**Budgetary Review and Recommendation Report of the Portfolio Committee on Trade and Industry, dated 18 October 2013**

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The Portfolio Committee on Trade and Industry, having assessed the service delivery performance of the Department of Trade and Industry, against its mandate and allocated resources in particular the financial resources for the 1 April 2012 to 31 September 2013, reports as follows:

1.     Introduction

South Africa’s economy has demonstrated its resilience in this period of global economic turmoil, which impacted on the tradable sectors. The stable and robust macroeconomic regulatory framework, the New Growth Path, the Industrial Policy Action Plan and the vision of the National Development Plan have all contributed to this resilience.

In particular, the Industrial Policy Action Plan, supported by a strategic trade policy, has through the implemented mandate of the Department of Trade and Industry (DTI) positioned South Africa during the 2012/13 financial year to accelerate the export of beneficiated products.

Notwithstanding the structural constraints in the economy, the DTI has been able to mitigate against the numerous challenges facing the domestic, regional and global economy. It has been able to do this through not only adopting but implementing creative and effective programmes and approaches. It has recognised that all sectors of our society: business, labour, the private sector, community groupings and citizens in general throughout our country from rural to urban face challenges that require creative and customised communal resolution.

The robust and rigorous oversight of the committee on administrative price challenges resulted in significant reductions in port charges for the export of beneficiated products. Indeed, the challenges we face both globally, regionally and nationally are so great they cannot be solved in silos but call for a united action. In our country, both the private and the public sector need to work together. Indeed, we believe the DTI has striven to pursue this path.

Regional Integration has been pursued with vigour both horizontally and vertically using infrastructural development with an increased focus on intra-African trade. This is reflected in the SADC-EAC-COMESA Free Trade Agreement. The pillars of this tripartite initiative are expected to ensure an equitable spread of the benefits of regional integration, market development and industrial development.

According to the analyses derived from the Management Performance Assessment Tool published by the Department of Performance Monitoring and Evaluation (DPME), the DTI has outperformed in the areas of strategic management, governance and accountability and financial management [[1]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm%22%20%5Cl%20%22_ftn1%22%20%5Co%20%22).

1.1.         Mandate of the committee

As an integral part of its oversight role, Section 5 of the Money Bills Amendment Procedure and Related Matters Act requires the National Assembly, through its committees, to annually assess the performance of each national department. A committee must submit a report of this assessment known as a Budgetary Review and Recommendation Report (BRRR). The overarching purpose of the BRRR is for the committee to make recommendations on the forward use of resources to address the implementation of policy priorities and services as these may require additional, reduced or re-configured resources for the Department. This gives effect to Parliament’s constitutional powers to amend the budget in line with the fiscal framework.

The BRRR process enables the committee to exercise its legislative responsibility to ensure that the Department and its entities are adequately funded to fulfil their respective mandates. However, as the Budget Office is still in the process of being established, the committee was unable to exercise its full powers on providing detailed budgetary recommendations. The committee looks forward to a fully operational Budget Office, which will substantively contribute to the budgetary support the committee requires to undertake this process.

1.2.         Description of the core functions of the Department

The DTI’s key strategy is the implementation of the Industrial Policy Action Plan (IPAP), within the framework of the National Industrial Policy Framework and this serves to drive domestic, regional and international trade and investment to create sustainable jobs.  The DTI’s key priorities are derived from IPAP and the central theme is to facilitate labour-absorbing industrialisation in the manufacturing sector.  This is supported by incentives for new and expanding manufacturers, initiatives to improve productivity or competitiveness and export promotion of locally produced goods. The development of an enabling environment for business and manufacturers to operate effectively and efficiently to enable job creation and economic development is another key priority for the department. The creation of regulatory frameworks related to company and intellectual property legislation and consumer protection provide market certainty and thus support IPAP.

Furthermore, the DTI is responsible for improving trade and investment relations and supporting the deepening of regional integration in Africa.

In addition, the DTI drives the national broad-based black economic empowerment legislation as well as other interventions that promote the economic participation of vulnerable and previously disadvantaged individuals. In this regard, the DTI supports the development of small, medium and micro enterprises (SMMEs) and co-operatives.

In terms of its core functions, the DTI is responsible for overseeing 14 entities and administering 45 Acts [[2]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm%22%20%5Cl%20%22_ftn2%22%20%5Co%20%22). Its agencies are:

·         Companies and Intellectual Property Commission (CIPC)

·         Companies Tribunal (CT)

·         Export Credit Insurance Corporation of South Africa (ECIC)

·         National Credit Regulator (NCR)

·         National Consumer Commission (NCC)

·         National Consumer Tribunal (NCT)

·         National Empowerment Fund (NEF)

·         National Gambling Board (NGB)

·         National Lotteries Board (NLB)

·         National Metrology Institute of South Africa (NMISA)

·         National Regulator for Compulsory Specifications (NRCS)

·         Small Enterprise Development Agency (SEDA)

·         South African Bureau of Standards (SABS)

·         South African National Accreditation System (SANAS)

The DTI has a close collaborative relationship with the Economic Development Department (EDD), particularly related to the functioning of the Industrial Development Corporation (IDC), the International Trade Administration Commission (ITAC) and the Small Enterprise Finance Agency (SEFA) (formerly Khula Finance Ltd, the South African Micro-finance Apex Fund and the IDC’s small enterprises support section). These entities were shifted from the DTI to EDD in 2009. EDD is responsible for their administrative oversight, while the entities still support or are responsible for fulfilling parts of the DTI’s mandate in terms of industrial development, implementation of trade agreements and broadening economic participation respectively.

Based on legislation that the committee has dealt with over the last 18 months, the following new entities are envisioned to be established over the Medium Term Expenditure Framework (MTEF) and would require a budget allocation from National Treasury and oversight by the DTI:

·           Broad-based Black Economic Empowerment Commission (a trading entity)

·           Co-operatives Development Agency

·           Co-operatives Tribunal

·           National Lotteries Commission (this would incorporate the current National Lotteries Board)

·           National Council for Indigenous Knowledge

·           National Trust Fund for Indigenous Knowledge

1.3.         Purpose of the BRR Report

The purpose of this report is to analyse the financial and non-financial performance of the DTI, and identified entities, against predetermined objectives to inform recommendations for the forward-looking budget for the DTI and its entities. This report attempts to provide an assessment of the financial and non-financial performance of the DTI and the identified entities for the 2012/13 financial year, and the first six months of the 2013/14 financial year (from 1 April 2012 to 30 September 2013) within the context of the three-year MTEF.

The budget is informed by the national policy priorities as outlined in the State of the Nation Address (SONA). It is driven by the policy commitment to inclusive economic growth to attain social cohesion and job creation.

1.4.         Method

The committee met with the Auditor General on 17 September 2013 to discuss the results of the 2012/13 audit outcomes and key findings. It was then briefed by the DTI on its 2012/13 annual report and 2013/14 second quarter performance on 20 September 2013.

For the period under review, the committee had been monitoring the performance of the Companies and Intellectual Property Commission and the National Consumer Commission on an on-going basis. The committee considered the development of these two newly established entities vital to the economy and consumers.  It also identified the Export Credit and Insurance Corporation, the National Empowerment Fund and the South African Bureau of Standards for the annual report process. In this regard, the committee held meetings on 2, 8 and 9 October with the five entities.

One of the key limitations of the report was that not all entities’ annual reports and quarterly spending trends were monitored over the 18 month period. Therefore, there was a reliance on the DTI and the Auditor General to highlight challenges experienced by the other nine entities. However, all entities, with the exception of the NCC, received unqualified audit opinions.

In addition, due to the timing of the report, verified second quarter financial and non-financial information was not available. The key challenge was that the DTI and its entities were still in the process of verifying the non-financial information, which is due at the end of October each year. Therefore, the report has in many cases only captured performance up to the first quarter of the 2013/14 financial year.

1.5.         Outline of the contents of the Report

This BRR Report consists of nine sections. Section 1 briefly overviews the mandate of the committee, the DTI’s core functions, the purpose of this report and the method followed in preparing for this report, as well as the limitations of the Report.

Section 2 sets out the key policy focus areas for the DTI. This includes an overview of the relevant national priorities which the DTI contributes to, as well the DTI’s strategic objectives, outcome-orientated goals and key measurable objectives.

Section 3 provides a summary of the key financial and performance recommendations of the committee as captured in its previous BRRR and its 2013/14 Budget Report. Where available, the Minister of Finance and Minister of Trade and Industry’s responses to these recommendations, as prescribed by the Money Bills Amendment Procedure and Related Matters Act are captured.

Section 4 assesses the DTI’s financial performance against its vote allocation. Firstly, it considers the 2012/13 budget vote allocation in terms of the economic classification and per programme. Secondly, the actual total and programme expenditure for the period ending 31 March 2013 is assessed. Thirdly, a comparison of the DTI’s budgeted and actual expenditure as at 31 August 2013 is provided. Fourthly, the DTI’s requests for additional allocations for the 2014/15 to 2016/17 financial years are discussed.

Section 5 provides an overview and assessment of the DTI’s service delivery from 1 April 2012 to 31 August 2013. Initially, this section considers the period as at the end of 31 March 2013 and refers back to measurable objectives as set in sub-section 2.2. Next, it highlights service delivery performance from 1 April to 31 August 2013. Then, it discusses key issues raised by the committee during deliberations with the DTI.

Section 6 discusses the five identified entities identified by the committee for oversight during this BRRR process in terms of their mandates, strategic objectives and core issues previously identified by the committee. In addition, their financial and non-financial performance and their additional forward-looking budgetary and/or performance requirements are assessed.

Section 7 provides the committee’s concluding remarks followed by their appreciation in Section 8. The report then closes with the committee’s recommendations for the National Assembly’s approval in Section 9.

2.     Overview of the key relevant policy focus areas

The 2012 State of the Nation Address (SONA) highlighted a number of key issues related to the mandate of the Department of Trade and Industry, namely:

· **Job creation**: Job creation is a high government priority due to the high rate of unemployment, particularly among the youth. The New Growth Path framework identified the following job drivers – infrastructure development, tourism, agriculture, mining, manufacturing and the green economy. These have been incorporated within the revised Industrial Policy Action Plan.

· **Industrial development**: State interventions in the manufacturing sector, specifically the clothing and textiles sector and the revitalisation of local bus and train production, have yielded positive results in creating job opportunities. The establishment of the Saldanha Industrial Development Zone and new special economic zones should facilitate new investment in the manufacturing sector.

· **Incentives**: R20 billion worth of incentives have been announced under Section 12(i) of the Income Tax Act. These incentives are designed to support new industrial projects and manufacturing, and seven projects with an investment value of R8.4 billion rand have been approved.

· **Mineral Beneficiation**: A beneficiation strategy has been developed, which seeks to provide opportunities in the downstream part of the minerals sector. The Minister of Trade and Industry referred to the substantial value-addition that could be realised to exports of mineral sands, e.g. titanium, by beneficiating the raw minerals to the next step in the beneficiation value chain.

· **Green economy**: In accordance with the Green Economy Accord, there will be a continuous search for renewable energy sources, particularly electricity and biofuels. There was also a reference to more than 220 000 solar geysers installed thus far against the target of 1 million by 2014-2015.

· **Local Procurement**: The PPPFA Regulations has empowered the DTI to designate specific industries where local content is prescribed since December 2011. Designated sectors include clothing and textiles, canned vegetables, leather and footwear.

· **Reducing the cost of doing business**: A R1 billion reduction in port charges for exporters of manufactured goods. Furthermore, Eskom is expected to draft proposals on how to reduce the price increase requirement over the next few years to support economic growth and job creation.

· **Economic Transformation**: The need to increase productive economic participation by black South Africans and women still exists. In this regard, the Broad-Based Black Economic Empowerment Act had been amended.  These amendments included establishing a statutory Commission that will deal with non-compliance and circumvention; criminalising fronting and other forms of empowerment misrepresentation.

· **Trade Relations**: The reiteration of trade and other partnerships with developed countries, especially the United States of America, Europe and Japan, while strengthening bilateral relationships with the BRIC (Brazil, Russia, India and China).

· **Regional integration**: Strengthening trade and investment ties with African countries through deepening regional integration efforts such as the negotiations of the Tripartite Free Trade Agreement [[3]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm%22%20%5Cl%20%22_ftn3%22%20%5Co%20%22).

Furthermore, in the 2013 State of the Nation Address, President J Zuma reinforced the decision to accelerate industrialisation in the economy. In this regard, there was a call on the public and the private sector to work together to create a productive, investment-friendly environment. The government’s R827 billion infrastructure investment over the next three years [[4]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm%22%20%5Cl%20%22_ftn4%22%20%5Co%20%22)will facilitate serious private sector productive investment. This was expected to accelerate industrialisation, generate a pool of strategic skills and boost much needed job creation[[5]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm%22%20%5Cl%20%22_ftn5%22%20%5Co%20%22).

2.1.         Strategic plans of the Department

For the period under review, the DTI outlined the strategic objectives and key interventions as outlined in the MTEF for 2012 – 2015. The five intervention areas or themes are [[6]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm%22%20%5Cl%20%22_ftn6%22%20%5Co%20%22):

·         Industrial Development,

·         Trade, Investment and Exports,

·         Broadening Participation,

·         Regulation, and

·         Administration and Coordination.

The Department identified four key strategic outcome-orientated goals to ensure alignment of the DTI’s programmes to government-wide priorities and outcomes. These strategic goals are to [[7]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm%22%20%5Cl%20%22_ftn7%22%20%5Co%20%22):

·         Facilitate transformation of the economy to promote industrial development, investment, competitiveness and employment creation;

·         Facilitate broad-based economic participation through targeted interventions to achieve more inclusive growth;

·         Build mutually beneficial regional and global relations to advance South Africa’s trade, industrial policy and economic developmental objectives; and

·         Promote a professional, ethical, dynamic, competitive and customer-focused working environment that ensures effective and efficient service delivery.

The Department’s programmes/divisions had been slightly reorganised and renamed in the 2012/13 financial year. Firstly, the Communications and Marketing Division had been merged with the Administration programme and is now a Chief Directorate.  Secondly, the Industrial Development Division (IDD) and The Enterprise Organisation have been renamed as the Industrial Development: Policy Development and the Industrial Development: Incentive Administration Divisions respectively.  Thirdly, the Empowerment and Economic Development Division had been renamed as the Broadening Participation Division. These changes have been effected to reflect more accurately the work and key functions of these divisions.

There were no changes in terms of the strategic objectives and goals in the 2013/14 financial year.

