCS uses to conduct its inspections.

Inspectors in this area have a mechanical engineering background. However, they must undergo three years of training to qualify as inspectors in the field.

2.2.5. Stakeholder engagements[14]

In terms of the stakeholder engagements, the NRCS has increased its activities aimed at ensuring (i) increased consumer awareness of the NRCS' programmes, (ii) accessibility by industry players, (iii) assistance to businesses to comply with regulations, and (iv) assistance and encouragement to Small, Medium and Micro Enterprises (SMMEs) to comply with regulations and to participate in compulsory specification development processes. It had also reprioritised its stakeholder engagements to focus on rural communities and vulnerable consumers.

In terms of stakeholder engagements in rural areas, it normally solicits the assistance of local councillors, local traditional leaders as well as the local police to assist and facilitate such community engagements. This is an effort between the NRCS and local leadership on all fronts to ensure successful community participation and engagement.

2.2.6. Other issues

2.2.6.1. Compulsory specifications in relation to vehicles

With respect to legacy issues, the NRCS informed the Committee that with respect to updating vehicle regulations, it had finalised the drafting of two compulsory specifications and would submit this to the Minister to be Gazetted by the end of July 2022. This relates to compulsory specifications for light passenger vehicles as well as light commercial vehicles. These compulsory specifications would address vehicle fire risks based on the available international regulations, and would introduce compulsory conformity of production requirements.

2.2.6.2. Human resources

With regard to the appointment of senior management, as well as the position of the Chief Executive Officer (CEO), the NRCS indicated that the CEO had been appointed for a five-year period and that

[14] Ibid

his current contract would expire in March 2023. Currently, only one General Manager for Metrology was an acting position, but all other senior positions had been filled. Furthermore, the General Manager for Metrology position had been advertised twice with no suitable candidate being identified.

Regarding its current working arrangements, the NRCS reported that it was still operating on a hybrid working arrangement. Staff that could effectively operate remotely would continue to do so. Others, due to the nature of their work, have been requested to return to the office. The NRCS had allowed for this flexibility to its protocols to minimise the exposure to the Coronavirus.

2.2.6.3. Unfunded mandates

The NRCS informed the Committee that its functions are usually funded on a cost-recovery basis from industry. The costs are recovered through levies, which are Gazetted, and service revenue. However, the following areas are under-funded or are unfunded:

2.2.6.3.1. Processed Meats

Market surveillance for Processed Meats requires approximately R14,8 million per year and is expected to increase by the Consumer Price Index (CPI) plus one percent each year. Processed meats is regulated under the NRCS Act, as amended. The Act makes provision for the Regulator to charge levies that can be used to offset the regulatory costs for the respective compulsory specification.

The compulsory specification was approved by the Minister for implementation. As part of this process, the NRCS had consulted with the industry and submitted proposed levies to the DTIC. Thus, due process had been followed by the NRCS. However, the levies have not been gazetted, as there were some queries raised by the industry.

The NRCS has made submissions to the DTIC in relation to these queries and has requested to be part of the ongoing engagements with industry. The NRCS was thus awaiting feedback from the DTIC on the levies or the respective funding thereof.

2.2.6.3.2. Legal Metrology

The Legal Metrology mandate is underfunded and the NRCS has submitted a plan to the DTIC in terms of the implementation of the expanded scope and the related funding requirements. The initial amount required for the outlay of the extended mandate by the NRCS was R22 million. There would also be operational costs incurred each year that would increase by a factor of CPI plus one percent annually. The Legal Metrology funding was a matter also under consideration by the DTIC**.**

2.2.6.3.3. National Building Regulations and Building Standards Act

The National Building Regulations and Building Standards Act (Act No. 103 of 1977) was under review by the DTIC. The DTIC had indicated that it was committed to address the funding challenge with the review of the legislation.

3. South African Bureau of Standards

3.1. Mandate

The SABS is a statutory body that was established in terms of the Standards Act (Act No. 24 of 1945) and after a number of legislative reforms is now governed by the Standards Act (Act No. 8 of 2008). The SABS, as the national standardisation institution in South Africa, is mandated to:

- Develop, promote and maintain the South African National Standards (SANS);
- Promote quality in connection with commodities, products and services; and
- Render conformity assessment services and matters connected therewith.

3.2. Background

After the SABS had been placed under administration in July 2018, the co-administrators had been mandated to (i) undertake a diagnostic analysis of the SABS, (ii) develop a ‘turn-around’ strategy for the institution, and (iii) implement this strategy in consultation with the shareholder.

The diagnostic process highlighted several areas of concern including:[15]

- The deterioration of stakeholder and client relations due to sub-optimal resolution of complaints and queries; and the discontinuation of customer-specific requirement testing or partial testing against standards;
- Ineffective or sub-optimal business processes leading to the expiration of permits and loss of accreditation in certain laboratories, and impacted on standards development;
- The loss of critical skills leading to long-standing mission critical vacancies;
- Serious shortcomings and lack of capital expenditure in the maintenance of plant and equipment impacting on the functioning of laboratories;
- A drastic drop in revenue from conformity assessment and laboratory services; and
- A disclaimer audit opinion had been received in the 2017/18 financial year.

The turnaround strategy sought to address these areas of concern while taking cognisance of the SABS' fiscal position and revenue generation. The strategy has three phases. The first phase had been to stabilise the SABS through the co-administrators and implement initial interventions to stabilise the institution. The second phase was to fix the business by addressing operational challenges, and rectifying various basic business processes. The third phase would be to chart a new course. This would entail appointing a new Board and CEO to determine the long-term structural, strategic, and systemic issues involving the future direction of the SABS including its business model and company structure, namely its cost structure and the mix of 'public good' and commercially viable services.

3.2.1. Financial Situation[16]

In terms of the SABS' financial viability, it faced two challenges, namely (i) insufficient revenue generation from conformity assessment services to cover its operational expenditure; and (ii) a very high cost base that needed to be reduced (mainly from its compensation of employees and national footprint that included costly infrastructure and equipment to be maintained and upgraded). It had reported in 2019 that failure to generate a significant amount of additional revenue and cut costs would result in cash resources being depleted by March 2021. This would then compromise its ability to continue providing a broad range of "public good" services in a competitive market. At the time of the 2020 oversight visit, it had expected to only achieve break-even point in the 2022/23 financial year.

As at August 2021, the SABS reported that it had achieved the following:[17]

- Implementation of planned cost reduction initiatives:
    - The section 189[18] process through voluntary severance packages (VSPs) and early retirement (ER) had led to 110 employees being approved for these packages, saving the SABS approximately R69 million of the targeted R150 million in required savings.
    - There had been R30 billion in savings in administrative and operating costs, this had been due to stringent cost-containment initiatives implemented as well as work from home. However, the fixed total cost-to-company had yet to be addressed.

- Generation of additional revenue:
    - At the end of June 2021, it had recorded R6,4 million profit compared to an expected net loss of R22,2 million.
    - The SABS had been receiving rental income from its tenants, namely the Construction Industry Development Board, the NRCS and the National Consumer Commission.
    - It had been engaging existing and top-tier clients, as well as potential new clients to retain and grow its customer base.
    - Cash collections increased in the first quarter of the 2021/22 financial year when compared to the previous year. Operational improvements had been implemented to ensure maximum monthly cash collections.

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[15] SABS (?)
[16] SABS (2019b; 2020)
[17] SABS (2021)
[18] Section 189 of the Labour Relations Act permits employers to dismiss employees for operational requirements. These are defined as requirements based on economic, technological, structural or similar needs of the employer.

- The SABS received the government grant amounting to R328,8 million, inclusive of Value-Added Tax, from the DTIC for the 2021/22 financial year, transferred upfront in April 2021 to assist with the liquidity challenges.

Other focus areas had been procurement, finance, and facilities. In terms of procurement, the SABS reported that it would develop a supplier development programme; finalise the integrated demand plan; and review all existing contracts. In terms of finance, there had been no differentiation in pricing; however, it had been revising its pricing strategy to ensure competitive rates in the market. Furthermore, it had been developing a direct/indirect cost analysis model to determine costs per laboratory, especially those laboratories that operated on a public good basis. In terms of facilities, it had been developing a property development strategy to better utilise its existing infrastructure and determine options to use its infrastructure to assist in generating additional revenue, as well as addressing critical maintenance and refurbishment.[19]

3.2.2. Property Management

In terms of the SABS' facilities and equipment, in February 2020, it reported that it was focusing on a property development strategy; the continued upgrading of the central plant room[20], and refurbishment or clean-up of laboratories; the creation of a maintenance schedule; and finalisation of the Q-block review with structural and mechanical engineers. During the 2020 tour of the facilities, it highlighted the following:

- ***Plant Room and auxillary piping network***: The plant room plays a critical role in ensuring appropriate conditions throughout the SABS campus. This includes conditions for human comfort in the offices, and correct temperatures for different tests, and humidity in the laboratories to ensure the accuracy of test results. The SABS had concluded phase one of the Plant Room Refurbishment Programme[21] and had been implementing phase two which included a further upgrade to the plant room during the 2019 December shutdown. The next phase would be to replace the auxiliary networks of pipes at an estimated cost of R12-R20 million. It was estimated that this could take about 12 to 18 months to complete.

- ***Laboratories***: The SABS noted that it had 29 accredited laboratories across South Africa. Critical areas had been identified for improvement, namely (i) customer relations; (ii) strategic partnerships with regulators, decision-makers and other testing service providers; (iii) cultivating new markets to grow its revenue; and (iv) optimising its business processes through suitable and reliable testing infrastructure, keeping abreast with technological developments, and ensuring suitable technical competencies aligned with industry needs. As part of its cost-containment initiatives, the SABS had been assessing its laboratories to determine the priority areas, as the SABS had to balance its public good role while ensuring that its commercial laboratories remained financially viable. The turnaround plan set out four key priorities for laboratory services, namely to: (i) accelerate the cleanout of prioritised laboratories, production control, and systems implementation and labware of prioritised laboratories; (ii) reorganise laboratories; (iii) develop a clear proposal for loss-making laboratories; and (iv) work with Finance Department to ramp-up laboratory equipment investment programme.

