**3. Report of the Select Committee on Trade and Industry, Economic Development, Small Business Development, Tourism, Employment and Labour on ADJUSTED Budget Vote 39: TRADE, INDUSTRY AND COMPETITION, and the 2020/21 REVISED Annual Performance Plan of the Department OF TRADE, INDUSTRY AND COMPETITION, dated 21 JULY 2020**

**1. Background**

The Select Committee on *Trade and Industry, Economic Development, Small Business Development, Tourism, Employment and Labour*, having considered the *Supplementary Adjustments Budget of Vote 39: Trade, Industry and Competition*, and the 2020/21 revised *Annual Performance Plan* (APP) of the *Department of Trade, Industry and Competition tabled by the Minister of Trade, Industry and Competition,* reports as follows:

**2. Introduction**

The Committee considered the *2020/21 Supplementary Adjustments Budget*, and the revised *2020/21 APP of Budget Vote 39: Department of Trade, Industry and Competition*. The Committee engaged the Department on the 10 July 2020. This engagement follows the tabling of the *Supplementary Adjustments Budget* by the *Minister of Finance* on the 24 June 2020.

It was noted that South Africa entered the *COVID-19* phase already faced with weak fiscal position. Gross government debt has continued to rise as a result of weak economic growth, high levels of expenditure and repeated funding support to state owned companies. It was further reported that the rating downgrades would increase the cost of government borrowing. The currency weakness remains a concern.

Rising unemployment remains a challenge, further declining real GDP per capita, and low business sentiment are some of the risks that need to be addressed. Depressed household finances would likely affect livelihoods. Unskilled, and semi-skilled workers are projected to be hit hard by the COVID-19 pandemic.

South Africa trade connection with other economies is not much deeper compared to other emerging economies. However, South Africa in terms of trade is much depended to the major economies such as China, Germany, UK and USA.

Further, the Department acknowledged the trade deficit it has with BRICS member countries, but further emphasised that the industrial strategy adopted by government seeks to address some of the challenges that the country is experiencing. Hence it is important for South Africa to diversify the export basket to include greater share of higher value added manufactured products.

The Committee expressed that for the country to growth and jobs objectives, it would require both domestic and significant international investment. For the country to attract investment it should build solid investment environment to ‘*Ease of Doing Business’* in the country, and improve production capacity and capability.

The Department indicated that as both global and domestic economy faces a recession, government is forging ahead to formulate plans in partnership with the private sector to take advantage of growth opportunities across the African continent. The Department reported that it is leading some of the economic growth recovery intervention to exploit opportunities presented the Continental Free Trade Agreement. Further, the *2019 Investment Conference* commitments will be unlocked, current R600 billion in investments have been committed, these investments are from companies such as Mercedes Benz and Ford.

The Committee noted in the *2020/21 Main Budget Report* that the strategic plan and spending plans of the Department would need to be revised to accommodate the policy response to the *COVID-19* pandemic. Further, the Committee recognised that the COVID-19 had an effect to the departmental spending plan priorities. According to the *2020/21 Supplementary Budget Review,* the overall adjustments to the spending plans of government departments was guided by:

* Removing funds underspent due to delays caused by the lockdown from the baselines of affected departments;
* Suspending allocations for capital and other departmental projects that could be delayed or rescheduled to 2021/22 or later;
* Suspending allocations to programmes with a history of poor performance and/or slow spending;
* Redirecting funds towards the COVID-19 response within functions, or towards government’s fiscal relief package.

The Department submitted that the revised spending plan priorities have been refined to ensure that it is fit for purpose to ensure that all economic opportunities are unlocked. The Department reported that it will work in collaboration with provincial and local government including the private sector to deepen insights into how to productively deal with economic reconstruction.

Over the medium term period, a significant feature of the spending plans would respond more appropriately to COVID-19 interventions, given its enormous impact on the economy and employment. Further, government would increase efforts to attract investments, growth and expansion of businesses, drive industrial development within the context of spatial planning and development. Job creation initiatives remain central on government inclusive growth agenda.

It was reported that in a world that has seen problems in the disruption of supply chains, the Department has resolved to assist in building a more resilient domestic supply chain in order to enable South Africa to build its own domestic capabilities. Capacity building of supply in areas of personal protective equipment (PPE’s), boosting the pharmaceutical industry’s capacity and other industries during this period and beyond to encourage localisation across different platforms and programmes would remain a priority.