2.2.         Measurable objectives of the Department

The Department in its strategic plan had listed key interventions that were aimed at addressing the challenges faced by the country. Particularly for the 2012/13 financial year, interventions were aimed at tackling the challenges of high unemployment and the impacts of the global economic crisis. The Department aimed at tackling this challenge through sector-specific support programmes, such as the Agro-processing; Automotive; Clothing, Textiles and Leather and Footwear; and Business Process Services sectors. These sectors are concentrated in the manufacturing and business services sectors, and they form the backbone of employment in the country. The committee recognised the labour-absorption potential of the agro-processing industry and therefore welcomed the DTI’s initiatives in this regard such as the establishment of small-scale maize milling plants and the designation of canned/processed vegetables for public procurement.

For the 2012/13 financial year, the Department had planned to continue creating an enabling environment to re-industrialise the country, as industrialisation is viewed as a tool through which South Africa can create jobs and stimulate economic growth. Industrialisation is implemented by the Department through the Industrial Policy Action Plan (IPAP). The key planned interventions were as follows:

·         The designation of a further three subsectors for local procurement under the Preferential Procurement Policy Framework Act.

·         Support for technical competencies via the Technology and Human Resources for Industry Programme (THRIP) would continue in the chemical, information and communication technology (ICT), metal and minerals, agriculture, biotechnology and energy sectors.

·         The support of 20 new projects to the value of R36 million through the Support Programme for Industrial Innovation (SPII).

·         The introduction of the Manufacturing Competitiveness and Enhancement Programme (MCEP) to provide adequate support for the manufacturing sector.

·         In terms of trade and investment, the Department intended to finalise the negotiation of the Economic Partnership Agreements during the medium-term expenditure framework (MTEF) period. In addition, the Department is committed towards a developmental approach that will deepen regional integration.

·         The Department set targets to support small businesses through the establishment of 44 incubators during the financial year including incubators established in partnership with private sector companies.

·         The Enterprise Investment Programme would provide assistance to the small business sector with the Tourism Support Programme supporting the tourism sector with an expected investment of R6.3 billion and R4.2 billion respectively. The DTI will implement an approved action plan developed as a result of the SMME (small, medium and micro enterprises) review report.

·         In terms of broadening participation, the Department is in the process of finalising the National Strategic Framework on Gender and Women Economic Empowerment. Furthermore, it aimed to support 60 new projects linked to women-owned enterprises through the Isivande Women’s Fund.

·         The Department also noted that it would finalise the Informal Sector Strategy and the Youth Development Strategy.

3.     Summary of previous key financial and performance recommendations of committee

3.1.         2012/13 BRRR recommendations **[[8]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm%22%20%5Cl%20%22_ftn8%22%20%5Co%20%22)**

The committee recommended the following in relation to key areas of financial and non-financial performance:

·         The Department should address the weaknesses identified in the Auditor General’s report with respect the DTI and its entities, in particular IT challenges with respect to the CIPC.

·         The National Credit Act should be reviewed to ensure compliance of lending institutions with the Act, and to ensure the protection of vulnerable consumers against unscrupulous lending practices.

The National Treasury was in support of the first recommendation. It indicated its engagements with the DTI in terms of addressing matters relating to governance and compliance with the Public Finance Management Act. In this regard, the DTI was requested to produce comprehensive annual reports reflecting the performance of its incentive programmes. [[9]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm%22%20%5Cl%20%22_ftn9%22%20%5Co%20%22)

Furthermore, it indicated that the CIPC has been allowed to retain its R169 million surplus and its R1.1 billion in cash and cash equivalents from the 2011/12 financial year. It should therefore be adequately resourced to modernise its IT infrastructure and improve service delivery. [[10]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm%22%20%5Cl%20%22_ftn10%22%20%5Co%20%22)

In terms of the latter recommendation, the committee had received an initial briefing on the National Credit Amendment Bill on 10 October 2013. It is expecting the Amendment Bill to be referred to it during October 2013.

3.2.         2013/14 Committee Budget Report **[[11]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm%22%20%5Cl%20%22_ftn11%22%20%5Co%20%22)**

The committee had recommended that the Minister should consider:

·           Increasing the budget for the Trade Investment South Africa Programme to establish and fund a presence in strategic foreign missions.

·           Increasing the allocation to the Consumer and Corporate Regulation Division programme, particularly to the National Consumer Commission, and the possibility of new agencies being created in the near future.

·           The establishment of a single board responsible for all technical infrastructure institutions to enhance co-ordination among these institutions.

4.     Overview and assessment of financial performance

4.1.         Overview of Vote allocation and spending (2009/10 - 2014/15)

The Department of Trade and Industry’s expenditure has been increased by an average annual growth rate of 11.9 per cent between the 2009/10 and the 2012/13 financial years.  In the 2010/11 financial year, expenditure declined from R5.9 billion in 2009/10 to R5.8 billion. However, expenditure has been on an upward trend since the 2011/12 financial year increasing from R6.8 billion and to R8.3 billion in the 2012/13 financial year. In the 2013/14 financial year, expenditure is expected to be R9.6 billion. The Department’s expenditure is forecast to reach R11.4 billion by the 2015/16 financial year.

**Table 1: 2009/10 – 2014/15 Expenditure**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Programme****(R’000)** | **2009/10** | **2010/11** | **2011/12** | **2012/13** | **2013/14** | **2014/15** |
| Audited | Audited | Audited | Main | Adjusted | Audited | Main | Estimates |
| Administration | 443 203 | 479 989 | 639 376 | 608 742 | 710 393 | 705 425 | 690 079 | 720 635 |
| International Trade and Economic Development | 122 998 | 106 949 | 132 920 | 133 462 | 133 116 | 132 705 | 138 638 | 150 733 |
| Broadening Participation | 1 160 601 | 798 077 | 887 513 | 879 891 | 940 319 | 929 694 | 968 307 | 1 003 953 |
| Industrial Development: Policy Development | 425 470 | 1 145 129 | 1 321 671 | 1 482 856 | 1 508 225 | 1 505 090 | 1 606 524 | 1 771 313 |
| Consumer and Corporate Regulation | 133 825 | 145 021 | 218 564 | 244 713 | 230 841 | 223 568 | 256 157 | 248 242 |
| Incentive Development: Incentive Administration | 3 338 234 | 2 792 994 | 3 283 548 | 5 437 585 | 4 551 356 | 4 514 551 | 5 543 134 | 5 645 748 |
| Trade and Investment South Africa | 298 979 | 328 582 | 317 388 | 304 826 | 276 836 | 275 395 | 369 741 | 417 405 |
| **Total** | **5 923 310** | **5 796 741** | **6 800 980** | **9 092 075** | **8 351 086** | **8 286 428** | **9 572 580** | **9 958 029** |

Source: National Treasury (2012a) and (2013) and DTI (2013b)

4.2.         Financial performance 2012/13

4.2.1.     Budgeted expenditure

In 2012, the Department of Trade and Industry had been allocated a total budget of R9.1 billion for the 2012/13 financial year [[12]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm%22%20%5Cl%20%22_ftn12%22%20%5Co%20%22), which was a nominal increase of R2.2 billion or 32.2 per cent compared to the 2011/12 financial year. In real terms, this increase reflected a R1.7 billion or 24.9 per cent increase.

The 2012/13 allocation increase of R2.2 billion was primarily due to additional allocations in terms of incentives linked to industrial development. This included the manufacturing development incentives [[13]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm%22%20%5Cl%20%22_ftn13%22%20%5Co%20%22)(an additional R1.4 billion was allocated), the capital investment incentives for special economic zones (an additional R500 million was allocated) and the clothing and textile production incentive (an additional R150 million was allocated). [[14]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm%22%20%5Cl%20%22_ftn14%22%20%5Co%20%22)However, the budget was adjusted downwards to R8.4 billion [[15]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm%22%20%5Cl%20%22_ftn15%22%20%5Co%20%22)by R805.7 million. This was mainly due to the late approval of the new MCEP applications and most disbursements were expected to occur in the 2013/14 financial year.

4.2.1.1.          Economic classification

In terms of the economic classification, the Department had allocated 85.5 per cent (R7.8 billion) of the R9.1 billion to transfers and subsidies, a nominal increase of 40.5 per cent since 2011/12. The current payments’ allocated share of the total budget allocation had declined from 18.8 per cent (R1.3 billion) of the 2011/12 budget allocation to 14.3 per cent (R1.3 billion) of the 2012/13 total budget of R9.1 billion, while payments for capital assets only received 0.2 per cent (R14.1 million) of the budget allocation compared to 0.48 per cent of the budget allocation (R32.9 million) in 2011/12. [[16]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm%22%20%5Cl%20%22_ftn16%22%20%5Co%20%22)

Spending on consultants for business and advisory services, as well as professional services, was expected to increase from R102.2 million in 2011/12 to R107.9 million in 2014/15, at an average annual rate of 1.8 per cent. Consultants were appointed to provide legal services, research and incentive reviews. However, this allocation would have declined in the 2012/13 and 2013/14 financial years to R95.2 million and R95.1 million respectively.[[17]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm%22%20%5Cl%20%22_ftn17%22%20%5Co%20%22)

4.2.1.2.          Programme allocations

In terms of allocations to various divisions, the Industrial Development: Incentive Administration Programme/Division was allocated the largest share of the budget (R5.4 billion or 59.8 per cent of the total budget allocation). The second largest share was allocated to the Industrial Development: Policy Development Programme/Division (R1.5 billion or 16.3 per cent of the total budget allocation) followed by the Broadening Participation Programme/Division with a share of R879.9 million or 9.3 per cent of the total budget allocation. These three programmes combined constituted 85.8 per cent of the total budget allocation while the remaining four programmes shared 14.2 per cent of the total budget allocation.

The spending focus over the medium term period was aligned to the broader government priority outcomes of decent job creation and economic development through industrial development as outlined in the New Growth Path. Other national priorities which the Department contributed towards included inter alia: development of productive infrastructure; investment priorities; developmental trade strategies; inclusive economic growth; promotion of alternative (energy) technologies and increased competitiveness. The above issues will be discussed below within the context of the respective divisions responsible for these.

· ***Industrial Development***

The DTI’s Industrial Development theme is now clearly reflected by the new divisions/programmes Policy Development (formerly the Industrial Development Division) and Incentive Administration (formerly The Enterprise Organisation).  The Industrial Development theme was allocated 76.1 per cent of the total departmental budget allocation. The Incentive Administration Programme was allocated 78.6 per cent of this theme’s budget allocation while the Policy Development Programme was allocated 21.4 per cent of this budget allocation.

Industrial development expenditure increased from R2.8 billion in 2008/09 to R4.6 billion in 2011/12, an average annual rate of increase of 18 per cent. [[18]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm%22%20%5Cl%20%22_ftn18%22%20%5Co%20%22)This growth was mainly due to the introduction of incentive support programmes for the clothing and textile, and automotive sectors. The incentives increased expenditure on Industrial Development in general such that the Policy Development programme grew from R418.7 million in 2008/09 to R1.3 billion in 2011/12, an average annual rate of 46.3 per cent, and the Incentive Administration programme also grew from R2.4 billion to R3.3 billion over the same period at an average annual rate of 11.4 per cent. [[19]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm%22%20%5Cl%20%22_ftn19%22%20%5Co%20%22)The theme’s budget allocation is expected to grow over the medium term to R8.6 billion, at an average annual rate of 23.1 per cent, mainly as a result of additional allocations for incentive programmes.

*Industrial Development: Policy Development Programme*

This programme focuses on developing and implementing policies, strategies and programmes aimed at growing manufacturing and related sectors of the economy and thereby contributing to the direct and indirect creation of decent jobs, value addition and competitiveness in domestic and export markets. The Industrial Policy Action Plan (IPAP) is the Department’s flagship to contribute to the mandate of decent employment through inclusive economic growth.

The programme’s budget allocation was mainly spent on transfers, namely 92.8 per cent or R1.4 billion of the budget allocation. This included transfers to support the standards, quality assurance and accreditation institutions, about R413.5 million. This was planned to be distributed as follows:

·         South African National Accreditation System (SANAS) – R30.3 million (47.1 per cent increase since 2011/12).

·         National Metrology Institute of South Africa (NMISA) – R76.5 million (22.3 per cent increase since 2011/12).

·         National Regulator for Compulsory Specifications (NRCS) – R78.1 million (110.1 per cent increase since 2011/12).

·         South African Bureau of Standards (SABS) – a R180.5 million contribution towards research (-0.53 per cent decrease since 2011/12) and R48 million for infrastructure investment (48.5 per cent decrease since 2011/12).

Other significant budgeted transfers included:

·         The Clothing and Textile Production Incentive, which is administered by the Industrial Development Corporation (IDC). The incentive was allocated R750 million, an increase of 25 per cent since 2011/12.

·         The National Foundry Technology Network, which is administered by the Council for Scientific and Industrial Research (CSIR) on behalf of the DTI, was allocated R21 million, an increase of 200 per cent since 2011/12. In addition, the Intsimbi National Tooling Initiative was allocated R49.2 million, an increase of 36.6 per cent since 2011/12.

*Industrial Development: Incentive Administration Programme*

The Incentive Administration Programme has been created to design and implement programmes that support investment, competitiveness, employment creation and equity. It consists of a range of incentives focused on broadening participation, manufacturing investment, services investment, infrastructure development support, product and systems development and business development and after care.

Due to the nature of this programme, 97 per cent of the allocation was transferred to public corporations or private enterprises. Manufacturing Development Incentives had been allocated R3.2 billion or 59.4 per cent of the programme’s budget allocation. The main sub-programmes within this incentive were [[20]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm%22%20%5Cl%20%22_ftn20%22%20%5Co%20%22):

·         Manufacturing Competitiveness Enhancement Programme, which was being launched in the 2012/13 financial year: R1.2 billion

·         Automotive Production and Development: R1 billion

·         Enterprise Investment Programme: R800 million

·         Small and Medium Enterprise Development Programme: R190 million.

The overall allocation for Industrial Development Zones (IDZ) had decreased by 0.94 per cent since 2011/12. However, the Coega IDZ’s allocation had increased from R387 million in 2011/12 to R417.9 million in 2012/13 (or an 8.9 per cent increase). Furthermore, the programme had introduced an incentive for Special Economic Zones (SEZs), a new model which would include IDZs as one category of SEZs. Capital investment incentives for SEZs was allocated R500 million from 2012/13, which would increase to R1 billion in 2014/15. SEZs will allow provinces in the country that do not have access to a sea port or airport to develop a regional economic zone to promote domestic and export production capacity. The specific allocations to existing IDZs will be given a period of three years to adjust to the SEZ environment. The existing budget line items for specific IDZs and IDZ funding will be included in the SEZ funding arrangements going forward. The other infrastructure development incentive, the Critical Infrastructure Programme, was allocated R182 million for 2012/13, a 53.5 per cent increase since 2011/12.