In August 2021, the SABS reported that it had spent R119 million on infrastructure and other capital investments from the 2018/19 financial year until June 2021. Of this, it had spent R13,4 million from 1 April to 30 June 2021 for key projects including: energy efficiency labelling water heaters; dosimeters, upgrading the EPT&RM IP water system; the Tan Delta Bridge for the NETFA High Voltage laboratory; the Magento 2 Webstore/E-commerce project; and the Gas and Flammable Storage. It

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[19] SABS (2020)

[20] A plant room is a room or space in a building housing mechanical equipment and its associated electrical equipment, such as air handlers, boilers, chillers, heat exchangers, water heaters and tanks, water pumps (for heating/cooling, and firefighting water, main distribution piping and valves, back-up electrical generators, elevator machinery and other HVAC (heating, ventilation and air-conditioning) equipment. This is to operate HVAC cycles, lighting, communications, and life safety equipment for the entire SABS campus.

[21] Phase one had refurbished the boilers, fixed the supporting plinths, refurbished the heat exchanger and improved the general lighting in the plant room. It had also involved general house-keeping such as colour-coding pipes for ease of reference and to increase safety.

had also committed a further R49,7 million for capital expenditure projects for the remainder of the 2021/22 financial year.[22]

3.2.3. Audit findings

Following the disclaimer audit opinion received by the SABS on its consolidated financial statements in the 2017/18 financial year, it had received a qualified audit opinion for the 2018/19 financial year. According to the AGSA, the main reasons for the qualification on the consolidated financial statements had been:[23]

- ***Property, plant and equipment***: The entity had incorrectly accounted for a prior period error related to upgrades, renovations, and improvements to buildings as separate assets and had not capitalised these to the cost of the buildings in accordance with International Accounting Standards 16, Property, plant, and equipment. This had impacted on the buildings being depreciated over incorrect useful lives, causing a material misstatement to the carrying amount of buildings. Additionally, there had been an impact on the loss for the year and accumulated profit.

- ***Revenue from laboratory services***: There had been insufficient appropriate audit evidence that revenue from laboratory services for the 2018/19 and 2017/18 financial years had been properly accounted for. This had been due to the sequencing of the various registers that record the initiation of the product and witness testing, which resulted in revenue from laboratory services. Therefore, it was unclear whether any adjustment to the stated revenue from laboratory services had been necessary. Additionally, there had been an impact on the loss for the year as well as on the accumulated profit.

- ***Revenue from subscription fees for Standards***: The entity had not recognised revenue as and when the entity had satisfied a performance obligation in accordance with International Financial Reporting Standards 15, Revenue from contracts with customers. This had been in relation to the split between the revenue received in the current year and income received in advance from these subscription fees that covered periods extending across two financial years. This would have impacted on the loss for the year and accounts payable as well as on the accumulated profit.

- ***Irregular expenditure***: There had been insufficient appropriate audit evidence that all irregular expenditure incurred had been identified and disclosed as required by section 55(2)(b)(i) of the Public Finance Management Act (Act No. 1 of 1999). This had been because the entity did not have an adequate system for identifying all irregular expenditure.

The AGSA had also noted three emphasis of matters related to (i) contingent liabilities resulting from alleged negligence in testing products and labour-related claims against it; (ii) material losses of R35,4 million as a result of the write-off of irrecoverable trade receivable; and (iii) errors from prior periods.

These matters had been resolved and the SABS had received unqualified audit opinions for the 2019/20 and 2020/21 financial years.

3.3. Engagement with the SABS

3.3.1. Financial Situation[24]

With respect to the financial turnaround, the SABS informed the Committee that it had experienced a positive performance for the 2021/22 financial year, which was reflective of the turnaround strategy implemented over the past three years, against a very tough economic backdrop. While acknowledging that continuous improvement would be required to achieve long-term financial sustainability, the financial performance to date indicated a positive outlook and a projected profit after 5 years of losses. Furthermore, the SABS continued to realise savings on operating expenditure due to remote audits and work from home policies as well as various cost-saving initiatives implemented.

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[22] SABS (2021)
[23] Portfolio Committee on Trade and Industry (2019)
[24] SABS (2022)

The VSPs and ER offered as part of its section 189 process has seen a reduction in the employee-benefit expenditure.

Currently, the SABS was not experiencing a severe cash pressure in the short-term. However, the focus on cash generation remains key to ensure long-term financial sustainability and investment in maintaining and growing the operations of the SABS. Revenue generation and cost management remains critical to ensure positive cash flows going forward.

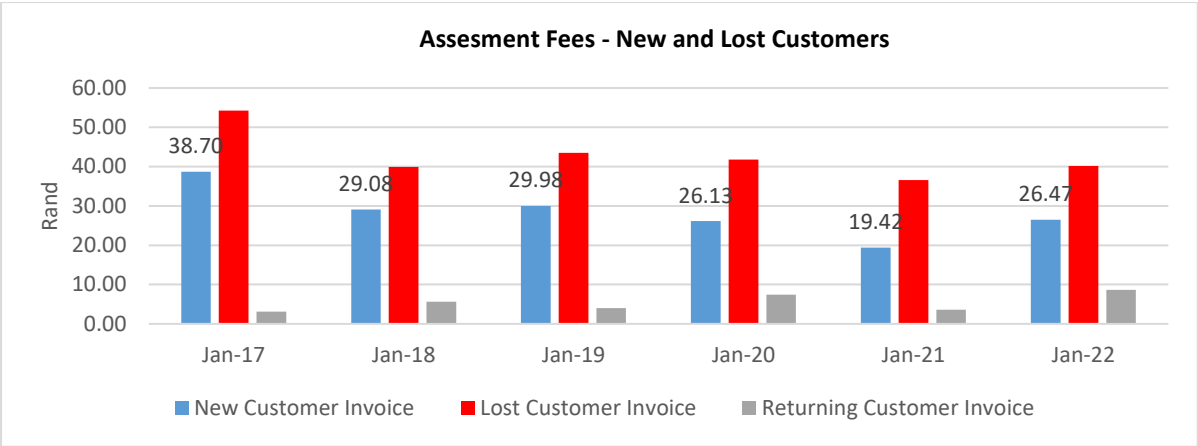
The SABS informed the Committee that as part of its turnaround strategy it recognised the importance of a single business unit focusing on sales, customer service and marketing. With regard to customer partnering division, it highlighted the following achievements with regard to revenue generation and customer retention:

- Primary sector and industries that sales activities focused on: (i) Chemicals; (ii) Electrotechnical; (iii) Mining and Minerals; and (iv) Food and Health.
- Customer acquisition:
  - 452 new customers[25] transacted with the SABS;
  - 365 clients engaged with this year versus a year-to-date target of 385;
  - R26 million worth of new revenue was generated from new customer acquisition; and
  - 104 prioritised existing customer engagements by sales staff against a year-to-date target of 107.
- Aggressive marketing campaigns and brand development activities:
  - Social media increased by 20 percent;
  - Media placement on targeted publications;
  - Sector-focused webinars; and
  - Standards development and Local Content Scheme campaigns.
- Strategic Partnerships to raise products, services and solutions awareness:
  - Proudly SA – Sharing marketing platforms such as workshops, exhibitions, business hubs and media;
  - The DTIC – Collaboration on social media and local content verification;
  - International Standards Organisation (ISO) – Gender Responsive Standards;
  - South African Local Government Association – Sharing marketing platforms such as workshops, exhibitions and media; and
    - Gauteng Department of Economic Development – Sharing marketing platforms such as workshops and launch of incubation hubs.
- Customer strategic collaborations – value proposition:
  - Lasher Tools – Added Value and SABS Mark awareness;
  - Forest Stewardship Council – Certification awareness;
  - SANNOT – Sanitiser and COVID related; and
  - Women in Plumbing.

The SABS noted that the changes in the domestic economy have had an impact on many of its customers, especially those falling within the SMME category. This has reduced the demand for SABS products, services, and solutions. The weak economic environment had been further exacerbated by the outbreak of the COVID-19 pandemic.

Whilst the number of new customers acquired had declined since the 2016/17 financial year, revenue invoiced in the 2021/22 financial year had surpassed pre-COVID 19 levels. This was an indication of an improvement in both the quality of customers and revenue mix for the SABS.

[25] New customers are defined as a business or person that has not transacted with the SABS over the past 36 months.



In the 2021/22 financial year, a total of 509 customer engagements had been held with the aim of improving customer relations and to help revenue generation efforts. More customer engagements were planned for the 2022/23 financial year, together with greater sector focused marketing and communication activities. Initiatives were also aimed at improving operational efficiency (service excellence) and the customer experience and would remain an area of focus in the current financial year and beyond.

In terms of utilising its assets and/or property to generate alternative income streams, the SABS has identified vacant properties, as well as land that was not being fully utilised, for sale. It had submitted a proposal to the DTIC, seeking permission to dispose of these properties. The funds generated as a result of the disposal of assets would then be used to recapitalise existing infrastructure. Furthermore, the SABS was considering a property development strategy to maximise rental income at its Groenkloof Campus. There was also an opportunity to procure another laboratory, and this request would be forwarded to the relevant Departments for due consideration.

3.3.2. Facilities

The SABS indicated that the effective implementation of a maintenance plan was critical to extend the useful life of its investments. This had only been effectively implemented since the SABS had been under administration. Thus far, the only shutdowns had been due to off-site theft of electricity cable. There had been 46 incidences in the last year, which had led to some clients being lost in areas requiring longer testing times. To mitigate this, it had Uninterrupted Power Supply and generators installed to safeguard expensive equipment from power failures; and had added three new generators to service the C block, the electrical laboratory, and the V Block. It was also engaging the City of Tshwane and the University of South Africa about relocating the electrical cabling to address the lack of security at its current location.