The *Supplementary Adjustments Budget* tabled by the Minister of Finance has resulted in the suspension of R1,77 billion in funds initially appropriated to the Department. In the 2020 Main Budget the Department was approximately appropriated R11 billion. Despite the 17 per cent reduction of the departmental budget, the Department has undertaken to increase its key performance areas and outcomes. Within the current department’s operational context, the Department resolved to do more with less, endeavoring to dig as deeply as possible into non-financial capabilities to achieve the objective of getting the economy back to higher growth.

**3. Impact of COVID-19 on Departmental Spending**

The aim of the Department is to foster a dynamic industrial, globally competitive South African economy, characterised by meaningful economic transformation, inclusive growth and development, decent employment and equity, built on the full potential of all citizens.

The core functional policy priorities are constituted around crucial policy functional areas namely; namely *Programme 2: Trade Policy, Negotiations and Cooperation; Programme 3: Spatial Industrial Development and Economic Transformation; Programme 4: Industrial Competitiveness and Growth; Programme 5: Consumer and Corporation Regulation; Programme 6: Industrial Financing; Programme 7: Export Development, Promotion and Outward Investments; Programme 8: Inward Investment, Attraction and Aftercare; Programme 9: Competition Policy and Economic Planning and Programme 10: Economic Research and Coordination. Programme 1: Administration* is primary providing overall core administrative support to enable the three functional policy areas to realise their legislative and policy functional requirements.

As the result of the changes to *the 2021 Main Budget*, the Department indicated that its spending focus will cover the following budget policy priorities:

* Developing a shared service framework for the Department and its entities to avoid duplication of costs and release resources for front-line programmes;
* Strengthening coordination capabilities to support trade and to protect South Africa’s industrial base;
* Creating a *Special Economic Zone* (SEZ) Project Management Unit, to enable better-performing SEZ’s;
* Economic Recovery Programme developed to support greenfield and brownfield investments and companies in distress in order to retain jobs and industrial capacity;
* Reviewing key legislation to take into new developments;
* Refocussing industrial support not only for new growth but also to maintain existing jobs and industrial capacity and assets;
* Prioritising growth of exports to other African countries, which include focussed work on the *Africa Continental Free Trade Agreement* and supporting new export markets outside South Africa and new products for export;
* Enabling the implementation of the *2018 and 2019 Investment Conference* commitment of projects;
* Enhancement of domestic industrial finance system which includes DFIs and other funders to crowd in more funding to enterprises and streamline industrial support;
* Reduction in the transmission of COVID-19 at the workplace;
* Optimisation of resources within the DTIC portfolio of entities through the implementation of a shared services model for the DTIC entities.

Table 1 shows how the funds have been shifted within the department, and further resources allocated to respond to the COVID-19 pandemic. Further, resources were also shifted towards government policy objective to stabilise public finances.

 **Table 1: Summary of Revised Budget: Trade, Industry, and Competition**



**Source: National Treasury, Supplementary Budget, 2020**

In the current financial year, the Department as part of the government wide downward revision exercise on spending plan priorities is expected to forgo R1,77 billion. Of which in terms of economic composition, the Department is anticipated to forgo R51,35 million on *Goods and Services* and R1,72 billion on *Transfer and Subsidies.* The Functional Policy Programmes, Programme 1: Administration is expected to forgo R16 million, all of the funds are derived from Goods and Services spending item.

The policy area that that in relation with *Trade Policy, Negotiations and Cooperation, the functional policy area is expected to* forgo R5,52 million, which is composed of R2 million on *Goods and Services* and R3,5 million on *Transfers and Subsidies*. Despite this reduction on spending, the Department has committed to redirect resources to take advantage of opportunities brought about by the coming into effect of the African Continental Free Trade Area (AfCFTA) Agreement. Apart from the AfCFTA, the Department will position the country to exploit opportunities presented by various international trade agreements such as the *SADC European Union (E U) Economic Partnership Agreement* (EPA), *SACU Mozambique EPA with the United Kingdom* (UK) and *African Growth and Opportunity Act, 2000* (AGOA). South Africa role in G20 and BRICS will be enhanced to benefit the country and the rest of the African region.