The Services Sector Development Incentives was allocated R439 million, an increase of 31.7 per cent compared to 2011/12. This consisted of the [[21]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm%22%20%5Cl%20%22_ftn21%22%20%5Co%20%22):

·         Business Process Outsourcing Programme: R209 million

·         Film and Television Production Incentive Scheme: R233.4 million.

The Broadening Participation incentives was allocated R135 million in 2012/13, an increase of 14 per cent compared to 2011/12. This consisted of the [[22]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm%22%20%5Cl%20%22_ftn22%22%20%5Co%20%22):

·         Black Business Supplier Development Programme [[23]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm%22%20%5Cl%20%22_ftn23%22%20%5Co%20%22)(BBSDP): R90 million.

·         Co-operatives Incentive Scheme: R45 million.

· ***Broadening participation***

The Broadening Participation Programme drives the development of policies and strategies that create an enabling environment for small, medium and micro enterprises (SMMEs) and cooperative enterprises, and the enhancement the competitiveness of local and provincial economies for inclusive economic growth and job creation. The allocation to this programme for the 2012/13 financial year had increased by R14.2 million (1.64 per cent compared to 2011/12) in nominal terms. However, in real terms, the programme’s allocation decreased by R34.8 million or 4.02 per cent.

In terms of the economic classification, R789.4 million (or 89.7 per cent) of the programme’s budget was allocated to transfers and subsidies and 54.2 per cent of transfers was allocated to the Small Enterprise Development Agency (SEDA). SEDA’s Technology programme was allocated R113 million (or 14.3 per cent) of the transfer allocation. The remainder of the transfer budget was mainly allocated to National Research Foundation’s Technology and Human Resources for Industry Programmes (THRIP), Productivity South Africa’s Workplace Challenge Programme, which finances and supports world class manufacturing and value chain efficiency improvements in South African companies, and IDC’s Support Programme for Industrial Innovation (SPII). Given the emphasis on the important contribution of SMMEs, skills and innovation play in developing the economy and inclusive economic growth, the mostly low or negative nominal increases accompanied by negative real percentage changes for most sub-sections of this programme could have a negative impact on broadening participation and limit support for SMMEs and especially cooperative development.

· ***International Trade and Economic Development (ITED)***

The International Trade and Economic Development Programme plays a critical role in facilitating international and African bilateral and multilateral trade relations and agreements. The budget allocation for the 2012/13 financial year had been R133.5 million, which decreased by R11.3 million (-7.8 per cent) from the previous year’s allocation of R144.8 million. The ITED programme has two sub-programmes namely the International Trade Development and African Economic Development. The Africa Economic Development sub-programme’s proportion of the programme’s budget allocation had decreased from 48.2 per cent in 2011/12 to 38.3 per cent in 2012/13, as well as a decline of 26.8 per cent compared to the 2011/12 budget allocation. This was reported to be due to the shifting of the Tripartite Summit of the Common Market for East and Southern Africa, the East African Community and the Southern Africa Development Community from the 2012/13 financial year to the previous financial year (i.e. 2011/12) [[24]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm%22%20%5Cl%20%22_ftn24%22%20%5Co%20%22).

In terms of economic classification, current payments were allocated about R97.8 million (73.3 per cent) of the programme’s budget allocation. This was constituted by compensation of employees (R74.5 million or 76.2 per cent of the current payments’ allocation) and goods and services (R23.3 million or 23.8 per cent of the current payments’ allocation). Transfers and subsidies were allocated R35.4 million (or 26.5 per cent) of the programme’s budget allocation. This was mainly for memberships and/or contributions to international organisations (R15.9 million or 47.7 per cent of transfers), such as the World Trade Organisation, and regional spatial development initiatives (e.g. the Maputo Corridor) that the Development Bank of Southern Africa (R18.5 million or 52.3 per cent of transfers) administers on behalf of the DTI.

· ***Trade and Investment South Africa***

Trade and Investment South Africa (TISA) is responsible for increasing export capacity and supporting direct investment flows through strategies for targeted markets and an effectively managed network of foreign trade offices. Expenditure increased from R310.2 million in 2008/09 to R345.1 million in 2011/12, at an average annual rate of 3.6 per cent, and was expected to increase to R378.3 million over the medium term, at an average annual rate of 3.1 per cent. This programme was allocated R304.8 million in 2012/13 compared to R345.1 million allocated in the 2011/12 financial year and this indicated a real decrease of R57.3 million and a negative real percentage change of 16.6 per cent. Transfers and subsidies were allocated R120 million (39.4 per cent) of the programme‘s budget allocation. This was mainly for the Export Credit Insurance Corporation’s interest make-up (IMU) scheme (81.4 per cent of transfers). This contribution had decreased by 19.7 per cent compared to 2011/12.

· ***Consumer and Corporate Regulation***

The Consumer and Corporate Regulation Division plays a critical role in developing and implementing regulatory solutions to facilitate easy access to redress and efficient regulation within the economic environment. The Division’s allocation had increased by 6.6 per cent compared to 2011/12. The largest proportion of this budget (69.2 per cent) was allocated to transfers to the regulatory entities responsible for enforcing regulation and providing services to the public. Most entities had received a nominal increase in their allocations with the exception of the Companies and Intellectual Property Commission (CIPC) and the new Companies Tribunal. The CIPC was expected to be self-funded but has been receiving a relatively small allocation to assist its transition from the former Companies and Intellectual Property Registration Office. The National Credit Regulator’s allocation was also effectively showing a negative real percentage change of 2.8 per cent since 2011/12.

In general, there had been a call for regulatory entities to focus on enforcement and compliance with legislation by relevant stakeholders, as well as for increased research, awareness and education. In this regard, the real increases within areas of gambling and consumer protection were crucial.

· ***Administration***

The Administration Programme ensures the successful implementation of the Department’s mandate through sustainable and integrated, customer centric resource solutions and services. In the 2012/13 financial year, the former Communication and Marketing programme had been incorporated into this programme under two new sub-programmes, namely Media Relations and Public Relations, and Communications to better align the department’s activities and programmes. The allocation for the year 2012/13 was R608.7 million which amounted to 3.4 per cent of the total budget. The largest allocation (58 per cent of the programme’s allocation) went to the corporate services sub-programme. This sub-programme provides human resource management, information and communication technology, corporate governance, legal services and facilities management support.

Expenditure in this sub-programme increased from R245.6 million in 2008/09 to R408.2 million in 2011/12, at an average rate of 18.5 per cent, and was expected to decrease to R402.5 million over the medium term, at an average annual rate of 0.5 per cent. The main cost drivers were compensation of employees and goods and services, such as advertising costs, consultants and professional services, and lease payments. As the activities of the Communication and Marketing programme would be incorporated into this programme over the MTEF period, funding would be directed at increased coverage and promotion of the department’s activities and services offered, and extensive coverage of international missions in both domestic and international media.

4.2.2.     Actual total and programme expenditure

The DTI spent R8.3 billion, 99.2 per cent of its final allocation. In the 2011/12 financial year, total expenditure was 98.9 per cent of the final budget allocation. Expenditure increased by 21.8 per cent since the 2011/12 financial year. A detailed programmatic breakdown of the expenditure share and percentage change from the 2011/12 financial year to the 2012/13 financial year is provided below.

**Table 2: Expenditure share and percentage change from 2011/12 to 2012/13**

|  |  |  |  |
| --- | --- | --- | --- |
| **Programme**(R million) | **Audited expenditure** | **Expenditure share (%)** | **% change from 2011/12-2012/13** |
| 2011/12 | 2012/13 | 2011/12 | 2012/13 |
| Administration | 639 376 | 705 425 | 9.4 | 8.5 | 10.3 |
| International Trade and Economic Development | 132 920 | 132 705 | 2.0 | 1.7 | 4.7 |
| Broadening Participation | 887 513 | 929 694 | 13.0 | 11.2 | 4.8 |
| Industrial Development: Policy Development | 1 321 671 | 1 505 090 | 19.4 | 18.2 | 13.9 |
| Consumer and Corporate Regulation | 218 564 | 223 568 | 3.2 | 2.7 | 2.3 |
| Industrial Development: Incentive Administration | 3 283 548 | 4 514 551 | 48.3 | 54.5 | 37.5 |
| Trade and Investment South Africa | 317 388 | 275 395 | 4.7 | 3.3 | -13.2 |
| **Total** | **6 800 980** | **8 286 428** | **100.0** | **100.0** | **21.8** |

Source: National Treasury (2013a), DTI (2013b) and own calculations

In terms of the economic classification, R6.9 billion was transferred (83.3 per cent of total expenditure), R1.3 billion was spent on current payments (15.4 per cent of total expenditure) and R40.5 million on purchasing capital assets (0.49 per cent of total expenditure). The remainder was for payments for financial assets. Therefore, the planned proportion to be spent on transfers and subsidies was reduced, while that of current payments and capital assets increased. However expenditure on goods and services decreased from the 2011/12 financial year to the 2012/13 financial year.

4.2.3.     Auditor General Report

Over the past five years (observed period) between 2008/09 and 2012/13, the Department has had unqualified audit reports. The Department received an unqualified Audit report for the 2012/13 financial year. However, the Auditor General noted the following areas of concern:

·         Significant uncertainties related to the disclosed contingency liabilities for lawsuits and incentive grants, which have not been provided for in the financial statements.

·         Material impairments and losses of R82 million. Firstly, a total of R79 million was written off. This was as a result of debtors being written off through the General Export Incentive Scheme (GEIS) debtors. Secondly, material impairments with an amount of R121 million resulted from outstanding debtors of longer than 12 months.

·         There were inadequate preventative and detective controls in place to ensure compliance with laws and regulations of supply chain management as required by the National Treasury. Hence, there was procurement of goods and services under R500 000 that occurred without obtaining the required three price quotations.

·         The Department did not put in place effective measures to prevent irregular expenditure of R33 million.

4.3.         Financial overview

For the 2013/14 financial year, the Department is in the process of making slight adjustments to the budget. According to the Department, the budget with the approval of the National Treasury is to be adjusted down by R7.1 million from R9.57 billion to R9.56 million. A number of shifts are proposed by the Department, particularly at a programme level and an economic classification level. The proposed adjustments are upward adjustments on the Administration, International Trade and Economic Development, and Broadening Participation programmes and downward adjustments on the Industrial Development, Industrial Development: Incentive Administration, and Trade and Investment South Africa.

**Table 3: 2013/14 Budget Revision per programme**

|  |  |  |  |
| --- | --- | --- | --- |
| **Programme**(R’000) | **Original** | **Revised Budget** | **% Adjustment** |
| Administration | 690 079 | 726 030 | 5.2 |
| International Trade and Economic Development | 138 638 | 141 639 | 2.2 |
| Broadening Participation | 968 307 | 1 010 208 | 4.3 |
| Industrial Development | 1 606 524 | 1 596 675 | -0.6 |
| Consumer and Corporate Regulations | 256 157 | 256 158 | 0.0 |
| Industrial Development: Incentive Administration | 5 543 134 | 5 493 135 | -0.9 |
| Trade and Investment South Africa | 369 741 | 341 642 | -7.6 |
| **Total** | **9 572 579** | **9 565 480** | **-0.1** |

**Source:**DTI (2013c)

4.3.1.     Reasons for the adjustments

The Department has given the following reasons for applying to the National Treasury to adjust its budget:

·         The Department has mandated Small Enterprise Development Agency (SEDA) to provide non-financial support services to small, medium and micro enterprises (SMMEs) through-out the country. Over the years, SEDA has been diligent in delivering a variety of programmes to SMMEs. In this regard the Department plans to increase SEDA’s budget by R40.9 million.

·         Redirected between the Clothing and Textiles Production Incentive Programme (PIP) and the Clothing and Textiles Competitiveness Improvement Programme (CIP). This amounts to 10 per cent of the PIP budget which is redirected in support of national cluster activities.

·         To date since re-launching of the revised Broadening Participation Development Incentive programme, a total of 1 508 projects have been approved, with projects for enterprise improvement worth over R500 million and approximately R250 million paid as grants to approved applicants. Therefore, for this programme, the Departments plans to increase the budget through a shift/virement of an amount of R220 million.

·         The expected applications and claims are based on the Light Motor Vehicle Manufacturer production cycle, for example, when they are introducing a new model or a face-lift/upgrade.  The applications for Component manufacturers are influenced and the volumes determined by this. In this regard, this budget will be reduced by R265 million.

4.3.2.     Financial performance for the first half of 2013/14

In the first half of the 2013/14 financial year, the Department had projected spending of R3.9 billion; however, the Department had fallen short of this projection. In the first half of the financial year, expenditure totalled R3.2 billion, approximately 14 per cent short of the targeted expenditure. While other programmes’ under-spending was at a relatively accepted level, below 10 per cent of budgeted spending, spending for the Industrial Development: Incentive Administration and Trade and Investment South Africa’s spending were at higher levels of at 24.2 per cent and 15.5 per cent respectively. The Administration programme and the International Trade and Economic Development were the only exceptions, spending on these programme were slightly over the budgeted amounts, 1.87 per cent and 4.0 per cent overspending respectively.

**Table 4: Expenditure by programme as at 31 August 2013**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Programme** | **Revised budget 2013/14** | **YTD projection** | **YTD expenditure** | **Variance** | **Available Budget** |  |
| **R’000** | **R'000** | **R'000** | **R'000** | **%** | **R'000** |  |
|  |
| Administration | 694 029 | 271 855 | 276 940 | (5 085) | -1.87 | 417 089 |  |
| International Trade and Economic Development | 138 638 | 45 024 | 46 834 | (1 810) | -4.02 | 91 804 |  |
| Broadening Participation | 964 807 | 426 915 | 419 234 | 7 681 | 1.80 | 545 573 |  |
| Industrial Development | 1 606 074 | 888 506 | 847 123 | 41 383 | 4.66 | 758 951 |  |
| Consumer and Corporate Regulations | 256 157 | 132 821 | 120 887 | 11 934 | 8.99 | 135 270 |  |
| Industrial Development: Incentive Administration | 5 543 134 | 1 934 668 | 1 465 922 | 468 746 | 24.23 | 4 077 212 |  |
| Trade and Investment South Africa | 369 741 | 170 959 | 146 499 | 24 460 | 14.31 | 223 242 |  |
| **TOTAL** | **9 572 580** | **3 870 748** | **3 323 439** | **547 309** | **14.14** | **6 249 141** |  |

Source: DTI (2013c)

4.3.2.1.          Expenditure by economic classification **[[25]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm%22%20%5Cl%20%22_ftn25%22%20%5Co%20%22)**

The overall expenditure for the quarter was 17.9 per cent lower than the budgeted quarterly expenditure. Under-spending was as a result of 98 per cent being under-spent on capital assets, 18 per cent on transfer payments, 16 per cent on goods and services, and 7.8 per cent on compensation of employees.