The SABS informed the Committee that there had been an upward trend with regard to Capital Expenditure. The DTIC had given the SABS R300 million for capital expenditure, which had been fully allocated by the SABS. Any future investment in capital expenditure would therefore have to be funded from the SABS' own cash generation. Its capital expenditure budget allocation for the 2022/23 financial year was R35 million. However, the capital expenditure requirement at the SABS remained significant at over R1 billion to bring the campus up to world standards over the next five to seven years. The SABS recognised that prioritisation of capital expenditure would be critical over the short-term to ensure that these priorities would be aligned with the industrial policy, and to ensure the maintenance and growth of its client base.

The SABS was exploring different donor funding options, especially within the energy sector, to supplement some of its capital expenditure requirements. Furthermore, it would continue to explore other funding arrangements as long as these arrangements did not compromise its ability to remain impartial or affect its accreditation status negatively.

It also noted that while it remained under administration, SABS Commercial was unable to procure domestic or international indemnity insurance to cover directors' liability, as provided for in the Companies Act (Act No. 71 of 2008). Therefore, the co-administrators and the CFO, as directors of SABS Commercial, could be held liable in their personal capacity for any decisions they made on behalf of SABS Commercial. Given the risk of damages or losses to its facilities, where it has been

unable to repair or replace critical infrastructure due to financial constraints, these officials were at high personal risk. Therefore, the Ministry had been working on appointing a board to address this impediment.

As part of its site visit, the Committee did a walkabout of a selection of the SABS' facilities to see some of the progress made in implementing the infrastructure and maintenance plan, as well as challenges that remain in this regard. The walkabout focused on the plant room and the tunnel housing the auxillary piping network; the cooling towers; the pump testing laboratory; the radiation protection service; and the cement laboratory.

3.3.2.1. Plant room and auxillary piping network

The plant room generated cold water with its chillers, while four boilers heated water, which is stored in tanks, and it also generated steam for humidity required by certain laboratories. The most recent capital expenditure in the plant room had been on upgrading critical infrastructure first, namely the boilers, chillers and transformers. Main isolating valves had also been installed to enable easier maintenance of these facilities.

The SABS was building an electronic management system to monitor conditions in the laboratories and adjust the conditions automatically. In future, it had plans to implement an automated smart campus, where the lighting in rooms could be switched on and off automatically.

The auxillary piping system consisted of 11 kilometres of piping above ground and three to four kilometres underground. The SABS reported that most of the piping and cladding was old, rusted, unsafe, and prone to leaks. It estimated that it would cost about R110 million to replace the affected piping, cladding and valves. However, it noted that this needed to occur simultaneously to effectively address the challenge.

3.3.2.2. Cooling towers

The SABS has six cooling towers, which were more than 40 years old and at the end of their lifespan. These were being replaced in a phased approach during the cooler months. This was necessary to complement the installation of the new chillers and to prevent debris from the old cooling towers from damaging these within the closed circulation system. This upgrade was expected to yield between R250 000 and R500 000 savings on water usage, as well as further energy savings. Thus far, it had installed and commissioned two new cooling towers, which had to be monitored over a 14-day-period to determine their efficiencies in terms of water and energy use.

It explained that the cooling towers operated one at a time with an additional one being switched on automatically based on demand on the campus. A maximum of four or five towers would be required to operate at a time. Thus, there would always be one cooling tower not operating at any time as a back-up or to enable maintenance of the towers without losing capacity.

Based on engineering recommendations, it was considering the generation of hydrostatic electricity from water circulating through the towers and piping in the future.

3.3.2.3. Pump testing laboratory

The pump testing laboratory tests large-scale water pumps. These pumps are mainly used by mines to dewater them. The pumps are tested prior to being installed underground. The laboratory consists of a 730 kilolitre pool, which the sample pumps are immersed in. Each pump weighs between 9 and 15 tons and they can pump up to about 120 litres of water per second depending on their capacity.

The laboratory equipment had been upgraded through a public-private partnership with KSB, one of the biggest pump manufacturers in South Africa. However, this partnership is subject to certain rules that enable the SABS to remain impartial and continue to service the entire industry. Furthermore, a new crane had been installed to manage larger samples. This upgrade has given the laboratory the capacity to operate independently from the plant room. Prior to this investment, its capacity and efficiency had been limited as it could only operate after hours, being the largest energy consumer on campus it could previously not operate simultaneously with other laboratories.

3.3.2.4. Cement laboratory

Since the Committee's last visit, the cement laboratory was still struggling to address its backlog. This was due to the regulatory requirement to test all cement products six times a year and the time required to test each sample, as a sample must cure over at least 28 days. Therefore, the laboratory was building an additional line to increase its capacity and address the backlog. An additional five staff members would be employed to operate this facility. The cement laboratory will also be set up to be independent from the plant room and be linked to a generator to mitigate against the impact of cable theft.

3.3.2.5. Radiation Protection Service

The SABS monitors the exposure of people regularly working with or close to medical or industrial sources of ionising radiation. This is regulated under the Department of Health through the South African Health Products Regulatory Authority (SAHPRA). In this regard, all radioactive sources are registered and the levels of exposure by affected employees must be monitored every 28 days to prevent related health problems. Each affected employee wears an identifiable badge or dosimeter, which is then sent to the Radiation Protection Service for testing and reporting. Where there is excessive exposure, the SAHPRA investigates to ensure that there had been no foul play.

The SABS had been using equipment manufactured by Panasonic to read the dosimeters. However, the company would be discontinuing manufacturing of this equipment; therefore, there has been a need to migrate from Panasonic to new equipment. The SABS would be spending R60 million over three years to do so. The new machines cost R40 million and have been commissioned in April 2022. However, the migration was subject to SANAS accreditation being obtained. The Service expected to use both systems over the next three years. This was essential as SABS is the backup to read dosimeters for Koeberg Nuclear Power Station in case of an incident, and the Station was still using the Panasonic system.

3.3.3. Standards[26]

The facilitation of the development of SANS is the SABS' core public good service. The SANS are voluntary industry standards that support the public and private sectors, as well as consumers. The purpose of relevant national standards is to address market needs; support and enable socio-economic and environmental objectives, industrial policy, innovative and competitive industries; and facilitate trade. The Standards Division also provides strategic collaboration and leadership in regional and international standardisation forums to support the implementation of the African Continental Free Trade Area (AfCFTA), and drive national development priorities through the harmonisation of standards.

The process of developing a SANS involves stakeholder engagement and the participation of experts from the public and private sector. This is administered through an open, transparent and consensus process through various technical committees, sub-committees and working groups. The SABS technical committees and subcommittees have a stakeholder representation which includes Industry Associations, Regulatory bodies, and Academia, amongst others.

The SABS is a member of the ISO and the International Electrotechnical Commission (IEC) and, therefore, benchmarks its operations and indicators to these global institutions. Under the turnaround strategy, the Standards Division has focused on improving the operational process that results in the development of standards. The SABS uses an ISO formula for the nomination, consideration and work of technical committees before a standard is put out for public comment and ultimately adopted.

3.3.3.1. Turnaround time

The SABS highlighted that the number of days required to produce a standard was reduced from 371 days to 301 days. The COVID-19 pandemic restrictions had not prevented the development of standards as virtual meetings allowed for the continuation of the development process. As a result of the introduction of virtual meetings, the SABS had recognised an opportunity to promote the participation of youth and women on these technical committees, but also to ensure that they would be represented at ISO. Currently, South Africa is lagging behind Nigeria with respect to participation on these international fora.

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[26] Ibid

It further indicated that the average turnaround time for publication of standards by ISO and IEC was 31 months, while the SABS averages 12-18 months. In addition, the SABS engages various national standards bodies on sharing of continuous improvement process initiatives. Its recent engagement with the German Standards Institute has indicated an average of an 18-month turnaround time for the publication of German national standards.

The SABS intended to develop 414 standards for the 2022/23 financial year.

3.3.3.2. Harmonisation of Standards in Africa

In terms of its alignment to support the implementation of the AfCFTA, the SABS is a member of the African Organisation for Standardisation and the African Electrotechnical Commission. These regional standards bodies are responsible for harmonisation of standards within the African continent and the SABS actively participates in various harmonisation technical committees of these regional standards bodies. The SABS further has a stakeholder engagement framework that articulates South Africa's bilateral and multilateral engagements with various National Standards Bodies (NSBs) on the African continent that will support the implementation of the AfCFTA.

During the 2021/22 financial year, bilateral agreements have been concluded with the Ghana Standards Authority, the Eswatini Standards Authority, and the Botswana Bureau of Standards. In addition, bilateral agreements with the following NSBs are currently at the consultation stages: the Kenyan Bureau of Standards, the Lesotho Standards Organisation, the Zambian Bureau of Standards, the Nigerian Organisation for Standardisation, and the Ugandan Bureau of Standards.

3.3.3.3. SANS for Water and Sanitation

South Africa is a water scarce country and ranks as one of the 30 driest countries in the world with an average rainfall of about 40 percent less than the annual world average rainfall. The SABS has numerous technical committees that develop and publish national standards on Water and Sanitation. The stakeholders involved in the development of national standards within this scope include industry, government, regulators and academics, amongst others. There are in excess of 300 standards published within the scope of Water and Sanitation.

In this regard, the SABS has signed a Memorandum of Agreement with the Water Research Commission to provide training and create awareness regarding SANS 30500: Non-sewered sanitation systems - Prefabricated integrated treatment units - General safety and performance requirements for design and testing, and SANS 241: Drinking Water Part 1: Microbiological, physical, aesthetic and chemical determinants.

3.3.3.4. SANS for the Green Economy

The SABS informed the Committee that there are a number of technical committees established by it that would be responsible for the development of national standards within various industrial sectors and subsectors. The SABS technical committees within the scope of the hydrogen economy, nanotechnology and the green economy have various standards projects published and under development.