In relation with the policy area on *Spatial Industrial Development and Economic Transformation,* the Department is expected to forgo R11,59 million, of which R10,2 million is on *Goods and Services*, and R1,7 million is on Transfers and Subsidies. Over the medium term the Department reported it will accelerate implementation of the *Special Economic Zones* (SEZs) and the *Revitalisation of Industrial Parks*, and continue to implementing the *Black Industrialist Programme*. The Committee noted the role of sub-national governments in the development of economic development programmes. The Committee felt this is the area that need to be prioritised to ensure that provincial and local government including private sector are better engaged to ensure successful implementation of the programme.

*Functional Policy Programme 4: Industrial Competitiveness and Growth’s spending is expected to decline by* R338,874 million, of which R500 thousand is on *Goods and Services* and R338,374 million is on *Transfer and Subsidies.* The funds were derived from the *National Metrology Institute of South Africa* (R13,49 million-operations, and R15,25 million for capital), R16,92 million for operations from the *National Regulator for Compulsory Specifications and R3,69 million from the South Africa Accreditation System. Further, other funds in relation to Industrial Competitiveness and Growth’s* spending were originated from the *Centurion Aerospace Village (R1,72 million for operations),* R6,8 million from *Intsimbi Future Production Technologies Initiative,* R3,9 million from the operations of the *Proudly South Africa Campaigns,* R2 million from the *Trade and Industrial Policy Strategies* for policy development*.* Further, other funds were derived from the Aerospace Industry (R5 million), R12 million from the *National Cleaner Production Centre* and R4,7 million from the *National Foundry Technology Network*.

The functional policy area will also forgo R183,133 million from the *Clothing, Textile, Leather and Footwear Competitiveness Improvement Programme* administered by the *Industrial Development Corporation-IDC*, and R64,8 million from the operations budget of the *South African Bureau of Standards*. The Committee raised concern about the reduction of the budget with regard to the *Industrial Competitiveness and Growth policy area. The policy area is critical to the efforts of government to drive growth and jobs creation objective.*

Another policy is that experienced significant budget cut is the *Functional Policy Programme 6: Industrial Financing, which is* expected to forgo R1,199 billion, of which R5,5 million is on *Goods and Services,* and R1,193 billion is on *Transfers and Subsidies.* The funds were originated from the *Critical Infrastructure Programme* (R50 million), R100 million from *Export Market and Investment Assistance,* R683,616 million from *Manufacturing Development Incentives,* R200 million from *Services Sector Development Incentives.* In addition, R30 million from *Industrial Innovation Incentive Scheme* that support black businesses. Further, R30 million was derived from the *Bulk Infrastructure development,* and R100 million from the *Special Economic Zones* funds.

However, *Industrial Financing* is expected to receiveR500 million as part of the departmental reprioritisation exercise to support firms that are in distress as a result of the restrictions on economic activity. Over the medium term the Department reported it will accelerate implementation of the *Special Economic Zones* (SEZs) and the *Revitalisation of Industrial Parks*, and continue to implementing the *Black Industrialist Programme*. The Committee noted the role of sub-national governments in the development of economic development programmes.

The Committee emphasised the importance of the *Broad-Based Black Economic Empowerment (B-BBEE) initiative’s contribution to an inclusive growth agenda.* However, the pace and depth of B-BBEE has underperformed leading to a narrow base of beneficiaries. The B-BBEE programme should address equity, and fully integrate women, youth, disabled, rural communities, and people who are poor to the mainstream economy.

The Department reported that the *Industrial Parks Revitalisation Programme* which is in its fourth year is one of the key programmes. The programme has been expanded from 10 to 27 Industrial Parks. Phase 1 of this programme has been completed in 12 Industrial Parks. To date a total of R760 million has been approved for funding of Phase 1 and 2. A total of 1429 job opportunities have been created since the inception of the programme. The Industrial Parks host both heavy and light industrial businesses in various sectors and currently employ 65 000 people.

Further the Department submitted that the Industrial Parks programme will incorporate the digital hubs, which would create a platform which provides access to technology, digital training, shared facilities and work spaces with particular focus on youth owned enterprises. The programme is expected to be implemented country-wide in partnership with the Department of Small Business Development and the private sector. The currently, Department is implementing the digital hub platform in Botshabelo-Digital Hub in the Free State and the iSithebe Digital Hub in Kwa-Zulu Natal. The Committee felt this is the area that need to be prioritised to ensure that provincial and local government including private sector are better engaged to ensure successful implementation of the programme.