**Table 5: Expenditure by economic classification as at 30 June 2013**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Economic classification**(R’000) | **Revised Budget 2013/15** | **YTD Cash flow projections** | **YTD Expenditure** | **Variance** | **% variance** | **Available budget** | **% budget available** |
| Compensation of employees | 854 246 | 190 869 | 175 896 | 14 973 | 7.84 | 678 350 | 79.41 |
| Goods and services | 638 835 | 158 746 | 132 654 | 26 092 | 16.44 | 506 181 | 79.23 |
| Payments for financial assets | 0 | 0 | 604 | -604 | 0.00 | -604 | 0.00 |
| Capital assets | 20 177 | 4 662 | 353 | 4 309 | 92.43 | 19 824 | 98.25 |
| Transfer payments | 8 059 322 | 2 051 382 | 1 663 895 | 387 487 | 18.89 | 6 395 427 | 79.35 |
| **Total** | **9 572 580** | **2 405 659** | **1 973 402** | **432 257** | **17.97** | **7 599 178** | **79.38** |

Source: DTI (2013d)

· **Expenditure on Goods and Services**

Within the goods and services classification, the main under-spending was on the following services: consultants and professional services (legal costs); contractors; and outsourced services. In terms of goods, the following were under-spent on: inventory and property payments (regional offices). However, there was significant over-spending on advertising (over-spending of more than 50 per cent of the budgeted amount) and consumable supplies. For consumable supplies, there was an over-spending of R883 000, which exceeded the annual budget as well. An amount of R1.04 million was consumable in the first quarter while the annual budget is R748 000.

· **Expenditure: Transfer Payments to Incentives**

Transfer payments form the largest budget item for the Department. During the first quarter of the 2013/14 financial year, there was under-spending of 18.9 per cent of the quarterly budget, a variance of more than R387.4 million. Transfer payments on incentives were the main cause of the under-spending; this was mainly within the:

·         Manufacturing Competitiveness Enhancement Programme,

·         Automotive Production and Development Programme, and

·         Critical Infrastructure Programme.

However, there was significant over-spending in all of the other incentives including the Black Business Supplier Development Programme, Export Market and Investment Assistance, Business Processing Service Incentives, Co-operatives Incentive Scheme, and Film and TV Production Incentive.

· **Expenditure on unbudgeted items**

Payment for financial assets was not budgeted for in the 2013/14 financial year. However, in the first quarter, there was an expenditure of R604 000 towards this item. Inventory: Clothing material and accessories in another item was also not budgeted for; however, a total of R24 000 was spent on this item.

·         Automotive Production and Development Programme (R30.7 million): Claims had not yet been processed and first required verification and approval by the division.

·         Critical Infrastructure Programme (R30.1 million): There were outstanding compliance issues before the projected amount could be paid.

·         National Foundry Technology Network – Metals (R10.5 million): There were outstanding financial statements from the CSIR, which are required before the transfer can be made.

4.4.         2014/15 MTEF financial allocations

The DTI requested additional funds from National Treasury of R1.3 billion for the 2014/15 financial year, of which R1.2 billion is intended to be transferred to its entities. An additional total of R4 billion was requested over the MTEF for the entities. This included funding for the [[26]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm%22%20%5Cl%20%22_ftn26%22%20%5Co%20%22):

· **Companies Tribunal**: R46.1 million over the MTEF period for its ICT strategy implementation plan.

· **National Credit Regulator**: R90.4 million over the MTEF period for the acquisition of a new building. The DTI qualified that the NCR would need to either lease or acquire a new building due to the risk of the existing lease of the Midrand building not being renewed. The building was also located in an industrial area, which was not well located to enhance its accessibility.

· **National Consumer Tribunal**: R42.6 million over the MTEF period for the expansion of the mandate once the National Credit Amendment Bill has been promulgated.

· **National Consumer Commission**: R93.6 million over the MTEF period for its ICT strategy implementation plan and the designing and hosting of its website.

· **National Gambling Board**: R26.1 million over the MTEF period as its legislative mandate is not currently fully funded.

· **Export Credit Insurance Corporation**: R406.3 million over the MTEF period for interest make-up transfers for existing and pipeline export credit projects that are being supported.

· **National Empowerment Fund**: R3.3 billion over the MTEF period to fund the rapidly increasing programme transaction pipeline which is aligned with government’s programme of economic development.

In line with the committee’s recommendation to increase the budget for the Trade and Investment South Africa Programme, the DTI has requested an additional R75 million over the MTEF period (R20 million in 2014/15, R25 million in 2015/16 and R35 million in 2016/17). This is intended to fund the establishment of additional foreign offices to expand the DTI’s global footprint. See Appendix 1 for further details are additional budget requests.

In addition, there was a request for funding for new priorities such as the establishment of the Co-operative Tribunal, Co-operative Development Agency and to support the Co-operative Apex Organisation. However, there was no indication of funding needs for the other new entities to be established, namely: the Broad-based Black Economic Empowerment Commission, the National Lotteries Commission, the National Council for Indigenous Knowledge and the National Trust Fund for Indigenous Knowledge.

5.     Overview and assessment of service delivery performance

5.1.         Service delivery performance for 2012/13

The Department in its strategic plan had listed key interventions that were aimed at addressing the challenges faced by the country. Particularly for the 2012/13 financial year, interventions were aimed at tackling the challenge of high unemployment and the impact of the global economic crisis. The Department have succeeded in supporting new and existing jobs through sector-specific support programmes, such as the Automotive; Clothing, Textiles and Leather and Footwear; and Business Process Services sectors. These sectors are concentrated in the manufacturing and business services sectors, as they form the backbone of employment in the country.

In engaging with the key interventions as per the DTI’s Annual Report, it is clear that the Department had some challenges with regard to implementing certain interventions. However, in others, it had performed well and exceeded targets. The performance regarding the key interventions were as follows:

· **Preferential Procurement Policy Framework Act**: The Act was amended and allows the Minister of Trade and Industry to designate sectors and products where there the state is obliged to procure from local suppliers or for a certain local content portion to be included in these products. Four additional sectors were approved namely: furniture, pharmaceuticals, solar water heaters and power and telecoms cables.

· **Technology and Human Resources for Industry Programme**: Amendments were made to the THRIP in line with audit outcomes of the 2011/12 financial year. The reported targets changed from 2 200 students approved for funding and 850 researchers approved for financial support in the Strategic Plan to 1 350 students approved for funding and 700 researchers approved for financial support in the Annual Report. The Department exceeded both the new targets by supporting 1 506 students and 1 135 researchers.

· **Support Programme for Industrial Innovation**: According to the Annual Report, this was one of the targets that were amended as a result of the 2011/12 audit process. In the Strategic Plan, it was noted that through this programme a total of 20 new projects with support amounting to R36 million would be approved [[27]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm%22%20%5Cl%20%22_ftn27%22%20%5Co%20%22). The amendment in the Annual Report maintained the number of companies to be supported but increased the value of the support to R41 million. In this regard, the Department had exceeded its targets and supported 53 projects to the value of R203.5 million.

· **Manufacturing Competitiveness Enhancement Programme**: The Department received a large number of applications therefore, it exceeded its targets. The Department approved a total of 189 enterprises for this incentive compared a target of 140 enterprises.

· **Finalisation of the negotiation of the SADC-EU Economic Partnership Agreement**: During the 2012/13 financial year, the Department aimed to produce a report on the conclusion of negotiations [[28]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm%22%20%5Cl%20%22_ftn28%22%20%5Co%20%22); however, the trade negotiations were not concluded during the financial year as previously planned. The Department produced a progress report on the negotiations.

· **Support for small businesses through the establishment of 44 incubators**: The establishment of 44 incubators was a cumulative number from a baseline of 34 from the 2011/12 financial year therefore the target for the 2012/13 financial year was 10 incubators as per the Strategic Plan (2012 – 2015). However, the 2012/13 Annual Report indicated a different target of 4 incubators to be established. The Department managed to establish 8 incubators during the 2012/13 financial year.

· **Enterprise Investment Programme**: The programme had targeted to approve a total of 450 SMMEs with a projected value of R6.3 billion and create 9 240 jobs. During the financial year, the Department approved 548 SMMEs with projects valued at R10.8 billion and estimated that 12 269 jobs had been created, which was 3 029 more jobs than the target.

· **Tourism Support Programme**: The TSP target was an approval of 300 SMMEs with a projected investment of R4.2 billion and 6 160 jobs created. The TSP was transferred to the Department of Tourism mid-year. At the time, the Department had approved 122 SMMEs with a R1.5 billion investment and created 1 357 jobs. However, the DTI continued to service the approvals and only operational budget was transferred. According to the DTI the Department of Tourism had been in a process of reviewing the incentives.

· **National Strategic Framework on Gender and Women Economic Empowerment**: The Department’s target was to finalise and submit this framework to Cabinet for approval. However, by the end of the financial year, the framework had not yet been submitted to Cabinet.

· **Support through the Isivande Women’s Fund**: This was another target that was amended as a result of audit outcomes. However, with the amendments, the target changed from 60 women-owned enterprises to 18 women-owned enterprises supported and the Department supported 22 enterprises.

· **Youth Development Strategy**: The Department’s target was to finalise and submit this strategy to Cabinet for approval. However, due to an internal decision to first develop and implement a programme of action, given that youth development was a high priority, the strategy development was still on-going and had not yet been submitted to Cabinet.

· **Black Business Supplier Development Programme**: The DTI had aimed to approve a total of 700 applications. It exceeded this target and approved 1 212 applications. This was as a result of an increased number of applications that were received.

· **Trade promotion**: 43 trade and investment missions exist.

The DTI reported that it had requested adjustments to some of its targets due to conditions outside of its control. The request was approved by the Minister in the third quarter of the 2012/13 financial year.

Furthermore, the DTI scored overall well in terms of in the Department of Performance Monitoring and Evaluation’s Management Performance Assessment Tool [[29]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm%22%20%5Cl%20%22_ftn29%22%20%5Co%20%22). This assessment tool compares the performance of the National Department between national departments noting the average of all national departments and the performance of the respective department’s cluster, in this case the Economic Services and Infrastructure cluster.

5.1.1.     Audit opinion

In terms of the audit opinion for performance indicators, some of the indicators and targets remained unsuitably developed to ensure measurability and that they could be achieved. As a result of this, the Department had achieved 36 of the 56 targets that were set for the financial year. This translated to 64 per cent of targets being met.

5.2.         Service delivery performance as at 31 August 2013

The DTI highlighted a number of key achievements as at 31 August 2013. These included [[30]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm%22%20%5Cl%20%22_ftn30%22%20%5Co%20%22):

· **Local procurement**: Work is being undertaken on the potential designation of smoke detectors, valves products and actuators. There has also been progress on the local procurement of pharmaceutical products, namely: contraceptives and anti-TB drugs.

· **Beneficiation**: A policy directive for ferrous and non-ferrous scrap metal was published under the International Trade Administration Act. The policy directive allowed scrap metal to be preferentially sold domestically before being exported to support beneficiation by local foundries, mills, mini-mills and scrap metal processors. [[31]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm%22%20%5Cl%20%22_ftn31%22%20%5Co%20%22)The ITAC issued final regulations on scrap metals export controls in August 2013. These regulations came into effect from 16 September 2013. The DTI also significantly assisted EDD and ITAC in formulating the scrap metal policy intervention which will create a significant cost advantage for local processing industries.

· **Green economy**: The Solar Photovoltaic (PV) Localisation Roadmap was launched in conjunction with the Solar PV Industry Association. In addition, the DTI secured an R11.5 billion pipeline of investment in Renewable Energy projects.

· **Clothing and textile, footwear and leather sector**: The Mr Price Footwear and Leather Goods Cluster has been established, which will see the low end market being supplied with locally manufactured goods. Furthermore, a combined approval to date of more than R2.1 billion has been achieved and over R1.27 billion has been disbursed to the participating enterprises from CIP and PIP respectively. Since inception, 20 385 jobs have been created as a result of the support.

· **Automotive assembly and components sectors**: 7 projects are being supported under the Automotive Incentive Scheme.

· **Manufacturing Competitiveness Enhancement Programme**: 87 projects are being supported.

· **Regional integration**: Substantive progress has made on tripartite negotiations on Technical Barriers to Trade Chapter. South Africa/SACU negotiating positions for T-FTA have been developed and advanced. The 2002 SACU Agreement amended to establish the SACU Summit, which should strengthen SACU’s decision-making processes.

· **Trade promotion**: 2 National Pavilions were organised in 31 August 2013, namely: FILDA and FACIM. Exports to the tune of R1 198 million were facilitated. 341 companies were trained to raise awareness on export processes.

· **Trade relations**: South Africa registered its position in support of the extension of the United States’ African Growth Opportunity Act (AGOA) beyond 2015 and pressed for the need for the country’s continued retention as a beneficiary during the AGOA Forum held in Addis Ababa, Ethiopia, 9-13 August 2013.

· **Support Programme for Industrial Innovation**: 20 new projects approved to the value of R 58.96 million.

· **Technology and Human Resources for Industrial Progamme**: a total of 1 135 researchers were supported.

· **Incubation Support Programme**: 30 incubators have been approved and 10 projects have been supported.

· **Co-operatives**: The President assented to the Co-operatives Amendment Act, 2013 on 5 August 2013. The International Day of Co-operatives was held in Durban in July 2013. 64 projects were supported under the CIS incentive.

· **Economic transformation**: 263 projects were supported under the BBSDP incentive.

· **Intellectual Property**: The Final Policy Framework on Intellectual Property presented and approved by Cabinet for public consultations.

· **Women empowerment**: The DTI received the Top Award for best government department in women empowerment.

5.3.         Bills introduced to Parliament

The DTI introduced the following Bills to Parliament by the end of the September 2013:

·         Broad-based Black Economic Empowerment Amendment Bill

·         Co-operatives Amendment Bill

·         Lotteries Amendment Bill

·         Special Economic Zones Bill

5.4.         Issues raised during the deliberations

The committee raised the issue of intellectual property (IP) and the potential challenges associated with the protection of indigenous knowledge (IK). The committee welcomed the publication of the Intellectual Property Policy document, as among others, it seeks to address the impediments that prevent access to affordable medication through the abuse of patents. A concern for the committee was that investment would not be forthcoming if the protection of IP is not secure. The DTI acknowledged the challenges it faced with respect to IP but that it should be seen in the context of a developing economy. With respect to generic medicine, South Africa’s involvement led to a breakthrough at the World Trade Organisation with South Africa potentially becoming a world leader in this regard. With respect to the IP Policy document, the DTI informed the committee that consultation was on-going and that inter-departmental co-ordination was critical. The DTI re-iterated its stance with respect to the current IP legislation in that it was a measure to prevent the loss of IK.