3.3.4. Certification[27]

The SABS' Certification Division offers conformity assessment services for management systems, processes, products or services to ensure that these meet the relevant standards and fulfil the relevant requirements. It is also responsible for verifying local content, inspecting consignments and vehicle test stations. Voluntary certification assists businesses to improve their global market access opportunities by assuring that the business' systems, processes, products or services meet the quality and/or safety requirements stipulated in the relevant standard.

The SABS indicated that due to competition from other private sector conformity assessment laboratories, some customers had been leaving the organisation. However, it had seen the trend reverse by reinstating partial testing.

3.3.4.1. Accreditation

[27] Ibid

In the area of certification, it was important for the SABS to maintain its accreditation statuses to be able to continue its operations. It acquired its accreditation from two external sources, namely the RvA (Raad voor Accreditatie), a Dutch accreditation agency, and from the SANAS, one of the technical infrastructure institutions. At the time the SABS was placed under administration, it had faced a number of challenges maintaining its accreditation, with accreditation suspended for a period of time. However, with the implementation of the turnaround strategy, the SABS had regained and maintained its accreditation with many operational inefficiencies being eradicated.

3.3.4.2. Local Content Verification

The SABS had introduced new schemes that would drive revenue with the launch of the Local Content Grading Scheme in support of the Re-imagined Industrial Strategy. This would assist manufacturers to determine the percentage of local content in their products. It had submitted its comments on the call from National Treasury around the PPPFA Regulations around local production and content. However, it highlighted some of the emerging risks associated with certification:

- The regulations were silent about the implementation of local production and content.
- It was the responsibility of government to promote the procurement of locally produced goods and services to support the local economy by:
  - setting local production and content requirements for targeted sectors;
  - establishing appropriate reporting requirements for local production and content to assist in improving the policy position; and
  - setting up monitoring and verification arrangements for products and services set for local production and content.
- The failure to do so would hinder the significant efforts made to date in driving local production and content and the procurement thereof by public sector procuring entities.
- The National Treasury must issue guidelines regarding the procurement of goods produced locally and/or with local content and the enforcement of these on procuring entities.

During the 2021/22 financial year, the SABS had earned revenue of about R4 million, and a further amount of R4 million was committed, which would be realised in the first quarter of the 2022/23 financial year. According to the SABS, 11 local content verification projects had been completed, with 25 Local Content Verification projects recorded as inconclusive due to the unavailability of appropriate records and insufficient data sets from some suppliers that submitted their products for verification. It should be noted that each verification process consists of several tiers of suppliers; therefore, one verification could result in more companies being visited as part of the value chain analysis.

3.3.5. Labour relations[28]

In terms of human capital and the implementation of the turnaround strategy, the SABS noted that it was a very complex organisation. In order to advance the organisation into the future and ensure that it is profitable, it recognised that it had to develop and design a new operating model. In consultation with all the relevant role-players, it had designed a new organisational structure with new job profiles, grades, and new salary scales. Furthermore, new policies around recruitment and selection, performance management, learning and development, disciplinary action and grievances, as well as a remote working policy, had been developed.

These new developments provided SABS with an opportunity to employ a number of new interns, as well as initiating a women's leadership programme in different leadership categories. in addition, the SABS has brought in mentors from the science community to partner with the women to them develop in areas within the SABS.

On 10 March 2021, the SABS had issued a notice, in terms of section 189(3) of the Labour Relations Act (Act No. 66 of 1995), inviting employee representatives and/or employees to consult with the employer on various issues pertaining to contemplated retrenchments. The target was to reduce the salary bill by R150 million. During the consultations, parties in consultations agreed to open opportunities for employees to apply for VSP and ER as one of the first major alternatives to avoid and/or minimise the risk of retrenchments. The first round of the VSP and ER process had attracted 123 applications, of which 110 had been approved, and the employees had been released on 31 July 2021. While the first round of VSP and ER has assisted in realizing some cost-cutting, a large gap

[28] Ibid

remained to reach the target of R150 million. For that reason, a second window of the VSP and ER applications had been opened, which had resulted in an additional 36 employees leaving on 31 March 2022.

To avoid the complete erosion of skills and to ensure continued delivery, the SABS had implemented workplace knowledge and skills transfer and robust handover arrangements by engaging a flexible contracting regime with some of the exiting staff. This was done through short-term contracting arrangements that vary between 3- and 6-months, specifically for handover to and training of the remaining employees. Parties in consultations had identified further cost-saving initiatives that must be pursued as alternatives to any forced retrenchments.

4. Nkomazi Special Economic Zone

In February 2016, the SEZs Act (No. 16 of 2014) was promulgated, which underpins the designation and development of SEZs in South Africa. SEZs have been purported as one of the critical tools to accelerate the industrial development agenda to transform the economy into a globally competitive economy. It is also a tool to enable spatial decentralisation of economic activity from the three traditional economic hubs such as Gauteng, KwaZulu-Natal, and the Western Cape to include more rural provinces by beneficiating their natural resources closer to the source.[29]

Some of the critical requirements for the success of a SEZ is coordinated planning among key government agencies, the private sector as well as a well-functioning and readily available industrial infrastructure. The DTIC is responsible for designating viable SEZs and plays a critical role in funding the development of industrial infrastructure and top structures for secured investors. It also offers other readily available incentives to investors and facilitate their investment application process through InvestSA.

The Nkomazi SEZ is located in the Nkomazi Local Municipality, which is in the eastern part of Ehlanzeni District Municipality and is approximately 65 kilometres from the central business district of Nelspruit, Mpumalanga, and about 100 kilometres from the Maputo Port. Its geographic location is its main competitive advantage, as it is strategically placed between northern Eswatini and the southwest of Mozambique along the Maputo Corridor. The SEZ was initially designated to cover an area of 150 hectares but the approvals being sought would cover about 300 hectares, with the potential increase to approximately 600 hectares in the future. The location was also selected to promote regional economic development and to facilitate economic participation on the African continent. Therefore, partnerships with Mozambique and Eswatini were critical to supply the SEZ with sufficient produce. The Maputo Harbour is strategically placed to enable the export of food products to new markets especially in the Far East, thus creating a more direct route, while reducing logistical costs and increasing global competitiveness.[30]

The Nkomazi SEZ was approved by Cabinet for designation in December 2018 and its designation was formally gazetted on 22 March 2019. However, the approval was subject to certain conditions, namely, that[31]:

- Upon designation, the Mpumalanga Province must appoint an operator in compliance with the SEZ Act with the necessary capacity, knowledge, and experience to manage the SEZ;
- The SEZ must comply with Broad-based Black Economic Empowerment (B-BBEE) and Employment Equity legislation, in particular, economic inclusion of black emerging farmers, local sourcing, and black economic participation along the full agricultural value chain;
- The Nkomazi SEZ Board must have a representative from the DTIC; and
- The applicant must demonstrate private sector participation, particularly in the funding of SEZ infrastructure.

The Nkomazi SEZ has been conceptualised as an agro-processing, nutraceuticals, and logistics services activities hub. The targeted value chains of the SEZ include secondary and tertiary stages of

[29] DTIC (N.d.a)
[30] Mpumalanga DEDT (2022a)
[31] Mpumalanga DEDT (2021)

the processing of citrus and sub-tropical fruits, aromatic plants/herbs, ground and tree nuts, sugarcane, nutraceuticals, meat processing, leather goods, and agri-inputs such as fertilizer. The processing of agricultural products in the SEZ will be based on automated and semi-automated as well as high-tech manufacturing technologies, through the use of green or renewable energy sources. The supporting services will include logistics (intermodal logistics and production logistics) and warehousing facilities, which will also seek to promote the utilisation of green sources of energy. Furthermore, the development of SMEs is one of the conditions of establishment and the SEZ will house an incubation hub to facilitate this. The SEZ is expected to contribute R97,6 billion to the Gross Domestic Product, and yield 8 275 jobs in construction, 9 505 industrial jobs, and 81 765 agricultural jobs.[32]

4.1. Governance and Management Structures[33]

The Nkomazi SEZ Entity had been registered in January 2021 with an interim SEZ Board appointed in March 2021. In July 2021, an acting CEO and CFO had been seconded to the Entity by the Mpumalanga Government and a Project Management Unit consisting of three members had been appointed immediately after the SEZ's designation. The Mpumalanga DEDT was in the process of developing an organisational structure for the Entity. The structure was expected to be finalised by the end of September 2022, and then recruitment would commence.

The Entity has developed a five-year strategic plan and annual performance plans. It will manage performance through performance agreements, monitoring and evaluation and quarterly reports submitted to the Mpumalanga DEDT and the DTIC.

There was also a Political Oversight Committee, which met bi-monthly to provide political direction on and exercise oversight over the SEZ programme, as well as process reports submitted by the Provincial Steering Committee. This Committee consisted of the Deputy Minister of the DTIC, Members of the Executive Council of the Economic Cluster, Human Settlements and Cooperative Governance and Traditional Affairs, Executive Mayors of Nkomazi Local and Ehlanzeni District Municipalities, a Member of the House of the Traditional Leaders, and the Chairperson of the Nkomazi SEZ Entity Board. The House of Traditional Leaders forms part of this Committee, as the land designated for the SEZ is under the custodianship of seven chiefs, as there is a need to utilise some of the restored land and land controlled for traditional use for agro-processing purposes.

The Provincial Steering Committee is a multi-disciplinary committee responsible for unblocking bottlenecks encountered by the MEGA/SEZ Entity, ensuring the implementation of activities critical for the project, and briefing the Mpumalanga MEC for Economic Development and Tourism on progress made. It meets monthly and is co-chaired by the Head or a designated senior official of the Mpumalanga DEDT and the Deputy Director-General or a designated senior official responsible for Spatial Industrial Development and Economic Transformation in the DTIC. The Committee consists of representatives from the DTIC, the Office of the Premier, relevant provincial departments, the district and local municipalities, and the MEGA.