With regard to *Functional Policy Programmes, Programme 5: Consumer and Corporate Regulation,* the programme is expected to forgo R29,56 million, of which R500 thousand is on *Goods and Services*, and R29 is on *Transfer and Subsidies* which is composed of R2 million on operations budget of the *Companies Tribunal,* R6,9 million on operations of the *National Consumer Commission,* R6,2 million on the operations budget of the *National Consumer Tribunal,* R9,2 million on the operations budget of the *National Credit Regulator, and* R3,9 million from the operations budget of the *National Gambling Board.*

The *Functional Policy Programmes, Programme 7: Export Development, Promotion and Outward Investments’* spending is anticipated to decline by *R45,7 million*, of which R4 million is on *Goods and Services,* and R41 million is on *Transfers and Subsidies.* The funds that are suspended were originated from the *Transfers and Subsidies* composed of R172 thousand from the *World Bank* to conduct feasibility studies, R171 thousand from the International Finance Corporation to assist the South African businesses to build long term sustainable export strategy, and R41 million from the *Export Credit Insurance Corporation of South Africa* originated from the *Interest Mark-Up Scheme*.

With regard to the *Functional Policy Programmes, Programme 8: Inward Investment Attraction, Facilitation and Aftercare’s* spending is expected to decline by R2,6 million, the entire funds were derived from *Goods and Services* spending item. The policy area that focuses on *Competition Policy and Economic Planning* is expected to forgo R119 million, of which R7 million is on Goods and Services and R112 million is on *Transfers and Subsidies*. The funds that were derived from the *Transfers and Subsidies* composed of R37,46 million from the operations budget of the *Competition Commission*, R4,2 million from the operations budget of the *Competition Tribunal* and R12,69 million from the operations budget of the International Trade Administration Commission. Further, some of the funds which were suspended were originated from the *Steel Development Fund* (R7,5 million) administered by the IDC, and R50 million from the operations budget of SEFA.

The Committee stressed that under the current economic and health conditions caused by the *COVID-19 pandemic*, South Africa in order to drive economic growth and job creation agenda would require both domestic and significant international investment. South Africa would have to compete with other emerging markets and ensure it is a globally attractive investment destination. The work of the Department would be central to attract investment boost economic growth and employment.

The *Functional Policy Programmes, Programme 10: Economic Research and Coordination’s spending is expected to decline by R3 million, all originated from the Goods and Services spending item.* Most of the spending on Goods and Services suspended relates to allocations to general operational spending items such as travel and subsistence, communications, inventory and consumables, and venues and training facilities.

**4. Issues Arising from Engagement**

1. The Committee noted that both domestic and global economic growth will record negative growth due to the *COVID-19* pandemic impact. The International Monetary Fund, South Africa Reserve including National Treasury have revised downwards South Africa’s GDP growth prospects for 2020. Investment confidence remains low, currency remains volatile, unemployment posing a potential for social instability, and public finances are also at high risk coupled with challenges faced by critical state entities, which are directly linked to future the country’s economy.
2. Department re-assured the Committee that government efforts such as the R500 billion economic and social development package, industrial and development *Master Plans* for the automotive sector, poultry industry and retail (clothing, textiles, leather and footwear industries), including a special focus on the implementation of *the Integrated Resource Plan 2019*, are some of the interventions put together to drive considerable investments, particular in renewable energy give an impetus that the economy will recover.
3. Further, the Department re-iterated that government in partnership with the private sector and civil society will ensure that investment projects announced at the second *Investment Conference in 2019* are fully realised. The *African Continental Free Trade Area* (AfCFTA) presents growth opportunities for South African companies.
4. The Department acknowledged the trade deficit it has with BRICS member countries, but further emphasised that the industrial strategy adopted by government seeks to address some of the challenges that the country is experiencing. Hence it is important for South Africa to diversify the export basket to include greater share of higher value added manufactured products. Further, South Africa would pursue the global trade transactions guided by international trade and investment regime.
5. The Committee further noted that the budget cuts in relation to the some of the core policy areas such as the *Industrial Competitiveness and Growth and Industrial Financing* was a concern, and that has the potential to compromise economic growth and jobs’ objectives. The Department agreed, however it stressed that government is committed to drive economic growth and jobs policy objectives. The Department believes that the suspended funds in respect of the *Industrial Competitiveness and Growth and Industrial Financing* policy areas would be restored in the 2021 budget allocations*.*
6. In response to concerns raised regarding financing for SEZ and Industrial Parks, the Department indicated that whilst is providing support programmes it has a limited funding, hence it is requesting the Committee to support its effort in facilitating and mobilising provincial and local governments as hosts to the industrial and development platforms to contribute in funding and financing the SEZ and the Industrial Parks. The Department indicated that Ministers and Members of Executive Council (MINMEC) meetings are envisaged to find creative solutions to address the funding and financing requirements. The Department for instance proposes that the sub-national governments should use re-invest the rental funds generated in the industrial development platforms to propel growth and expansion of the industrial development platforms by investing in infrastructure development of the SEZ and Industrial Parks.
7. The Committee emphasised that the success of the SEZ and Industrial Parks programme hinges on collaborative efforts by all spheres of government.
8. The Department made an undertaking that it will address the issues related to governance that occurred at the *National Lotteries Board*. The Department submitted that it will certainly brief the Committee on the outcomes of the forensic investigation report.
9. Localisation programme remains a priority, that Department reported. To this effect, the Department reported that it working with National Treasury to strengthen governance regime to ensure that local manufacturing capacity is supported. Further, enhance implementation of the *Black Industrialist Programme*.
10. The Committee stressed that spatial distribution of development resources should be prioritised. The rural and urban gap should be addressed. Investment aimed to boost industrial development should take into account spatial development considerations.
11. Further, the Committee stressed that government need to pace the implementation of the economic recovery plan to double efforts to address poverty, inequality and unemployment. Post-*COVID-19 efforts* should yield positive outcomes with regard to investments, growth and expansion of businesses in particular small enterprises both in urban and rural economies, and boost job creation in order to avoid socio-economic instability.