The balance of payment position remains a concern for the committee. Although a number of policy interventions were implemented, the deficit continues to increase. The DTI informed the committee that the country’s largest vulnerable factor is the exchange rate. In order to the address the current account deficit, the proportion of exports earnings based on commodity goods had to be reduced, while increasing the reliance of exports earnings on manufactured goods.  A large component of South Africa’s import basket (about 25 per cent) consisted of oil and petroleum products, with luxury goods and pharmaceutical products also being a major contributing factor.

Government’s beneficiations initiatives should be pursued more aggressively as the export of raw materials and import of finished products was still prevalent. The committee also enquired about the role of the local government in relation to the incubator programmes.

During the 2012/13 financial year, the committee had held public hearings and a colloquium on the impact of high administered prices, such as electricity tariffs and port charges, on the manufacturing sector. One of the outcomes of the colloquium was Transnet’s proposal for a new proposed tariff structure to be shared between shipping lines, cargo owners and tenants on a 21 per cent, 46 per cent and 33 per cent basis respectively. The proposal is aimed at ensuring that tariffs are aligned to international standards and increasing South Africa’s competitiveness with other international markets.

Transnet also proposed the Beneficiation Promotion Programme. This programme seeks to promote increased beneficiation of goods, labour-intensive sectors, economic growth, and improvements in the competitiveness of South Africa’s metals sector and attract investments instead of the exportation of raw materials. This programme has been formulated in line with the IPAP, the National Development Plan, the Beneficiation Strategy for the Mineral Industry and the Department of Trade and Industry’s Metals Sector Strategy.

Through this programme, Transnet proposed that cargo charges for labour-intensive products and value-added products are reduced according to the various stages of beneficiation. The most beneficiated products would therefore pay the lowest cargo charge to promote local beneficiation. The committee welcomed the support for local manufacturing and beneficiation through the lowering of port tariffs.

However, increasing electricity tariffs remained a concern for the committee. This has contributed to South Africa’s relative lack of competitiveness and contributed, in some instances, to the failure of some small entrepreneurial businesses, especially in the manufacturing sector, which resulted in the retrenchment of thousands of workers. According to the DTI, a further contributing factor was the differentiated electricity tariffs between and within municipalities which remains a major threat to the manufacturing sector. The DTI through weekly engagements with the National Treasury and Eskom was trying to understand the demand and supply measures, but the underlying problem of electricity as a revenue stream for municipalities remains a concern. The DTI acknowledged that challenges associated with access to cheap electricity curtailed the beneficiation initiatives. South Africa should target higher levels of production associated with beneficiation. The DTI also informed the committee it was busy investigating opportunities in beneficiation in five critical value chains such as platinum, titanium, gold, diamonds, and iron and steel.

A “Team South Africa” approach with respect to business, embassies and foreign trade missions would contribute to attracting foreign direct investment into the South African economy.  The current vacancy rate in the foreign trade missions limits South Africa’s ability to promote its trade and investment opportunities abroad; which are important for increasing job creation opportunities. South Africa should have a united approach when dealing with international business. The DTI also informed the committee that a programme exists that trains individuals for deployment to overseas missions

The DTI informed the committee that its export strategy has evolved with the establishment of export councils to provide assistance to exporters on a sector- or industry basis. Through this approach, sectors can engage in the global market as a collective force. The DTI provides guidelines and financial assistance to these export councils. Industries with export councils include the automotive, electro-technics, wire, stainless steel, aluminium, flower, wine, cosmetics, crafts, ceramics and textile sectors *.*

6.     Financial and non-financial performance of identified entities

6.1.         Companies and Intellectual Property Commission

6.1.1.     Introduction

The Companies and Intellectual Property Commission (CIPC) was established by the Companies Act (No. 71 of 2008) and became operational on 1 May 2011. The CIPC’s core mandate is to register business entities [[32]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm%22%20%5Cl%20%22_ftn32%22%20%5Co%20%22), intellectual property [[33]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm%22%20%5Cl%20%22_ftn33%22%20%5Co%20%22)rights holders and regulated practitioners and maintain and disclose the related information; and raise awareness and knowledge regarding company and intellectual property laws. It also monitors and enforces compliance with the provisions in the 15 pieces of legislation related to corporate and intellectual property regulation it administers.

This core mandate falls within the Department of Trade and Industry’s strategic objective to “create a fair regulatory environment that enables investment, trade and enterprise development in an equitable and socially responsible manner”. The CIPC, therefore, has a critical role to play in enhancing the ease of doing business, maintaining South Africa’s credibility and lowering the administrative burden for business entities; while protecting intellectual property rights holders.

6.1.1.1.          Strategic objectives

The CIPC has three strategic goals, namely to [[34]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm%22%20%5Cl%20%22_ftn34%22%20%5Co%20%22):

·         Improve the competitiveness of the South African business environment.

·         Promote innovation, creativity and indigenous cultural expression.

·         Promote broader formal economic participation.

It implements these goals through seven strategic objectives. These are to:

·         Encourage the formalisation of South African businesses and their identity.

·         Encourage the maintenance of high standards of corporate governance, transparency and brand awareness and protection.

·         Promote the protection and commercial exploitation of innovations in key sectors.

·         Promote our cultural heritage and support a strong competitive South African creative industry that provides benefits to local artists.

·         Provide easy access to credible, reliable and relevant information and advice and secure value-added services.

·         Build an enabling and intelligent work environment anchored in a governed and sustainable organisation.

·         Improve the reputation and organisational performance of CIPC.

6.1.1.2.          Core issues identified by the committee

During the Portfolio Committee on Trade and Industry’s previous engagements with the CIPC, the following core issues were identified:

1.1.      The accessibility of the CIPC through their call centre, website and other media.

1.2.      The operability and integrity of the CIPC’s legacy information technology (IT) system.

1.3.      The integrity of CIPC’s information.

1.4.      The progress in developing a “one-stop shop” type of system among the relevant government agencies to enhance the ease of doing business.

1.5.      The CIPC’s programme performance information was non-compliant with the National Treasury Framework in terms of the usefulness and reliability of performance information submitted for auditing purposes in the 2011/12 financial year. 66 per cent of the performance indicators used by the CIPC were not verifiable and a performance system that could assist management with valid, accurate and complete reporting was also absent.

6.1.2.     Financial performance

6.1.2.1.          2012/13 Financial Year

The CIPC’s revenue was R397 million at the end of the 2012/13 financial year, a 9.1 per cent decline since 2011/12. Revenue from exchange transactions [[35]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm%22%20%5Cl%20%22_ftn35%22%20%5Co%20%22)contributed 49.9 per cent to total revenue, while revenue from annual returns fees and penalties contributed the remainder. Revenue from exchange transactions had been increasing by 4.4 per cent since the 2011/12 financial year, while revenue from annual returns fees and penalties had been declining by 19.4 per cent since the 2011/12 financial year. The decline in annual returns fees and penalties may be linked to the waiver on penalties for the 2011/12 and 2012/13 financial years due to shutdowns of the online annual returns system.

In terms of expenditure, the CIPC spent R284.6 million, an increase of 4.3 per cent since the 2011/12 financial year. Employee costs contributed 56.1 per cent of total expenditure, followed by consulting and professional fees (R40.3 million or 14.2 per cent) and operating leases for property, the off-site storage facility and vehicles (R22.9 million or 8.1 per cent).

Irregular expenditure in the 2012/13 financial year amounted to R2.7 million (0.94 per cent of total expenditure). This was mainly due to the procurement of network services through the State Information Technology Agency (SITA) worth R1.7 million and the extension of the appointment of the database administrator (R883 000).

The CIPC is intending to continuously invest in improving its ICT systems. In this regard, it has indicated that it will be investing R30 million in the 2013/14 financial year.

In terms of the financial statements, the Auditor-General’s opinion was unqualified with emphasis of matters, which was an improvement from a qualified opinion in the 2011/12 financial year. However, the following matters were emphasised:

· *Significant uncertainties*: No provision was made for any possible liability as a result of the outstanding lawsuit with a service provider related to the termination of the enterprise content management system contract.

· *Events after reporting date*: Management could not quantify the effect of the annual returns system’s technical shutdown at the end of June 2013 for approximately six weeks. This affected the ability of customers to lodge their annual returns, which was a key source of revenue for the CIPC.

Furthermore, the Auditor-General raised a number of areas of non-compliance with laws and regulations and internal control matters.

· *Procurement and contract management*: A deviation was approved by the accounting authority from pursuing a competitive bidding process to procure services with a transaction value of greater than R500 000. Despite it being plausible to embark on a competitive bidding process.

· *Expenditure management*: Ineffective steps were taken to prevent irregular expenditure of R2.7 million (0.94 per cent of total expenditure).

· *Employee costs*: The unauthorised appointment of an employee on a short-term contract at a higher salary than the maximum salary scale.

· *Predetermined objectives*: There were no procedures to effectively report to the executive authority quarterly. The accounting authority had not ensured the maintenance of effective, efficient and transparent systems of financial and risk management and internal control.

The following related internal control concerns were raised:

· *Financial and performance management*: Inadequate processes to ensure the preparation of reliable performance reporting and insufficient monitoring of compliance in the areas of contract management and predetermined objectives.

6.1.2.2.          2013/14 Financial Year

As at 30 September 2013, the CIPC had received R215.9 million from annual returns (R95.9 million) and exchange transactions (R119.97 million). This equated to 54.4 per cent of total revenue for the 2012/13 financial year.

It had spent R129.3 million including R3 million committed funds, compared to projected expenditure of R160.5 million at the time (a variance of 19.8 per cent and 37.3 per cent of total budgeted expenditure). This was primarily due to under-spending of goods and services of R23.5 million including R13.3 million for internet and network costs and R8.3 million for communications costs.

6.1.3.     Non-financial performance

6.1.3.1.          2012/13 Financial Year

The planned indicators and targets are in alignment with those stated in the 2012/13 Annual Performance Plan. Of the 18 planned performance indicators, only six targets were achieved or exceeded and one could not be measured (39 per cent of planned targets).

Under some of the unachieved targets, the CIPC has listed other activities it has undertaken that could contribute to future achievement. This is evident under indicators such as the ‘% of registered enterprises receiving compliance certificates’ and the ‘% reduction in the number of name objections (registered enterprises)’.

The CIPC has listed 42 service delivery standards covering companies and close corporations (14 standards), cooperatives (9 standards), compliance and business rescue (6 standards), patents and designs (6 standards), trade marks (5 standards), and copyright in films (2 standards). One of its performance indicators was to maintain service delivery standards that are available on the website. However, it reported that 24 of the published standards were monitored but fails to indicate to what extent they were maintained.

· ***Human resources***

The CIPC’s key employment statistics are reflected in the table below:

**Table 6: CIPC Employment Profile**

|  |  |
| --- | --- |
| Total posts | 606 |
| Total Employment | 468 |
| Vacancy rate (% of total available posts) | 22.8 |
| Black employees (84.8% of total employees) | 397 |
| Female Employees (60.9% of total employees) | 285 |
| Female Employees in senior management (37% of senior managers) | 10 |
| Employees with disabilities (1.7% of total employees) | 8 |

Source: CIPC (2013: 110-132)

Due to an agreement between the trade union and management of the CIPC, a moratorium was set on employing new staff members until the new organisational structure was approved and existing staff placed.

· ***Audit opinion***

The Auditor-General reported material findings on the annual performance report concerning the usefulness and reliability of the information.

In terms of the usefulness of the information, the Auditor General found that 23 per cent of the reported targets were not consistent with the targets set in the Annual Performance Plan; 38 per cent of the targets were not measurable; and 38 per cent of the indicators could not be verified. This was attributed to the lack of sufficient reviewing controls; a lack of awareness of the requirements of the Framework for Managing Programme Performance Information; and the lack of information systems to record and document actual achievements against targets respectively.

In terms of the Business regulation and reputation objective, the Auditor General could not obtain the necessary information and explanations to verify the reliability of the information, there was insufficient appropriate evidence to support this.

The Auditor-General raised a number of areas of non-compliance with laws and regulations and internal control matters.

· *Predetermined objectives*: There were no procedures to effectively report to the executive authority quarterly. The accounting authority had not ensured the maintenance of effective, efficient and transparent systems of internal control.

The following related internal control concerns were raised:

· *Leadership*: Lack of appropriate oversight to ensure that planned and reported indicators agree; and that targets were in accordance with the National Treasury Framework for Managing Programme Performance Information; as well as inadequate monitoring controls to ensure compliance with applicable legislation.

· *Financial and performance management*: Inadequate processes to ensure the preparation of reliable performance reporting and insufficient monitoring of compliance in the areas of predetermined objectives.

The CIPC were addressing issues related to their reporting mechanisms and ensuring that indicators/targets were measurable. In terms of their reporting mechanisms, it was reviewing the processes and systems to extract performance information, as well as reviewing its governance structures and introducing new project delivery methodology to ensure monitoring and achievement of planned targets.

6.1.3.2.          2013/14 Financial Year

The CIPC indicated that it had launched the FNB project and its redeveloped online Annual Return System in August 2013, which should enhance efficiencies in service delivery to companies. Penalties for annual returns that could not be submitted on time due to system development were waived. The CIPC was also investigating several avenues to enhance annual return compliance rates from 39 per cent to an initial target of 50 per cent.

The implementation of its new organisational structure is progressing well. The CIPC was also in the process of establishing self-service terminals at its new office in Sunnyside, Pretoria. The self-service terminals would integrate fingerprint identification verification when registering a business entity or changing details pertaining to a business entity.

Challenges related to its ability to respond to customer queries remained, but the implementation of the Swedish contact centre model has shown a slight increase in the call answered rate. This is expected to improve gradually over time.

Although the first phase of data cleansing has been completed, the quality and integrity of the databases require continued work of maintaining updated information and correcting existing information based on the annual returns. This process included the deregistration of dormant business entities.

The CIPC has shown improvement in meeting their service delivery targets in terms of processing companies, trademarks, patents and design applications. However, the processing of co-operative applications is lagging behind, mainly as these applications are all manually processed. The automation of these processes are dependent on the finalisation of the new Co-operatives regulations. Furthermore, the establishment of the Co-operatives Development Agency should be expedited to ensure that all co-operatives, especially in rural areas, are assisted and supported. There were also limited staff resources dealing with co-operatives as well as equipment and system challenges. In addition, processing of film copyrights is also delayed.

At the end of September 2013, 33 per cent of the 691 cases under investigation were finalised. These cases mostly dealt with unauthorised director changes, reported irregularities from the Independent Regulatory Body for Auditors (IRBA) and internal company disputes.