There is also a Provincial Rapid Intervention Task Team, which has similar responsibilities to the Provincial Steering Committee but focuses on day-to-day issues. However, only representatives from the Mpumalanga provincial departments and entities, as well as the district and local municipalities, form part of this team, which meets weekly to assess progress.

The DTIC expressed a view that there have been governance challenges, where the province is responsible for establishing institutional mechanisms within the framework as set out it the legislation. In this regard, the DTIC does offer support, however it is concerned that the SEZ has not been registered, despite the fact that the Mpumalanga DEDT reported otherwise. There is also inadequate leadership and project management capacity, despite secondments to assist the SEZ. Furthermore, the DTIC acknowledged that there are regulatory requirements that must be addressed before development can proceed, with some progress made thus far.

4.2. Status of Implementing the SEZ[34]

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[32] Mpumalanga DEDT (2022)
[33] Ibid

The SEZ was currently finalising its Interim Phase (Phase 2) and would then be preparing for the development phase (Phase 3). Therefore, it was not yet operational. In terms of land development processes, the Mpumalanga DEDT reported that the environmental authorisation was in place, the site layout plan had been approved, and Township Establishment was at the final stage of approval. The Entity was awaiting the opening of the Township Register and would then commence with the installation of the requisite bulk and internal services infrastructure. The preliminary designs of the internal infrastructure had been completed and the commencement of detailed designs were underway. Phase 2 should be concluded by the third quarter of the 2022/23 financial year.

It was projected that the development of the SEZ would take place over a 20-year period, with the first phase from designation in 2018 to a fully operational SEZ to be completed within 10 years. However, the plans had been delayed due to a number of factors, namely:

- The initial structure for the SEZ Entity was envisioned as a subsidiary of the MEGA; however, this would have been a contravention of the SEZ Act, which required a standalone structure.
- During the designation phase, there had been a management team from the MEGA leading the process; however, this team has since left the employ of the MEGA, and the process had to be restarted. In addition, there had also been instability at the Mpumalanga DEDT, which exacerbated the situation.
- There had been budget constraints, further exacerbated by the COVID-19 pandemic.

Supported by the DTIC, the SEZ Entity was considering options to fast-track the development process. In this regard, an additional three officials had been seconded to the interim board to provide additional technical expertise to facilitate the process.

It should be noted that the initial cost for the implementation of a SEZ is extremely high, therefore, there is a need to establish Public-Private Partnerships in the development and operation of an SEZ. The DTIC has provided between R26 and R28 million for operational and set-up costs after the SEZ had been designated. Thereafter, the operational budget becomes the province's responsibility.

The Mpumalanga DEDT indicated that the operational budget had been approximately R10 million for four officials who form part of the Project Management Unit over the last two years. Currently, it had spent about R284 million on all the plans and designs for the bulk infrastructure. For the development phase, it estimated that it would spend R574 million on internal services consisting of three phases. Phase 1 was estimated to cost R360 million, phase 2 would cost approximately R177 million, and phase 3 costing approximately R89 million. It also reported that it was in the process of procuring barrier fencing during the current financial year and would start excavation in the 2023/24 financial year once the detailed plans were finalised.

However, the DTIC was concerned that the development targets kept moving and that implementation has been slow.

4.2.1. Road and Logistic Support Infrastructure

The Mpumalanga DEDT informed the Committee that there was currently no direct road access from the N4 freeway to the area where the SEZ would be located. However, there is a plan to build an intersection on the N4 to access the SEZ. Initially, access to the eastern side will be developed, followed by access to the western side of the SEZ as part of the second phase of the SEZ development. It had just commissioned an additional traffic impact study, which is required before it is permitted to access the site by South African National Road Agency (SANRAL). This is to ensure that the development of the road access to and the development of the SEZ happens simultaneously. In future, the intersection would require upgrading, as the traffic demand of the SEZ increases. As part of the traffic impact study, the SEZ Entity has had engagements with SANRAL and the Trans African Concessions on the N4 concessions to ensure that it adheres to the conditions set and it minimises the impact on traffic on the N4 due to activity at the Lebombo Border Post.

It is also in the process of obtaining the right of way access to the SEZ site through Sasol's property. The approach was to engage Sasol before resorting to legally imposing a servitude on Sasol and it has developed a partnership with Sasol to resolve the issue of servitude.

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[34] Ibid

Furthermore, it was concluding agreements with Transnet on the new railway siding for one of the logistic support investors. The process was fairly advanced and Transnet was busy with detailed designs in this regard. In addition, it was participating in the ongoing negotiations for the One-Stop Border Post between South Africa and Mozambique to improve the efficiency of processing at the border.

In addition, it will be reinforcing the Memorandum of Understanding and Programme of Action between the Mpumalanga province and the Maputo Province, Mozambique, in terms of areas of collaboration on the SEZ's development. It will also revive the engagement with the Eswatini authorities, as it is a major producer of agricultural commodities and forestry, and there are potential areas of collaboration.

4.2.2. Water Infrastructure

Given the size of the SEZ, it requires an independent water treatment plant and sewer system. Therefore, the development of the SEZ includes a plan for sewer and stormwater drainage infrastructure.

An agreement with the Department of Water and Sanitation is being negotiated for a Mountain View dam to be built to provide water to the Nelspruit White River area and to the SEZ site. This will assist in growing the water available for irrigation for primary agricultural development, and it would also be used to supply water for agro-processing.

4.2.3. Electricity/power service

The SEZ would develop a plant with 1000 megawatts capacity. There is also a gas pipeline, which would be able to generate electricity. In addition, the SEZ is close to an Eskom power station.

4.3. Investment Pipeline

It further indicated that 12 investors were in the SEZ's investment pipeline in the energy, logistics, and agro-processing sectors. Currently, one of these investors, a logistics company, is at the stage of negotiation and is being considered by the SEZ Board for final approval, while the other investors were at early stages in the consideration process. The reported total value of the investment pipeline was R48,5 billion creating about 43 410 direct and primary agricultural jobs.[35]

The DTIC indicated that there had been certain earmarked investors when the Mpumalanga DEDT applied for designation. However, many of these investors fell away, which created a risk to the economic viability of the SEZ. The investors listed were new investors but there may be a few that had been retained.

4.4. Additional Support offered by the DTIC

The DTIC had purported that this SEZ was one of the prioritised SEZs that had been struggling to take off. Therefore, the SEZ had been earmarked to receive additional support from the dedicated DTIC intervention team consisting of departmental senior officials. The intervention team would assist the province to implement, amongst others, the following:

- The development and implementation of tripartite agreements between national, provincial, and local governments;
- Planning and development of infrastructure for the zone;
- Mobilise funding from all spheres of government for operations and infrastructure;
- Investment facilitation;
- Stakeholder mobilisation and management; and
- Compliance and institutional development.

The DTIC intervention team is supported by the SEZ Project Management Unit located at the IDC's headquarters and works closely with the IDC and the Development Bank of South Africa.

5. Revitalization of Industrial Parks Programme

[35] Ibid

The former DTI introduced the Revitalization of Industrial Parks Programme in September 2015 to[36]:

- Revitalise South Africa's old state-owned industrial parks allowing them to serve as catalysts for broader economic and industrial development in the townships and rural areas.
- Modernise the industrial parks infrastructure and upgrade security features to ensure a safe and secure working environment for both firms and clients.
- Redesign the industrial parks' layout and enhance the visual appeal of parks for investor attractiveness.
- Firm up the industrial park boundaries so as to curb encroachment and prevent environmental hazards.

This focus was due to the contribution these Industrial Parks could make to economic growth, diversification of economic activity, attracting investments, job creation, and addressing inequality in these areas. The Programme identified 10 industrial parks to be revitalised, including Ekandustria.[37]

The Programme was categorised into four phases, namely[38]:

- Phase 1: Security infrastructure upgrades, fencing, street lighting, top structures and critical electricity requirements;
- Phase 2: Engineering designs and construction of new and existing roads, bulk water supply, and sewage treatment plants or industrial effluent control;
- Phase 3: Upgrading electricity infrastructure, and building new top structures in line with the expansion programme of the Parks; and
- Phase 4: Development of sustainable industrial clusters in the Parks.

In February 2019, the former Minister of Trade and Industry, Mr R Davies, reported that the first phase of revitalization for Ekandustria covered: (i) 6 000 m^2 of Roofing; (ii) the installation of 2km of invisible fencing; and (iii) the revitalization of its waste water treatment plant. In this regard, the MEGA had been approved for funding under the Critical Infrastructure Programme of the DTI for an amount of almost R50 million.[39]

5.1. Ekandustria Industrial Park[40]

The MEGA owns and manages the Ekandustria Industrial Park, which is based in Bronkhorstspruit, Gauteng, under the City of Tshwane Metropolitan Municipality, adjacent to the Maputo Corridor. It was established in the 1980s as a key economic and employment hub in the former KwaNdabele homeland, and hosted a diverse range of manufacturers including in the food, timber, leather and plastic industries.

The Industrial Park's is strategically located in an economic region where there are large numbers of mining companies, steel industries, and agricultural land. It also offers the possibility of creating employment opportunities for people living in local townships and rural areas such as Kwa-Mhlanga, Siyabuswa and Mamelodi. The Park had been subjected to a municipal boundary re-determination, which led to it now being located in the boundaries of the Gauteng province. However, it was still owned and managed by the Mpumalanga province.

5.1.1. Facilities[41]

Ekandustria has 239 374,43 square metres of lettable area. This consists of 101 large and 31 small factory units, as well as 168 serviced stands. It also has 92,6 hectares of vacant or undeveloped land. Currently, it had an occupancy rate of 53 percent and 2 239 people were employed by its tenants. In 2015, there had been about 5 000 people employed at Ekandustria. The MEGA noted that 20 percent of its portfolio is in a very good condition and 30 percent is in a good condition. However, 20 percent of the factories are in a very poor condition and requires major refurbishment, while the last 30 percent are in a poor condition.