**5. Recommendations**

The Committee noted that the COVID-19 pandemic has caused negative shock on the economy, South Africa like other nations, has lost economic activity that would have medium-term and long-term economic effects. The pandemic has caused uncertainty, disrupted normal planning processes, and affected firms and governments operations.

The Committee emphasised that it is crucial for government and its development agencies to allocate scare resources better and provide support to businesses to preserve jobs and incomes of households. Further subnational governments’ capacity and capability would need to be geared-up.

Further, given the vital role of provinces, local government and private sector in small enterprise development, industrial development and innovation, it is critical that an effective multilevel governance in supporting growth and development of businesses, whether big or small need to be promoted and enhanced. In addition, industrial development initiatives such as *Special Economic Zones*, and Industrial Parks should be aligned with growth strategies of hosting regions.

The Committee guided by the main budget report adopted, and the new information originating from the *Supplementary Adjustments Budget*, and the revised APP provided by the Department reiterates that the government will need to act fast to implement its spending plan priorities for jobs, preserve economic productive capacity, and attract investments. To this end, the Committee proposed the following recommendations to the *Minister of Trade, Industry and Competition:*

1. Given the pivotal role of the functional policy areas such as the *Spatial Industrial Development and Economic Transformation, Industrial Competitiveness and Growth, Industrial Financing* contribution to the government’s inclusive growth agenda, budget cuts in these functional policy areas is a concern. The Committee put it on record that in the 2021 medium term, the funds that were suspended in respect of the functional policy areas should be restored.
2. The Committee noted that COVID-19 has negatively affected many firms in almost all industries in the economy. Industrial production capacity has been disrupted, and many jobs in the economy are set to be lost. The Committee welcomes that *the Industrial Financing* is expected to receive R500 million through the departmental reprioritisation exercise to support firms that are in distress as a result of the restrictions on economic activity. However, Committee recommends that the Department should engage National Treasury to provide additional funding over the 2021 medium term to upscale financing support directed to the companies in distress.
3. Over the medium term the Department should accelerate the implementation of the *Industrial Parks Revitalisation Programme*. Working in partnership with other departments such as *Small Business Development*, and sub-national governments the Department need to provide incubation and business development support in the *Industrial Parks*, which include market linkage facilitation so that the *Industrial Parks* can attract, support and sustain new firms. Firms located in the *Industrial Parks* should be exposed to various government incentives schemes.
4. The Department has several incentives schemes such as the manufacturing investment schemes, competitive investment scheme, service investment, industrial innovation investment cluster competitive investment, and infrastructure investment schemes. The Committee urges the Department to improve coordination across levels of government to strengthen and enhance allocation of resources across industrial development programmes.
5. South Africa has high number of unemployment, and with surplus of unskilled labour. There is a growing concern that the *Special Economic Zones* should also priorities labour intensive sector. The Department should consider that some of the SEZ to focus on labour intensive firms.

*Report to be considered.*