6.1.3.3.          2014/15 MTEF financial allocations

The CIPC intends to increase its main fees at 5 per cent an annum to keep up with inflation and its intellectual property fees at 20 per cent an annum for the next five years, as these have not been adjusted for more than ten years. Furthermore, new sources of income are expected to be realised over the short to medium term.

Expenditure on employee costs were expected to rise from the 2013/14 financial year to 2017/18 as new employees are appointed within the new structure and a new remuneration framework is developed.

6.1.4.     Key issues raised by the committee

The committee raised concerns with respect to the number of calls not being answered and the modest target set by the CIPC in this regard.  The CIPC informed the committee that it was critical that the call centre is located within the CIPC so that the database was accessible. The Swedish model being rolled-out in October 2013 would remove the notion of a call centre and implement a switchboard system where calls will be diverted to employee volunteers with knowledge of the CIPC. It acknowledged that the system requires a culture change among staff taking responsibilities for calls. The CIPC would measure the number of calls received and answered. This would form part of job descriptions, and would be measured as part of the performance management system.

The committee was concerned that at times the CIPC’s website was unavailable without it effectively communicating this to the public. This aggravated the public’s perception regarding the CIPC’s unavailability and unresponsiveness. The CIPC acknowledged that effective communication with the public was essential. It would endeavour to inform the public timeously regarding planned disruptions and delays in restoring online functionalities.

With respect to trusts, the CIPC informed the committee that trusts were not administered by the CIPC but by the Master of the High Court.

6.2.         Export Credit and Insurance Corporation

6.2.1.     Introduction

The ECIC is mandated to facilitate export trade and cross-border investments between South Africa and the rest of the world. The entity was established under the Export Credit and Foreign Investments Insurance Act (No. 78 of 1957). The ECIC is a public entity, established in terms of the Companies Act. It is therefore subject to paying taxes, complying with the provisions of the Public Finance Management Act, and is designated as a section 3B entity.

The ECIC is a self-funded, state-owned entity under the Department of Trade and Industry. The ECIC is also supervised by the Financial Services Board (FSB).

6.2.1.1.          Strategic Objectives

The ECIC [[36]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm%22%20%5Cl%20%22_ftn36%22%20%5Co%20%22)is driven by five strategic goals which are to:

·         Facilitate export trade and investment outside South Africa.

·         Build mutually beneficial local, regional and global relations to advance South Africa’s trade and economic development objectives.

·         Promote a professional, competitive and customer focused workforce that ensures an effective and efficient service to our customers.

·         Foster risk orientation by creating enterprise-wide risk awareness and apply effective risk management practices.

·         Consistently utilise sound business environmental and social principles, and apply international best practice.

To achieve its strategic objectives and to fulfil its mandate, the ECIC undertakes to: [[37]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm%22%20%5Cl%20%22_ftn37%22%20%5Co%20%22)

·         Formulate export credit and investment underwriting policies,

·         Evaluate potential projects,

·         Establish the rationale for support,

·         Assess export credit risk,

·         Structure securities to mitigate risk,

·         Set country and sector credit limits, and

·         Manage and diversify the credit insurance portfolio.

6.2.2.     Financial and non-financial performance

6.2.2.1.          2012/13 Financial Year

Some of the key performance highlights were:

·         The entity receives its income from insurance premiums. During the 2012/13 financial year, the entity’s net insurance premium revenue amounted to R361.9 million.

·         Its operating expenses for the year amounted to R51.6 million. These were mainly for employee costs (46.4 per cent), remuneration to non-employees (10.1 per cent), rental expenses (5.1 per cent), administration costs (14.5 per cent) and external auditing fees (2 per cent).

·         ECIC had 10 targets for the financial period. Of the 10 targets, 8 were exceeded and two were achieved.

· ***Human resources***

The ECIC is a small organisation. By the end of the 2012/13 financial year, the ECIC had employed 42 employees, 6 employees more than at the end of the previous financial year. Of the 42 employees, 26 per cent was in management positions and the remaining 74 per cent in operational and support functions.

**Table 7: ECIC Employment Profile**

|  |  |
| --- | --- |
| Total number of posts | 53 |
| Total Employment | 42 |
| Vacancy rate (18.9% of total available posts) | 10 |
| Black employees (86% of total employees) | 36 |
| Female Employees (57% of total employees) | 24 |
| Female Employees in Management (45% of Management) | 5 |

Source: ECIC (2013: 37-40)

Four posts were filled after the financial year end. According to the organisational structure [[38]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm%22%20%5Cl%20%22_ftn38%22%20%5Co%20%22), there were still 6 vacant posts, namely the Chief Executive Officer, the company secretary, the professional assistant to the chief operating officer, actuary, senior underwriter and investment officer. The Chief Operations Officer was acting as the Chief Executive Officer at the time. However, the position of Chief Executive Officer was filled during the 2013/14 financial year.

· ***Audit opinion***

The ECIC is audited by independent auditors. For the 2012/13 financial year, the ECIC received an unqualified audit opinion from its auditors with no matters of emphasis and/or additional matters were raised. The independent auditors also established that there were no material findings in terms of the usefulness and reliability of the ECIC’s performance reporting against its Annual Performance Plan.

Furthermore, there were no material losses through criminal conduct and any irregular expenditure and fruitless and wasteful expenditure that occurred during the 2012/13 financial year. However, a minor fruitless or wasteful loss was incurred, namely the reprinting of annual reports due to an error at a cost of R26 000.

6.2.2.2.          2013/14 Financial Year

The ECIC reported on its first quarter financial and non-financial performance for the 2013/14 financial year. It had introduced a new target to support SMEs that wanted to export credit insurance. However, there had not been any applications presented to the Credit Insurance Committee at the end of June 2013.

As corporate social investment (CSI) had been focused on providing bursaries mainly during January and February, CSI spending was less than the targeted 1 per cent of R5 million. The ECIC also indicated that they were investigating other initiatives where they could engage and invest in social development initiatives.

6.2.2.3.          2014/15 MTEF financial allocations

The ECIC has raised the need to secure funding for the Interest Make-Up (IMU) scheme from 2015/16 of at least R300 million from National Treasury. The IMU supports industrial development as it reduces risks to banks for lending credit linked to expansions in exports. Therefore, loans can be offered to South African firms that have secured export contracts, especially to other African countries, that will increase economic growth and/or job creation opportunities.

6.2.3.     Key issues raised by the committee

The committee welcomed the report of the ECIC and the support it provides in terms of insurance to our exports. The ECIC’s informed the committee that their strategic goals are aligned with the DTI’s objectives to build mutually beneficial regional and global relations, to advance South Africa’s exports, and to promote a professional, competitive and customer-focused working environment that ensures effective and efficient service delivery.

The ECIC was of the view that the current global economic environment and the depressed economic outlook of South Africa’s traditional trading partners highlight the importance of export facilitation and investment into new markets. As a result of the global environment, African countries have become competitive in the global arena looking for growth and investment opportunities. Africa as a growth node presents opportunities in mining, infrastructure, and industrial projects for South Africa. In addition, its membership of BRICS presents new opportunities for value-added products. However, a closer collaboration between the public and private sector is needed to enhance the country’s competitiveness.

The infrastructure programme is vital to unlock Africa’s economic potential of the continent, but a major challenge of the infrastructure backlogs hampers regional integration. The ECIC informed the committee that it is working closely with the Industrial Development Corporation to offer performance bond insurance for SMME exporters. In line with the IPAP, the ECIC also offers special products for boat-builders such as the provision of insurance for advance payment guarantees required by overseas buyers, and insurance for a working capital facility offered by a bank during the boat-building phase.

One of the key goals of the ECIC is to facilitate export trade and investment outside South Africa which is in line with the National Development Plan’s objective to increase intra-regional trade in Southern Africa as well as with its regional neighbours. However, there were challenges facing the organisation that raised the riskiness of underwriting transactions in the region, such as the political instability in sub-Saharan Africa, inefficient border management, and poor regulations. The business of the ECIC is to look at political risks associated with projects, but also to look at opportunities given these political risks. Instability does not reign throughout the continent with the ECIC focusing on identifying opportunities for our exporters.

With respect to the 18 per cent vacancy rate reflected in the report, the ECIC informed the committee that the vacancies were due to the establishment of new positions with only one or two positions not yet filled.

The committee fully supports the recapitalisation of the ECIC, given the value of the work it does in increasing diversified and value-added exports, enabling expansion of the manufacturing sector and job creation.

6.3.         National Consumer Commission

6.3.1.     Introduction

The National Consumer Commission (NCC) was established by the Consumer Protection Act (CPA) (No. 68 of 2008) and became operational on 1 April 2011. The NCC’s core mandate is to assist in protecting consumer rights by increasing consumer awareness of what these rights are and investigating prohibited conduct by business and enforcing compliance with the provisions of CPA. This core mandate falls within the Department of Trade and Industry’s strategic objective to “create a fair regulatory environment that enables investment, trade and enterprise development in an equitable and socially responsible manner”. The NCC, therefore, has a critical role to play in empowering consumers, especially rural and low income consumers, who are often most affected by unfair business practices and least able to address these challenges.

6.3.1.1.          Functions

According to the Act, the NCC’s functions include the:

·         Development of codes of good practice relating to the provisions of the Act.

·         Promotion of legislative reform through consultation with provincial consumer protection authorities, national organs of state and consumer protection groups, alternative dispute resolution agents and suppliers.

·         Promotion of consumer protection within organs of state.

·         Enforcement of the Act including the investigation and evaluation of any prohibited conduct and offences, issuing and enforcing compliance notices.

·         Research to increase knowledge of the nature and dynamics of the consumer market.

·         Promotion of public awareness of consumer protection matters.

·         Liaison with other regulatory authorities on matters of common interest.

·         Provision of advice and recommendations to the Minister.

6.3.1.2.          Core issues identified by the committee

During the Portfolio Committee on Trade and Industry’s previous engagements with the NCC, the following core issues were identified:

·         Lack of compliance with the Public Financial Management Act (PFMA), especially related to the implementation of governance structures.

·         Lack of leadership in ensuring sufficient oversight over financial reporting, legal compliance and related controls in the 2011/12 financial year.

·         Substantial irregular expenditure of R8.5 million or 25.5 per cent of total expenditure.

·         Performance targets and actual performance measured were misaligned in certain instances.

·         Procedural discrepancies in the issuing of compliance notices leading to legal cases against the NCC and substantial financial burden on the NCC.

·         There was a breakdown in the relationship between the NCC and the National Consumer Tribunal.

·         The high vacancy rate within the NCC, especially of key positions.

6.3.2.     Financial performance

6.3.2.1.          2012/13 Financial Year

The NCC received a transfer of R48.3 million from the DTI, a 36.6 per cent increase from the 2011/12 financial year. The NCC spent R44.7 million, leaving a surplus of R3.7 million or 7.7% of total revenue, which is outside the accepted range of 5 per cent of revenue. A breakdown of the expenditure for the 2011/12 financial year is provided in the figure below:

Source: (NCC 2013b: 103)

Employee related costs include remuneration for employees, the members of the audit committee and the executive management. The executive management’s total remuneration consisted of 25.5% of this budget.

The notes on the administration and other operating costs continue to not provide much further detail on the actual amounts spent on sub-categories. This is concerning as these two categories contribute 98 per cent to the other operating expenditure.  There had been a decline in expenditure on travel and subsistence costs from R0.47 million in 2011/12 to R 0.33 million in 2012/13.

· ***Irregular expenditure***

Irregular expenditure increased from R8.5 million in 2011/12 to R15.6 million in 2012/13 (34.9 per cent of total expenditure), of which:

·         R8.2 million (52.7 per cent of irregular expenditure) was due to not following the proper procurement process.

·         R2.9 million (18.4 per cent of irregular expenditure) was due to irregular legal fees.

·         R2.4 million (15.5 per cent of irregular expenditure) was as a result of documentation/contracts not being available. This was linked to an alleged burglary at the NCC offices.

·         R1 million (6.4 per cent of irregular expenditure) was linked to a deposit paid for the call centre management system that was contracted to RAM (see NCC (2012b: 108) for further detail).

·         R0.8 million (5.4 per cent of irregular expenditure) was irregular in terms of the PFMA.

·         R0.2 million (1.5 per cent of irregular expenditure) was due to non-compliance with procurement processes for goods and services between R10 000 and R500 000.

· ***Fruitless and wasteful expenditure***

Fruitless and wasteful expenditure increased significantly from R135 in 2011/12 to R3.6 million in 2012/13 (8 per cent of total expenditure). However, R1.6 million of this was identified in the 2012/13 financial year but was attributable to the previous financial year. This expenditure included:

·         Legal fees for the former Commissioner in her personal capacity (R45 600 in 2011/12 and R27 622 in 2012/13).

·         Assets paid for and never received (R1 million in 2011/12 and R0.3 million in 2012/13).

·         Assets no longer in use (R0.13 million in 2012/13).

·         VAT incorrectly claimed (R0.48 million in 2011/12 and R0.76 million in 2012/13).

·         Call centre management system (R0.72 million in 2012/13).

Many of the NCC’s service delivery challenges link directly or indirectly to the lack of financial resources. However, additional financial resources cannot be secured without a proven track record of spending and good governance, which in turn require the proper management of resources in compliance with the PFMA. Failing the establishment of well-functioning governance systems and implementing appropriate policies and procedures, the NCC’s access to additional funding will be limited. In this regard, the filling of critical management positions is essential.

· ***Auditor-General’s Report***

In terms of the financial statements, the Auditor-General’s opinion was qualified compared to an unqualified opinion in the 2011/12 financial year. The qualified opinion was based on:

·         Irregular expenditure that could not be adequately confirmed due to supporting information being stolen from the NCC’s premises and inadequate filing of information.

·         Operating expenditure for the prior year was incorrectly allocated to the 2012/13 financial year.

Other emphasis of matters related to (i) significant uncertainties linked to disclosed contingent liabilities for a lawsuit and a claim for cancelling contracts and the retention of R2.8 million without Treasury approval; (ii) the restatement of corresponding figures; and (iii) material impairments as a result of long outstanding receivables.

He raised a number of areas of non-compliance with laws and regulations and internal control matters. Many of these have remained and worsened since the Auditor-General’s report for the 2011/12 financial year.

· *Internal audit*: The Commissioner had not ensured that the internal audit function was established, which resulted in poor reporting to the audit committee, lack of evaluation of the effectiveness and efficiency of internal controls, the reliability and integrity of financial and operational information and compliance with laws and regulations.

· *Audit committees*: Due to the abovementioned concerns, the audit committee was unable to fulfil its functions of reviewing the effectiveness of the NCC’s internal audit function, internal control systems, the adequacy, reliability and accuracy of the financial information and the institution’s compliance with legal and regulatory provisions.