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[36] DTI (2016b)
[37] DTI (2016a)
[38] Ibid
[39] Response to Question NW81 to the Minister of Trade and Industry on 14 February 2019.
[40] Mpumalanga DEDT (2022b)
[41] Ibid

In 2018, it estimated that the cost to totally refurbish these facilities would be between R500 to R600 million. It further noted that while 50 percent of the facilities were in a good to very good condition, it had challenges in maintaining this, and was unable to charge higher market-related rentals for these due to the overall state of the Park's environment. While there was interest from investors, MEGA had challenges in retaining these tenants due to the impact of the debt with the City of Tshwane leading to the electricity being switched off, among others.

It also reported that five factories had been previously burnt down with three having been rebuilt thus far. The two that have not been rebuilt was due to the insurance rejecting the claims as a result of non-compliance with the insurance agreement.

The Industrial Park also has its own landfill site, waste water treatment plant and bulk electricity substation. However, the landfill site was currently unlicensed and not fully operational, and the waste water treatment plant required additional investment to be fully refurbished. In addition, there were challenges with water and electricity supply to tenants.

5.1.1.1. General maintenance and management of the facilities

The MEGA indicated that one of the factors that constrained Ekandustria's performance was a lack of effective property and facilities management. This included failure to prevent theft of major electrical infrastructure components, and maintain the Industrial Park's infrastructure. However, the MEGA reported that there had been a decline in the state of the facilities since before the hand over to the democratic government. It also noted that there was a lack of funds to effect the required maintenance and refurbishment of the facilities. Furthermore, there is an inadequate provision of services in terms of water, sanitation, electricity and solid waste removal.

Pre-1994, the previous homeland government subsidised the running of the Park. However, post-democracy, there was a decision that the Park should be self-sustainable and the subsidy was subsequently removed. However, there had been no supporting systems implemented to facilitate this transition effectively. Thus, the Park has inefficient human resource capacity to manage a park of this nature and offer the requisite services, which has been compounded by leadership instability. In this regard, the MEGA attributed its lack of maintenance to cash flow constraints; however, it has developed a turnaround strategy for all its properties and facilities, which is being implemented.

The MEGA had set out a number of key initiatives to resolve its challenges over the short- to long-term. In the short-term, it intended to attract 15 manufacturing investors to increase its occupancy rate to at least 65 percent by the end of the 2022/23 financial year; thus facilitating the creation of at least 1 000 jobs. In addition, it would develop a brochure and a web portal to promote and market the Industrial Park to potential investors by the end of April 2022, and would complement its capacity shortages by employing interns.

Over the medium- to long-term, it would work on ensuring effective property and facilities management, as well as attracting new investment to Ekandustria. It was considering a public-private partnership to implement a new properties and facilities management model, which could include the Gauteng provincial government and the City of Tshwane. It would also address electricity distribution and water losses and reduce operating costs within acceptable norms. It has already issued a request for proposals to solicit bids from its panel of strategic development partners to be appointed in this capacity for Ekandustria. These partners are expected to bring the technical know-how to prepare a business case, source the required funding to revitalise and modernise the Park, and develop and manage the implementation of the revitalisation programme.

The new ownership/management model being considered is (i) an independent commercial company that could offer shares to investors in the revitalisation and modernisation of the Park; or (ii) a long-term lease with the envisaged corporate that would manage and revitalise the Park. However, this was subject to approval by the Mpumalanga DEDT.

5.1.1.2. Water and electricity supply challenges

The MEGA highlighted that Ekandustria's water and electricity infrastructure was quite old. In addition, there was poor management of municipality services in terms of bulk water and electricity supply, which is purchased from the City of Tshwane. The MEGA reported that it has suffered cumulative

financial losses, which has led to it being unable to service its large and rapidly growing debt with the City of Tshwane for these bulk services. At the time of reporting, its debt with the City of Tshwane stood at about R160 million over the last three years. While it had reached a settlement agreement for these arrears, Ekandustria had been struggling to pay its current account as well. This was attributed to distribution losses, and its poor collection rates due to the economic situation of its tenants. It has revised its lending and collection policies and has recently appointed a service provider to collect on its behalf to address some of these challenges. It has also initiated a forensic investigation to dispel allegations into its property portfolios and funding from tenants, as well as the state of its water and electricity accounts to ensure that the usage is accurate.

As part of the MEGA's short-term key initiatives to address the water and electricity challenges, it was improving its collection on rental and municipal arrears through the diligent implementation of credit control measures. This would include addressing distribution losses and a forensic investigation to assess challenges with implementing its credit control measures It was also setting up a task team to negotiate the possibility of the City of Tshwane taking over the management of the electricity and water supply infrastructure in the short to medium term to recover some of the money owed to the City. The MEGA indicated that the matter with the City of Tshwane was before the courts at the time.

5.1.1.3. Landfill site

There was a plan to obtain the licence for the landfill site and get it fully operational. However, this was estimated to cost R7 million. As cash flow remains a constraint for the MEGA, this was one of the areas where it wanted to invite the private sector to invest in and operate the landfill site bringing the necessary human resources with it, as part of its revitalisation and modernisation strategy. They expected to receive proposals from potential partners by mid-May 2022.

5.1.1.4. Critical infrastructure Programme

Phase one of Ekandustria's funding received from the Critical infrastructure Programme occurred in the 2018/19 financial year. The focus had been on the installation of three swing gates, six boom gates and pedestrian gates, as well as two kilometres of invisible fencing. Furthermore, 39 000 square metres of rusted and leaking roofs had been replaced, and 12 rusted roofs had been painted. The waste water treatment plant had also been refurbished and repaired, and three guard houses had been built.

Currently, Ekandustria was applying for funding of R50 million, as part of the second phase of the Revitalisation Programme. The following would be prioritised as part of this phase:

- Supply and installation of high master lights;
- Replacement of the water reticulation system;
- The installation of 15 kilometres of invisible fencing; and
- Building renovations and repairs.

5.2. Operational investors

During its oversight visit to the Ekandustria Industrial Park, the Committee noted that there was a need for general maintenance at certain facilities. The MEGA indicated that while it was responsible for the maintenance of the general structures, the tenants were responsible for maintenance such as replacing light bulbs and repairing broken windows. The Committee conducted site visits to two of the tenants' facilities, namely Mazikenzi Recycling and Mala Dyeing.

5.2.1. Mazikenzi Recycling

Mazikenzi Recycling is a 100 percent black-owned business that collects plastics and old egg trays and/or boxes. It recycles the old egg trays and/or boxes and manufactures new egg trays. The company is owned by two brothers and has seven employees. The company currently supplies small egg producers with trays but has been applying for funding to expand its operations to supply bigger clients.

The key challenge to expansion is the lack of a drying system. Currently, the company uses either floor space within the factory or outside to dry the egg trays, weather dependent. However, this process is slow and limits the number of trays it can produce at a time. Another challenge to its expansion is the need for additional delivery vehicles to collect waste and deliver egg trays to clients.

The company indicated that it had applied for funding from the DTIC, and commercial banks but had not had any positive feedback in this regard. The NEF, which formed part of the delegation, has indicated that it has subsequently engaged with the company and would be conducting an in-depth business assessment to better understand the business' funding needs. Once the assessment has been conducted, it would assist the owner to prepare an application for the NEF's Black Business Manufacturing Fund. It would also undertake a site visit to determine whether the NEF could also provide non-financial support to help the business with any other challenges it might be facing.

The DTIC funded the painting of the roof of the structure, which Mazikenzi Recycling rents, through the Revitalisation of Industrial Parks Programme.

5.2.2. Mala Dyeing

Mala Dyeing is a predominantly white-owned company that dyes fabric as commissioned. It employs 86 permanent and four casual staff members. The company's process is to make swatches of the desired colour for a client for their approval. It then has a computerised system that automates the process of pre-treating, dyeing, washing off the dye, and finishing the fabric for each client. It has a daily capacity to handle 6,5 to 7 tons of fabric. Most of the fabric it treats is locally produced and/or consumed; however, it is not locally produced yarn.

It currently occupies two buildings at the Industrial Park, one for its dyeing process, and one for storage. However, it indicated that it needs to extend the building from which it operates by another 1 000 square metres. This, in conjunction with the arrival of its new machine, would enable it to process 250 tons of fabric per month and employ another four people at its facility.

In May 2015, the company had been approved for funding of R8 million for the acquisition of new dyeing equipment under the Clothing, Textile, Leather and Footwear Competitiveness Programme's Production Incentive to increase its competitiveness.

The COVID-19 pandemic has inadvertently benefitted the business, as local demand has increased due to the increased cost of freight and longer lead times to receive imported fabric. However, it faces some challenges due to electricity and water shutdowns at the Industrial Park by the City of Tshwane. Water is one of its key inputs, as it requires 48 litres of water per metre of fabric. In March 2022, it had lost 12 days due to the water supply being cut off by the City of Tshwane. It is therefore looking at recycling water, which requires funding of R10 million.

The COVID-19 pandemic has inadvertently benefitted the business, as local demand has increased due to the increased cost of freight and longer lead times to receive imported fabric. However, it faces some challenges due to electricity and water shutdowns at the Industrial Park. Water is one of its key inputs, as it requires 48 litres of water per metre of fabric. In March 2022, it had lost 12 days due to the water supply being cut off by the City of Tshwane. It is therefore looking at recycling water, which requires funding of R10 million.

6. Project funded by the Support Programme for Industrial Innovation

The DTIC offers the Support Programme for Industrial Innovation (SPII) to enterprises to promote technology development in South Africa's industry, specifically the development of innovative products and/or processes. The SPII focuses on the development phase, which begins at the conclusion of basic research and ends at the development of a pre-production prototype. The funding offered can be used to cover (i) personnel-related costs; (ii) travel expenses with a defined maximum limit; (iii) direct material; (iv) capital items and tooling; (v) specialised software required for the project; (vi) documentation; (vii) testing and trials; (viii) licensing; (ix) quality assurance and certification; (x) costs to register a patent; and (xi) subcontracting and consulting.[42]

It offers two schemes of non-repayable grants in this regard, namely the Product Process Development (PPD) Scheme, and the Matching Scheme. The PPD Scheme offers a non-repayable

[42] DTIC (N.d.b)

grant of up to R2 million aimed at small and micro enterprises. The Matching Scheme offers a non-repayable grant up to R5 million.

6.1. Agrigel (Pty) Ltd

Agrigel (Pty) Ltd is a B-BBEE Level 4 company, which designs and manufactures fertiliser dispensing systems for the agriculture industry. The company was approved for the SPII PPD Scheme cost-sharing grant to develop a flow control system that would enable farmers to improve productivity by allowing them to apply fertiliser while planting up to 36 rows simultaneously. In this regard, the DTIC approved a grant of R1,8 million, of which approximately R1 million had been disbursed.

As part of the project, AgriGel has developed a free application that can be downloaded from Google Play Store onto an android tablet or smartphone that assists farmers with liquid fertiliser planting information such as flow rates and calculates sprocket ratios.

AgriGel employs six permanent staff members. Once the prototype is fully developed and ready for the market, it intends to look at B-BBEE partnerships to develop alternative production lines or licensing to manufacture the product, as well as growing its employment. While it offers in-house training, it has also acknowledged the need to pass the research and development skills from the owners onto its employees to improve its sustainability.

7. Projects funded by the Industrial Development Corporation

The primary mandate of the IDC is the development of domestic industrial capacity in line with government's socio-economic policy objectives. Funding by the IDC is expected to[43]:

- Facilitate sustainable direct and indirect employment;
- Improve regional equity, including the development of South African rural areas, underdeveloped provinces and economic development in the rest of Africa;
- Promote entrepreneurial development and the growth of the small and medium enterprises;
- Promote environmentally sustainable growth;
- Grow sector diversity and increased localised production; and
- Support the transformational impact of communities and development of black industrialists, women and youth.

The IDC offers funding for start-ups and existing businesses with a minimum funding requirement of R1 million and a maximum of R8,3 billion subject to collateral. It also offers tailored non-financial business support for entrepreneurs for pre, during and post approval stages, including assistance to distressed clients. It can provide short to long term loans; debt financing; equity; quasi equity; and guarantees; as well as administering sector specific schemes.

Businesses must have the ability to create jobs, be able to demonstrate that they are economically viable, have a reasonable financial contribution from the owner(s), shareholder(s), and/or sponsor(s), and have some form of security to qualify for funding. These businesses can be from a number of sectors or industries, such as: (i) agro-processing and agriculture; (ii) automotive and transport equipment; (iii) chemicals, Medical, and industrial mineral products; (iv) energy; (v) machinery, equipment, and electronics; (vi) mining and metals; (vii) textiles and wood products; and (viii) tourism and services.

7.1. Mixcorp

Mixcorp is a youth-owned emerging logistics company established in 2014 to provide intermodal logistics solutions. The company is wholly owned by Mr Mixo Kobe. Mixcorp secured a 5-year Eskom Holdings SOC Ltd (Eskom) contract for the provision of management and handling services associated with the delivery of coal by rail at Tutuka Power Station, ending in March 2024. This included removing the coal from the train wagons, transporting this to the stock yard, and from there onto the conveyor belt, which takes the coal to the power station.

[43] www.idc.co.za

Mixcorp received R44,3 million in funding from the IDC in April 2019 to purchase equipment and for working capital (R8 million). This funding was used to purchase two forklifts, seven trucks and two reach stackers. With its equipment and staff, it is able to offload four to five trains a day under optimal conditions. It is then paid by Eskom based on tonnage offloaded by it during a 30-day cycle.

The demand for Mixcorp's services are dependent on the amount of coal required by Tutuka Power Station. The Power Station receives coal from three sources, namely the local coal mine, supplies from surrounding mines via rail and then via trucks. At full capacity, Tutuka Power Station consumes 34 000 tons within a 24-hour period. However, when the Power Station is not fully operational due to planned and unplanned maintenance, therefore, its coal consumption has declined. As the second supplier of coal, Mixcorp is consequently not fully utilised in a 30-day cycle. As Eskom has moved to contracts based on delivery, there has been no financial support from Eskom to Mixcorp when Tutuka Power Station is operating sub-optimally.

Fourteen months prior, there had been a drop in coal demand. Mixcorp calculates that it requires at least 60 trains monthly to break-even. However, in March 2022, only 30 trains had been offloaded, and it had been hoping to offload 20 trains by the end of April 2022 due to the decline in coal consumption. Its monthly instalment to service the IDC loan is R1,2 million and it was currently behind with its instalments. The IDC indicated that while it had a workout and restructure process, Mixcorp had not yet reached the stage where it qualified for this process. The process would entail a due diligence process and consideration of how best to address the situation.

Furthermore, Mixcorp reported that it has challenges with Transnet. While Eskom requires Transnet rail services, delivery challenges arise due to theft and/or vandalism along the rail corridor. In addition, mines have not been producing the requisite quality or quantity of coal. Therefore, they are unable to send coal via rail.

Cumulatively, these external challenges are impacting on Mixcorp's financial sustainability and ability to maintain its labour force. Initially, it had employed 95 people over four daily shifts. It has had to scale down its number of shifts and labour force to about 60 people in January 2022. It employs mainly local people to work at the terminal. However, due to the skill level required to drive the trucks, it had employed foreign drivers on a contract basis to train local workers. It still retained two of these drivers. It also has 15 to 20 contractors from the Eskom Hub located at the terminal.

7.2. SME Connect Programme

The IDC indicated that it had recently started investing in the primary agricultural sector to align itself with the Poultry Master Plan. One of its programmes in this regard was the SME Connect programme, which looked at identifying anchor tenants and engaging them regarding supplier development. Companies producing chickens that are listed on the Johannesburg Stock Exchange have been linked with smaller black-owned companies as contract chicken growers. The IDC would assist by funding the construction of chicken broilers, and the company, in this case, Astral, would assist the contract growers by providing chicks, feed and antibiotics. The contract grower would then grow the chickens and deliver them to Astral when they are 32 or 33 days old.

The Committee visited two of the beneficiaries in these programmes, namely Gegana Business Enterprise and Roadgrass Investments.

7.2.1. Gegana Business Enterprise

Gegana Business Enterprise is a family-owned agri-company operating a commercial livestock operation and farming grain crops near Leandra, Mpumalanga. It is 100 percent black-owned and 15 percent women-owned.

It was looking at expanding its activities to include broiler contract growing, for which it approached the IDC for funding. It was granted funding of R70,2 million, which was disbursed in October 2021. It had also received a 40 percent grant from the Department of Agriculture, Land Reform and Rural Development. When the Committee visited, the broilers were not yet under construction. Eight broilers would be constructed with a capacity of 3 600 birds each and Gegana was working towards 4,2 million beds per annum. The project is expected to yield 1,8 million tons of birds annually and create 20 additional jobs.

Gegana raised concerns about the following:

- The cost of inputs for farming;
- The need to produce sufficient volumes domestically to compete with importers, who often receive subsidies, and reduce the prices for consumers;
- Access to the value chain as an emerging farmer; and
- The impact of poor road infrastructure, particularly on the cost of maintaining the axles of trucks.

7.2.2. Roadgrass Investments

Roadgrass Investments is an agri-company operating a fully commercial chicken broiler business in Delmas, Mpumalanga. It is 100 percent black-owned and 50 percent women-owned. It was currently producing about 225 000 birds per cycle.

The client approached the IDC for funding to build additional broiler houses to increase production capacity towards fulfilling a new contract with Astral as a contract chicken grower. In this regard, it was approved for funding of R55,3 million, which was disbursed in September 2021, and received a R18 million grant from the Department of Agriculture, Land Reform and Rural Development. The eight technologically advanced broilers were under construction and would house 40 000 chicks each. The project is expected to be operational by August 2022. It will yield about 320 000 birds per cycle. It expects to create a further 12 to 15 permanent jobs plus additional contractors to assist in catching and cleaning the chickens.

Roadgrass Investments noted that it has a profit-sharing model with its employees. It offers them a salary, production incentives and 10 percent of profits annually. It also trains 10 to 15 graduate or diploma students annually.

8. Project funded by the National Empowerment Fund

The NEF is established by the NEF Act (Act No. 105 of 1998) to promote and facilitate black economic equality and transformation, as defined by the B-BBEE Act (Act No. 53 of 2003). It provides finance and financial solutions to black businesses across a range of sectors, as well as accessible retail savings products for black people based on state-owned equity investments. Therefore, its core funding mandate is to promote access to finance for black start-ups, SMMEs, co-operatives and black entrepreneurs, including those in the informal business sector. Some of the key sectors that the NEF supports are Retail, Construction, Property, Private Healthcare and Franchising. It also provides venture capital funding to assist black people to become black industrialists and focuses on businesses in rural areas, townships and peri-urban areas.[44]

Funding is provided to commercially viable businesses, where black people are actively involved in the governance structures and the management of these businesses, and the businesses have at least 50,1 percent black ownership. It also gives preference to businesses in rural or economically depressed areas; or with black women participation. It currently offers seven funds with funding ranging from R250 000 to about R75 million depending on the fund. Certain funds are also administered on behalf of or in conjunction with government departments.

8.1. Electrotron

Electrotron is a leading Original Equipment Manufacturer and distributor of Conveyor Safety and Control Equipment established in 1988. Its operations are based in Middelburg, Mpumalanga, and comprise of a manufacturing plant, in-field service, and a research and development division.