· *Budgets*: Quarterly reports of actual and projected revenue and expenditure were not submitted to the DTI and the NCC retained its accumulated surpluses without Treasury approval.

· *Annual financial statements, performance and annual report*: Firstly, financial statements were not fully prepared in all material respects in relation to the prescribed financial reporting framework and/or were not supported by full and proper records. Secondly, there had been material misstatements on the initial financial statements received by the Auditor-General’s office but these had been subsequently corrected.

· *Expenditure management*: Reasonable steps had not been taken to prevent and detect irregular and fruitless and wasteful expenditure. Furthermore, no disciplinary action had been taken against officials responsible for these types of expenditure. In addition, payments for goods and services were paid prior to their receipt, which is in contravention of Treasury regulations.

· *Procurement and contract management*: There had been non-compliance with Treasury regulations with transactions above and below the value of R500 000. Due to documents being stolen and the NCC’s inadequate filing system, sufficient appropriate audit evidence could not be obtained.

· *Asset management*: Proper control systems to safeguard and maintain assets were not implemented.

The following related internal control concerns were raised:

· *Leadership*: The accounting authority had not ensured sufficient oversight over financial reporting, legal compliance and related controls; human resource management; establishment and communication of policies and procedures; and the development and monitoring of the implementation of action plans to address internal control deficiencies.

· *Financial and performance management*: Management had not exercised adequate monitoring to prevent legal non-compliance; implemented proper record keeping; and prepared regular, accurate and complete financial and performance reports.

· *Governance*: The internal audit unit was not adequately resources and functioning and the audit committee had not promoted accountability and service delivery through evaluating and monitoring responses to risks and providing oversight over the effectiveness of the internal control environment.

· ***Investigations***

Two investigations had been on-going during the 2012/13 financial year:

·         An independent consulting firm were investigating certain procurement irregularities with regard to the appointment if certain officials at the NCC. This was concluded in May 2013 and certain recommendations were made for follow-up.

·         The Public Protector South Africa’s investigation regarding allegations of irregular procurement and recruitment was concluded and recommendations were made to improve the NCC’s financial controls and supply chain management processes.

6.3.2.2.          2013/14 Financial Year

In terms of the financial state of the NCC, the following issues have come to the fore:

·         For the 2013/14 financial year, and the next three years going forward, the NCC’s budget will not sufficiently provide for the expected service delivery levels.  This is particularly as a result of the high vacancy rate as mentioned above.

·         The NCC has requested additional funds from the Department for the 2013/14 financial year.

·         Furthermore, for the 2013/14 financial year, an amount of R1.4 million has been allocated to meat investigations linked to meat testing and labelling. This allocation has taken away from other activities as outlined on the APP.

6.3.2.3.          2014/15 MTEF financial allocations

Although the NCC did not indicate their need for additional forward looking funds, the committee raised concerns around its current funding. The committee was of the view that the NCC is a critical commission. It was encouraged by the progress made by the new Commissioner in establishing governance structures and the necessary policies and procedures in compliance with the PFMA. However, the committee was concerned by the NCC’s almost 76 per cent vacancy rate, as this compromised its service delivery. In addition, the NCC was barely able to conclude one investigation on meat product labelling due to lack of funding. Its inability to adequately investigate the non-compliance of sectors due to inadequate financial and human resources inhibits its enforcement capacity.

6.3.3.     Non-financial performance

6.3.3.1.          Realignment of non-financial performance indicators

Under the previous Commissioner, the NCC had set eleven priorities for the 2012/13 – 2016/17 periods. These were (NCC 2012: 15):

·         Protect consumers from hazards through advocacy, education and awareness.

·         Improve consumer redress as envisaged by the CPA (complaints handling system)

·         Protect consumers from unethical business practices and misconduct through law enforcement and compliance.

·         Conduct research for policy, legislative and regulatory framework improvement.

·         Achieve customer and stakeholder expectations.

·         Ensure the establishment of a functional organisation.

·         Achieve the mandate of the NCC with an optimal staff complement.

·         Implement an organisation wide performance management system.

·         Create the brand of the NCC as South Africa’s consumer voice.

·         Provide an effective Information and Communication Technology (ICT) infrastructure and network.

·         Implement an effective and efficient financial management system.

However, the strategic plan was revised in January 2013. This led to a simplification of the NCC’s strategic objectives, namely to (NCC 2013a: 13):

·         Promote compliance with the Consumer Protection Act.

·         Be a well-governed and capacitated organisation.

Furthermore, performance indicators and targets were refined to ensure that these were aligned to the NCC’s core mandate and were measurable and achievable. This refinement has impacted on the ability to monitor the NCC actual performance against the targeted performance, as the targets and the performance indicators have been significantly changed from those in the initial Strategic Plan (NCC 2012) and the revised Strategic Plan (NCC 2013a) does not provide performance indicators or targets.

6.3.3.2.          Actual performance

As the Auditor-General indicated, only 3 of the 16 targets were achieved. This was linked to the following key challenges:

·         Lack of human resources and ICT support.

·         Lack of financial resources.

·         Late assessment and analysis of performance, as the revised Strategic Plan was implemented in quarter 3 and 4.

Progress made was concentrated in the area of consumer advocacy, education and awareness, with the exception of capacitating consumer protection groups and creating the brand of the NCC as the South African consumer voice. However, it will be critical to establish the effectiveness of these programmes in empowering consumers and raising their awareness of their rights.

Furthermore, there has been a significant shift in the operations of the Enforcement and Investigations Unit, with the focus returning to investigations and the NCC referring complaints to the relevant authorities, where the NCC has been the first port of call, rather than handling all complaints itself. There appears to have been good progress made in addressing areas of non-compliance when a less confrontational approach was adopted by the NCC in dealing with the ICT, medical and pharmaceutical and retail and manufacturing sectors.

The NCC has “withdrawn” matters that were before the National Consumer Tribunal and revised its internal processes to ensure that matters were procedurally correct. The two changes will lower the number of legal cases the NCC is involved in and thus lower the associated legal costs.

6.3.3.3.          Audit opinion

The Auditor General found no material findings on the annual performance report concerning the usefulness and reliability of the information. However, 81 per cent of the planned targets were not achieved during the 2012/13 financial year and there were material misstatements that were subsequently corrected by management.

The then Acting Commissioner had attributed this to the late revision of the Strategic Plan to realign the work of the NCC to its legislative mandate as prescribed in the CPA.

6.3.3.4.          Human resources

Based on the human resource information provided on pages 33-36 of the Annual Report (NCC 2013b), the following is highlighted:

·         The NCC has an approved structure with 132 positions. However, only 32 of these positions were filled at the end of March 2013, representing a vacancy rate of 75.8 per cent.

·         The NCC was also employing a further 33 employees that were outside of the approved structure, two contractors and one seconded official, resulting in a total staff complement of 68.

·         The then Acting Commissioner had indicated that the NCC had been undergoing a skills audit in an attempt to place the 33 employees within the approved structure and to ensure that the appropriate skills were available within the NCC.

·         The vacancy rate was expected to remain high over the current financial year due to financial constraints, which cannot be addressed without adequately functioning governance structures and policies and procedures in place to ensure compliance with the PFMA.

·         The high vacancy rate, especially related to certain critical positions, will affect service delivery into the future, as the demand for the NCC’s services increase and alternative consumer protection mechanisms are not accredited and functional.

6.3.4.     Key issues raised by the committee

The committee welcomed the transparency reflected in the NCC’s report. This related to the irregular employment of 33 employees, and the payment of the private legal fees of the former commissioner among others. The committee is concerned with a number of other issues relating to the racial composition of staff, irregular expenditure, the ability of the NCC to fulfil its mandate, the break-in at the NCC, and the financial soundness of the organisation.

With respect to employment of staff, the NCC informed the committee that irregular employment was associated with the previous commissioner who, before her departure, appointed 33 staff members on full-time basis who were previously on month to month contracts. In order to maintain stability at the NCC, it was agreed by the Minister that the employees would be absorbed into the new organisational structure.

The delay in the investigation into the break-in at the NCC remains a concern to the committee, as it is not clear what records have been stolen.

In its 2011 and 2012 BRRRs, the committee raised the issues of jurisdiction and the relationship with the National Consumer Tribunal. The NCC informed the committee that it is working closely with the Consumer Goods Council as well as the National Consumer Tribunal to fund a common solution to protect consumers. Currently, the NCC is collaborating with these bodies in developing a set of protocols to ensure that consumers understand the roles of the different bodies.

In the 2011/12 Annual Report, the Auditor-General’s opinion was unqualified in terms of the financial statements, namely that the statements fairly represented the financial position of the NCC, based on existing information. However, he raised a number of areas of non-compliance with laws and regulations and internal control matters. In 2012/13, the NCC received a qualified report which was due to irregular expenditure and a number of audit concerns. This included the discovery of a number of discrepancies from the 2011/12 financial year. The committee suggested that the NCC engages with the Auditor-General on how the matter could be addressed to ensure that this did not become a recurring concern in future audit reports. In addition to 81% of the planned targets were not met, issues such as non-compliance with laws and regulations and lack of internal controls had deteriorated further in the 2012/13 financial year. A concern for the committee was how the NCC intends to address these irregularities to ensure a unqualified opinion in 2013/14. The NCC acknowledged its shortcomings with respect to the abovementioned.

During numerous engagements with the NCC, the issue of the demographic profile of the employees were raised which did not reflect South Africa’s racial profile. The committee was concerned that its 2012/13 report reflected no progress in this regard. Another concern was the high vacancy rate at the NCC given the importance of consumer protection. Currently, due to financial constraints, the NCC is not in a position to go on a recruitment drive, but would attempt to address the racial aspects of its employment equity profile in this process.

6.4.         National Empowerment Fund

6.4.1.     Introduction

The mandate of the National Empowerment Fund (NEF) is to promote and facilitate the participation of black people in economic activities. The NEF achieves this mandate by giving financial and non-financial support to black empowered businesses. Furthermore, the NEF encourages the creation of wealth for black people through the promotion of savings and investment.  This mandate is aligned to the country’s aim of promoting the participation of black people in the economy and creating jobs.

The NEF offers a range of products and services aimed at assisting black empowered businesses. These include financial support through various funds targeted at starting businesses, expansions and acquisitions; and non-financial support such as mentoring of small businesses, providing funding and business planning advice as well as risk monitoring for start-ups.

6.4.1.1.          Strategic objectives

The NEF’s performance targets are directly aligned to its strategic objectives which are to: [[39]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm%22%20%5Cl%20%22_ftn39%22%20%5Co%20%22)

·         Provide finance to business ventures established and managed by black people.

·         Invest in black-empowered businesses that have high employment creating opportunities.

·         Advance black economic empowerment through commercially sustainable enterprises.

·         Facilitate investment across all provinces in South Africa.

·         Establish the NEF in the South African economy as a credible and meaningful development finance institution.

·         Establish the NEF as a sustainable development finance institution.

6.4.1.2.          Core issues raised from the 2011/12 Annual Report engagement

In the committee’s engagement with the NEF during the Budgetary Review and Recommendation Report (BRRR) process for the 2011/12 financial year, the following key issues came into the fore:

· ***The number of businesses funded by the NEF that were still operating***

According to the NEF by the end of the 2011/12 financial year, a total of 384 transactions had been approved and approximately 300 of the businesses assisted through those transactions were still operating successfully. However, most of the businesses that were no longer operating successfully were SMMEs and had been adversely affected by the harsh economic conditions. With this in mind, the NEF provides a mentorship programme through its post-investment unit to ensure that businesses can continue operations.

· ***Memorandum of Understanding (MOU)***

During its engagements with the committee, the NEF informed the committee that it was in the process of establishing a Memorandum of Understanding (MOU) with the Ministry of Trade and Investment in the United Kingdom (UK). This MOU is aimed at UK-owned subsidiaries in South Africa to ensure that they incorporate South African suppliers in their value chains. Furthermore, the NEF sought to have similar MOUs with other countries in various sectors.

· ***Recapitalisation and reclassification of the NEF***

During these engagements, the NEF’s Chief Executive Officer (CEO) informed the committee that there was a need for the recapitalisation of the NEF despite the NEF having capital available for future disbursements of R3.7 billion based on the cash and cash equivalents and the investments available for sale at the end of March 2012. This has been slightly reduced to R3.6 billion at the end of March 2013. [[40]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm%22%20%5Cl%20%22_ftn40%22%20%5Co%20%22)There was a need for recapitalisation over the MTEF of R3.3 billion [[41]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm%22%20%5Cl%20%22_ftn41%22%20%5Co%20%22).

In 2004, the NEF was capitalised with an amount of R2.5 billion from the Government. Between 2004 and 2010, this amount was disbursed. From 2010, the NEF has been a financially self-sustaining entity through interest income from its investments. However, during the budget process in April 2013, the NEF brought up the issue of recapitalisation or reclassification to the committee.

According to the NEF’s CEO, the entity has pursued the two options available to it in order to raise the required funds, the reclassification from being a Schedule 3A entity to a Schedule 2 entity to ensure that the NEF has the ability to acquire alternative funding from the market. Furthermore, the NEF has applied, for funding, to the DTI and the National Treasury.

During the committee’s engagement with the Department on 20 September 2013, the Director-General, Mr*Lionel October, informed the committee that the Department supported the NEF in its application for additional funding.*

6.4.2.     Financial performance

6.4.2.1.          2012/13 Financial Year

· ***Financial overview***

By the end of the observed financial year (2012/13), the NEF’s total assets were R5.4 billion, approximately 2 per cent more than they were at the end of the previous financial year. Total current liabilities amounted to R49.2 million for the financial year. The liabilities were much less than the cash that the NEF has easy access to through its bank including current account, short-term deposits and cash on hand, these amounted to R1.7 billion.

From the 2011/12 financial year, there was a significant amount of investments that were approved and committed to but not disbursed. This impacted on disbursements in the 2012/13 financial year with disbursements on core activities amounting to R703 billion, 18% higher than disbursements in the 2011/12 financial year.

The NEF’s revenue stream has fluctuated in the past two financial years. Revenue declined by 6.7 per cent from R359.5 million in 2010/11 to R335.5 million in 2011/12 and increased by 3.6 per cent in 2012/13. This was a direct result of a decline in interest received from investments.

Administrative costs amounting to R191.9 million in 2011/12 continued to increase to R218.5 million in 2012/13. The increase in administrative expenditure was mainly as a result of an increase in staff costs which increased from R108.6 million in 2011/12 to R131.4 million in 2012/13.

There was a significant increase in the provision for impairments during the 2012/13 financial year. The provision for impairments on investments had more than doubled (176 per cent more) for the observed financial year from R105 million in 2011/12 to R289.8 million in 2012/13. The increase in the provision for impairments is attributed to harsh economic conditions that impacted on businesses during the year.