The core function of the company is the design, manufacture, installation and maintenance of conveyor belts and communication systems, weighing and signalling equipment for the mines. Safety equipment for conveyor belts, underground/tunnel communication and electrical control circuitry are legal requirements from the Department of Mineral Resources and Energy.

The company manufactures the majority of its finished goods except for certain electronic components imported from Europe and the Far East. The vision and intention going forward is to

[44] www.nefcorp.co.za

ensure a self-sustainable manufacturing means of all products in house. Its customer base includes Wescoal, Exxaro, Anglo American Zebulo, Maaden Saudi Arabian Mining and a variety of other blue-chip companies.

The NEF invested R18 million for the acquisition of Electrotron in December 2021, as well as R5 million as a soft loan for working capital under the Black Business Manufacturing Plan. The company is now 100 percent black-owned and 20 percent is female-owned, and employs 45 people.

The company also has a training centre, which trains mine staff, tradesmen, and community-based individuals, particularly youth, to service the installed equipment. This is a two-year training programme and six of the modules were currently undergoing the Manufacturing, Engineering and Related Services Sector Education and Training Authority's accreditation process. It has also secured funding from the Unemployment Insurance Fund to facilitate the training of community-based individuals.

Given that the Mining Charter advocates for procurement within a 50 kilometre radius of a mine, there are significant opportunities for expansion for the business, especially in terms of maintaining the equipment and thus contributing to community development.

Electrotron noted that the risk appetite of DFIs appeared to be low, given its experience applying for funding from the IDC for this project. It also commented that the NEF's contribution has derisked the projects and thus it is easier to access overdraft facilities from commercial banks for working capital.

9. Concluding remarks:

Based on its deliberations, the Committee drew the following conclusions:

9.1 The Committee welcomed the processes implemented by the NRCS to resolve the inaccurate estimation of levy revenue, which has resulted in a recurring audit qualification. The Committee is of the view that the various undertakings by the NRCS should eliminate future audit qualifications.

9.2 The Committee welcomed the significant progress that had been made by the NRCS with regard to the implementation of its ICT modernisation project, with its key goal to improve the efficiency of the NRCS' services to its customers.

9.3 The processing of LOAs has benefitted from the modernisation process, with 92 percent of applications finalised within 120 days. The Committee welcomed the implementation of the Risk-Based Approach, which resulted in low-risk products being processed much quicker, as well as the implementation of the 30 days' cancellation policy for applicants who failed to address findings within 30 days from the date that the finding had been raised.

9.4 The Committee encouraged the NRCS to continue enhancing its capabilities in the processing of LOAs and to ensure that there is sufficient capacity to conduct inspections in the market.

9.5 The Committee furthermore welcomed the NRCS' undertaking to complete its modernisation process during the 2022/23 financial year with (i) the implementation of the Central Regulatory and Workflow System, (ii) the enhancement of ICT Governance and Cybersecurity Controls, (iii) the implementation of phase 2 of the Enterprise Resource Planning system which includes modules on Audit, Risk and Legal, and (iv) the implementation of the Customer Contact Centre Solution.

9.6 The Committee noted the NRCS' recent efforts to increase stakeholder engagements to raise consumer awareness of its programmes, especially within vulnerable rural communities. The Committee welcomed its inclusive approach towards these engagements by soliciting the assistance of local councillors, and local traditional leaders, as well as the local police, to assist and facilitate such community engagements to ensure successful community participation and engagement.

9.7 The Committee was concerned by the NRCS' underfunded and unfunded mandates in terms of legal metrology, processed meats and the National Building Regulations and Standards. It urged the Minister to facilitate the development of appropriate funding mechanisms of these mandates, where necessary, and to publish the relevant regulations in this regard.

9.8 The Committee welcomed the progress made by the SABS since it had been placed under administration in 2018. The turnaround strategy has yielded significant results with the initial stabilisation of the organisation, addressing its operational challenges and placing the SABS on a new strategic course going forward.

9.9 The Committee appreciated the success of its sales and marketing strategy that has contributed to the improvement of the financial performance of SABS Commercial, the retention of more clients, and the growth of its client base.

9.10 The Committee welcomed the launch of the local content grading system in support of the Re-imagined Industrial Strategy to drive localisation. This system is critical to verify compliance with local content designations to grow the manufacturing base, and create jobs.

9.11 The Committee acknowledged the recent capital expenditure by the SABS to address some of its infrastructure challenges, and the significant investment in maintenance at the Groenkloof Campus. However, it noted the urgency with which the SABS has to address its ageing auxillary pipeline networks and its financial constraints to replace the pipelines.

9.12 The Committee applauded the SABS' use of alternative funding models and mechanisms to upgrade some of its laboratories, such as the Pump Testing Laboratory, which has had a positive effect on its competitiveness and ability to save on its electricity and water bills.

9.13 The Committee remained concerned about the impact of ongoing theft of electricity cables off-campus on the operations of laboratories that require sustained conditions over longer periods of time, as this has negatively affected the SABS' ability to retain some of its client base.

9.14 The Committee encouraged the SABS to explore solutions, such as the rerouting of Eskom's electricity cables and alternative energy generation options, to resolve the impact of unreliable electricity supply and to reduce its electricity bill.

9.15 The Committee was concerned that the SABS Commercial directors, namely the Co-administrators and the Chief Financial Officer, were unable to obtain directors' liability insurance, while it remained under administration. This gap created a high personal risk for these officials in their decision-making capacity on behalf of SABS Commercial. Therefore, it urged the Minister to finalise the appointment of the Board and a Chief Executive Officer to rectify the situation.

9.16 The Committee acknowledged the improvement in the SABS' relationship between its management and the labour union. It encouraged the SABS to strengthen its labour relations and to continue consulting labour in an open and transparent manner.

9.17 The Committee welcomed the joint management meetings instituted between the NRCS and the SABS to deal with operational issues to further foster collaboration and cooperation.

9.18 The Committee was concerned by the slow progress in the development of the Nkomazi SEZ since its designation in 2018. There also appeared to be disparities in terms of reporting by the Mpumalanga Department of Economic Development and Tourism and the DTIC on the progress made in developing the SEZ, such as the status of the SEZ Entity and the number of investors in the pipeline, which was a concern to the Committee.

9.19 The Committee was of the view that there was no clear plan that outlined the cost of and timeframes for developing the Nkomazi SEZ, as well as the strategy to attract investors.

9.20 Given the lack of legislative certainty on the legal status of communal land, the Committee was concerned about the security of land tenure of traditional land that would form part of the SEZ, as it may negatively impact on the case for attracting investment.

9.21 The Committee welcomed the support by the DTIC to revitalise Industrial Parks to stimulate the rural economies and create rural employment.

9.22 However, the Committee was concerned by the Mpumalanga Economic Growth Agency's inadequate management and human resource capacity at Ekandustria, and the lack of financial resources to maintain the Park.

9.23 Furthermore, the Committee was concerned about the debt owed to the City of Tshwane for bulk electricity supply. It was of the view that the Mpumalanga Department of Economic Development and Tourism should expedite the partnership with the City of Tshwane regarding the maintenance of the electricity infrastructure to address distribution losses. In addition, the Committee encouraged the Mpumalanga Economic Growth Agency to implement its collection policies to assist with its cash flow to pay this debt and keep its account with the City of Tshwane current.

9.24 The Committee was of the view that the DTIC, in conjunction with the relevant national and provincial departments, should facilitate the establishment of a partnership between the Mpumalanga Economic Growth Agency and the City of Tshwane to ensure that there is effective cooperation in relation to the operations of the Industrial Park. The ownership of the industrial park must be resolved.

9.25 The Committee noted the Mpumalanga Economic Growth Agency's proposed strategy to develop public-private partnerships to attract financial resources and technical know-how to revitalise and modernise the Industrial Park.

9.26 The Committee was concerned by the impact of planned and unplanned maintenance at Eskom's Tutuka Power Station on the operations of Mixcorp, one of the Station's service providers. Eskom's failure to address its ongoing infrastructure challenges has inadvertently impacted on the sustainability of this black, youth-owned business, as its revenue is directly linked to Eskom's demand for coal and the tonnage of coal the business handles in this regard. This affected Mixcorp's ability to service its loan with the IDC and to retain its employees.

9.27 The Committee emphasised that there is a need for collaboration among departments and government entities to ensure effective implementation of inter-governmental policies to support the development of the industrial base, as well as the decentralisation and transformation of the economy. State-Owned Enterprises play an important role, as drivers of the economy and enterprise development, in this regard.

9.28 The Committee urged the DTIC and the development finance institutions such as the Industrial Development Corporation and the National Empowerment Fund to offer non-financial support to black industrialists in navigating and resolving challenges emanating from structural constraints in the economy.

9.29 The Committee also acknowledged the benefits that the regulations under the Department of Mineral Resources and Energy and the Mining Charter, in relation to the safety equipment requirements for mines, have created in terms of manufacturing and employment opportunities for the private sector.

9.30 The Committee commended the addition of primary agriculture as one of the Industrial Development Corporation's priority sectors in support of the Poultry Master Plan. Furthermore, the Committee welcomed the partnerships being developed by the Industrial Development Corporation with the private sector to leverage financing in support of the primary agricultural sector and to overcome barriers to market access for emerging farmers. The Committee was of the view that financial support in this regard was critical, as the agricultural sector has the ability to significantly increase job opportunities.

9.31 The Committee welcomed the support offered by the Support Programme for Industrial Innovation for technological developments, especially to small and medium enterprises. It noted that once the products being developed under the Support Programme for Industrial Innovation are ready for market, these can be leveraged to promote economic transformation in sectors.

10. Acknowledgements

The Committee would like to thank the management and senior officials of the National Regulator for Compulsory Specifications, the South African Bureau of Standards, the Mpumalanga Department of Economic Development and Tourism, the Mpumalanga Economic Growth Agency, the Industrial Development Corporation, the National Empowerment Fund, and the DTIC for their cooperation and transparency during this process.

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