· ***Audit opinion***

The NEF is audited by independent auditors. For the 2012/13 financial year, the NEF received an unqualified audit opinion from its auditors with no matters of emphasis and/or additional matters. The independent auditors also established that there were no material findings in terms of the usefulness and reliability of the NEF’s performance reporting against its Annual Performance Plan.

6.4.2.2.          2013/14 Financial Year

No 2013/14 information was available.

6.4.3.     Non-financial performance

6.4.3.1.          2012/13 Financial Year

During the financial year under review, the NEF had a total of 23 targets out of which 17 targets were achieved. This represents 76 per cent achievement of targets.

Among the targets that were not achieved were those that relate to the first strategic objective, *“Provide finance to business ventures established and managed by black people”.*Targets under this strategic objective relate to disbursement facilities through various funds of the NEF including the uMnotho Fund, Strategic Projects Fund, the iMbewu Fund and the Rural and Community Development Fund. The NEF had planned to establish a total of 104 new disbursement facilities but managed to disburse only 87 during the financial year. However, the value of disbursed facilities was significantly higher than the target, with a R26.5 million deviation.

According to the NEF, this can be attributed to the average level of required funding per project being higher than projected.

In terms of non-financial support, the NEF has managed to achieve its target with the exception of opening two new offices in other provinces. The entity notes that this was as a result of financial constraints. Recapitalisation is being pursued.

At a sustainability level for the NEF, the entity aimed at ensuring sustainability through obtaining a 12 to 15 per cent return on investments, minimising impairments and write-offs. In this regard, the NEF has not managed to achieve the main targets, the targeted level of impairments was not reached and return on investments was lower than the targeted level.

Some of the key achievements during the 2012/13 financial year were:

·         Funding given to businesses was projected to support a total of 15 555 jobs (11 408 new jobs and 4 147 retained jobs).

·         Assistance in the form of disbursed funds amounting to R946.5 million has been given to businesses.

·         The better spread of investment across all provinces has been achieved.

· ***Human Resources***

The NEF’s structure allows for 195 employees. By the end of the 2012/13 financial year, 168 employees were employed. This number results in a relatively high vacancy rate. However, according to the NEF, it is still able to perform its functions.

**Table 8: NEF Employment Profile**

|  |  |
| --- | --- |
| Total posts | 195 |
| Total Employment | 168 |
| New employees (employed during the financial year) | 29 |
| Vacancies (13.8% vacancy rate) | 27 |
| % of Female employees | 60% |

Source: NEF (2013: 62-63)

6.4.3.2.          2013/14 Financial Year

No 2013/14 information was available.

6.4.3.3.          2014/15 MTEF financial allocations

The NEF faced the risk that it would be unable to follow through on its equity options secured in early stage projects if it was not recapitalised. In this instance, it would have to sell its equities to continue its strategic initiative. Furthermore, this will also impact on its sustainability over the MTEF based on its current capital and internally-generated cash flows.

The NEF, with the support of the DTI, has been engaging the National Treasury to allow it to be rescheduled from a Schedule 3A entity to a Schedule 2 entity to allow it to leverage its capital. This would allow it to access possible funding from the Industrial Development Corporation of approximately R1 billion. In addition, it has sought recapitalisation over the last two years through the MTEF process.

6.4.4.     Key issues raised by the committee

In numerous engagements with the committee, the NEF informed the committee that in order to fulfil its mandate that of promoting and facilitating the participation of black people in economic activities it should be recapitalised. The NEF had considered two options available to raise the necessary funds, namely (i) reclassification to a Schedule 2 entity and (ii) requesting funds from the fiscus. The DTI informed the committee that the NEF had raised the matter in 2011. The initial focus of the engagement with the National Treasury was with respect to the reclassification from a Schedule 3A to a Schedule 2 entity. This process is ongoing. The DTI also supported the NEF’s request for recapitalisation.

The committee enquired whether the NEF would be able to fulfil its mandate given its current financial position and the fact that it has suspended further investment and financing decisions. The NEF informed the committee that it is solvent, but had reassessed its financial position. After a number of engagements between the Board and the Executive and with government, the NEF concluded that additional time was required to raise the necessary capital. The NEF then took a decision to suspend financing and investment decisions which will enable the NEF to honour its existing commitments. This would provide the necessary space for the NEF to renegotiate with the fiscus with regard to recapitalisation.

In response to the NEF listing on the JSE to raise the necessary funds, the NEF informed the committee that it would not be financially prudent to do so at this stage, as its underlying investments required time to mature. Securing funds from the fiscus and also using funds generated by the MTN share scheme to fund the operations and investments of the NEF would be more desirable. Another option for the NEF was first to seek finances from South African development finance institutions (DFIs) before it goes to the international market.

The committee enquired about the criteria used in the provision of funds to entrepreneurs and how the NEF ensures that these small companies have the potential to contribute to economic growth and job creation. The committee further enquired to the role of the NEF in addressing the apartheid legacy given that rural areas are not seen as economic hubs. The NEF informed the committee that the rationale for providing the necessary funds for projects was to create opportunities that would stimulate economic growth and job creation. The Strategic Project Fund was created to expedite black economic participation in leading sectors which would impact positively on the South African economy. Many of these projects, with the majority being local, have potential to grow the economy and contribute towards job creation. The NEF also informed the committee that their long-term vision was to invest in the rest of Africa. The establishment of the Rural and Community Development Fund sought to promote sustainable change in social and economic relations and which supports goals of growth and development in the rural economy through financing sustainable enterprises. The NEF was of the view that this can only be achieved through the mobilisation of rural communities into legal entities or co-operatives to facilitate participation in broader economic activities. This would contribute to the economic transformation of rural South Africa.

In response to a question with respect to investment in economically marginalised provinces, the NEF informed the committee that not only the NEF, but other local DFIs, have problems identifying viable projects. A partnership model between the province, the NEF and local DFIs is required with the province playing a lead role in identifying investment opportunities.

6.5.         South African Bureau of Standards

6.5.1.     Introduction

The South African Bureau of Standards’ (SABS) legislative mandate is established under the Standards Act, 2008 (Act No. 8 of 2008). The Agency is mandated to:

·           Develop, promote and maintain South African National Standards (SANS);

·           Promote quality in connection with commodities, products and services; and

·           Render conformity assessment services and assist in matters connected therewith. [[42]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm%22%20%5Cl%20%22_ftn42%22%20%5Co%20%22)

In line with this mandate, SABS provides standards setting, testing, certification, training, design and innovation products and services.

6.5.1.1.          Strategic objectives

In 2010, SABS produced a five year strategy, including the number of planned targets to be achieved before 2015/16. SABS had predicted that during the first five years of the strategy the economy will experience low growth but beyond 2015/16 growth will experience higher levels of growth. However, the financial forecast and target did not take into account the even lower levels of growth that the country experienced since 2010. This created unrealistically high performance targets. Therefore, the Executive Authority and the Accounting Authority took a decision to adjust the targets.

SABS set nine priorities as outlined below:

·         Increasing the value in SABS services to the economy.

·         Publishing home-grown standards.

·         Awarding conforming tests, reports and certificates.

·         Producing standards and conforming assessments to meet Industrial Policy Action Plan (IPAP) requirements.

·         Increasing SABS’ membership in international organisations and management structures of multilateral standardisation organisations.

·         Reducing time for publishing standards.

·         Developing leadership development programmes.

6.5.2.     Financial performance

6.5.2.1.          2012/13 Financial Year

The entity’s income is acquired from commercial operations including Testing, Certification, Training, and Standards and from grant funding received from the Department of Trade and Industry (DTI). For the 2012/13 financial year, SABS’ revenue amounted to R484.9 million from commercial activities and R163.1 million in grant funding.

Expenditure was dominated by remuneration to employees. Employee remuneration accounted for approximately 60 per cent of total expenditure. Other significant expenditures included direct operating expenses, municipal rates and consumable supplies.

· ***Audit Opinion***

The SABS has been audited by the Auditor General and it is satisfying to note that the entity has maintained a clean audit for the past four years between 2009/10 and 2012/13.

For the 2012/13 financial year, the SABS received an unqualified audit with no findings (clean audit opinion). The Auditor General also established that there were no material findings in terms of the usefulness and reliability of the SABS’ performance reporting against its Annual Performance Plan. Furthermore, the Auditor General noted that there were no findings of irregular expenditure.

However, according to the Auditor General, fruitless and wasteful expenditure increased during the 2012/13 financial year. In 2011/12, fruitless and wasteful expenditure amounted to R0.89 million and in the 2012/13 financial year, fruitless and wasteful expenditure increased to R1.23 million.

Furthermore, the Auditor General noted that Information Technology (IT) controls could be improved.

6.5.2.2.          2013/14 Financial Year

At the end of June 2013, the SABS sales revenue (R113.1 million) was lower than targeted (R132.7 million). This was attributed to low revenue received from the Mark Scheme and new business that had not materialised. Overall income was 13 per cent less than budgeted for the first quarter (R158 million was received compared to budget income of R181.3 million). Administrative and operating expenditure over the period was R155.4 million compared to R170.5 million budgeted expenditure.

6.5.3.     Non-financial performance

6.5.3.1.          2012/13 Financial Year

Within the strategic priorities and the adjusted targets, the following performance resulted:

·         SABS achieved 10 of the 11 targets set for the 2012/13 financial year.

·         The one target that was not achieved deviated by a small margin. This target was the number of projects introduced and to expand conformity assessment services where 5 projects were introduced instead of 6 projects.

· ***Human Resources***

The SABS’ approved structure allows for 1 374 employees. By the end of the 2012/13 financial year, 1 089 employees were employed. This number resulted in a relatively high vacancy rate at 20.74 per cent. A total of 175 new employees were employed during the financial year.

**Table 9: SABS Employment Profile**

|  |  |
| --- | --- |
| Total posts | 1 374 |
| Total Employment | 1 089 |
| New employees (employed during the financial year) | 175 |
| Vacancies (20.74% vacancy rate) | 285 |
| % of Female employees | 55.4% |

Source: SABS (2013: 110 -127)

There were 91 resignations during the year representing 8.4 per cent of total employment. The SABS is currently the only institution that provides technical training related to standards. It therefore tends to provide these skills to the private sector and the rest of the country. However, with the review of its remuneration structure, it expects to reduce the number of resignations.

*Employment Equity*

Female employees account for 55.4 per cent of total employees in the organisation and 60 per cent of senior management. Employees with disabilities accounted for 2.1 per cent.

**Table 10: SABS Employment Equity Profile**

|  |  |
| --- | --- |
| **EMPLOYMENT EQUITY** | **EMPLOYEES WITH DISABILITIES** |
| **Race** | **Male** | **Female** | **Male** | **Female** |
| African | 380 | 323 | 5 | 4 |
| Coloured | 24 | 27 | 0 | 0 |
| Indian | 35 | 23 | 1 | 0 |
| White | 156 | 121 | 4 | 9 |
| **Total** | **595** | **494** | **10** | **13** |

Source: SABS (2013: 110 -127)

*Other employment issues*

·         Cases of misconduct/disciplinary hearings – a total of 19 cases were adhered to during the year of which 8 led to dismissals. The cases were particularly linked to bringing the company into disrepute, negligence, and theft and fraud.

·         In 2008, certain functions and resources shifted from the SABS to the NRCS. This led to employee dissatisfaction because the two organisations’ remuneration structures differed, SABS was unable to offer similar wage increases to that negotiated for the NRCS’ employees by the shared shop stewards.  This led to a strike action that led to a loss of R0.7 million in revenue.

6.5.3.2.          2013/14 Financial Year

Of the 12 non-financial indicators reported on, six met or exceeded the first quarter target. The indicators not met included:

·         Number of SMMEs for whom improvement projects are implemented.

·         Per cent of committees fully using installed modules of e-commerce.

·         Per cent of the 36 laboratories that are on Laboratory Information Management System (LIMS).

·         Per cent of laboratories on Mission-Directed Work Teams (MDWT).

·         Number of laboratories where a business development capacity is established (officer appointed).

·         Number of laboratories where technical thought leadership is introduced (scientific officer appointed).

Despite the initial lag, substantial progress appears to have been made during the second quarter to reach the annual targets. However, in terms of LIMS, there was a decision to configure all laboratories first and then to bring all laboratories online simultaneously by March 2014. Currently, 90 per cent of laboratories have been configured.

6.5.4.     Key issues raised by the committee

The committee enquired about the status of the Polymerase Chain Reaction (PCR) Laboratory and whether the SABS conducts testing on the level of brine contained in frozen chicken. The SABS informed the committee that the PCR laboratory is in place but no testing had been done because it is not mandatory for industry to do so. With respect to the testing of brine in frozen chicken, the SABS currently did not have a testing facility for brine in frozen chicken. No legislation or regulation exists that would require testing of food products by industry or that would require the SABS to set up a facility that can be utilized by industry.

The committee expressed a view that the importation of substandard products, especially water geysers, must be curtailed.  The SABS informed the committee that government was procuring products that did not conform to the domestic standards. As standards for water geysers were not regulated, SABS cannot intervene. Compulsory specifications fall within the mandate of the National Regulator for Compulsory Specifications which must ensure that the procurement of solar heaters, which is a government designated product for procurement, meets the necessary compulsory specifications. The SABS informed the committee that in other countries like Brazil, products being imported must undergo the necessary testing and standardization processes.

With respect to SMMEs, the committee enquired whether the SABS assisted in ensuring that products developed and produced by SMMEs were SABS compliant. The SABS informed the committee that they established a unit focusing on supporting SMMEs with product development, testing and understanding the requirements for specific products. As part of this programme, the SABS informed the committee that it had formed a partnership with the Department of Economic Development in the Eastern Cape.

With respect to the outreach strategies to promote SABS, the SABS informed the committee that it had appointed a general manager for marketing, communication and stakeholder management. The general manager is currently developing a strategy that should include outreach programmes, awareness campaigns, television and radio adverts. The SABS are involved with schools through Saturday classes and had donated laboratory equipment to schools.

In response to questions regarding the relationship between SABS, the International Standards Organisation (ISO) and local standards, as well as the role of standards in the enhancement of intercontinental trade, the SABS informed the committee that ISO is a worldwide federation of national standards bodies, currently comprising of more than 160 member states. The objective of ISO is to promote the harmonisation of standards and related activities in the world with a view to facilitate the international exchange of goods and services, and to develop cooperation in the spheres of intellectual, scientific, technological and economic activities. The results of ISO technical work are published as international standards. SABS is one of the founding members of ISO (established in 1947) and has been a significant contributor to international standardisation. The SABS is a leading standardization body in Africa and is held in high esteem by ISO as the gateway to Africa for international standardisation.

In response to the question on SABS’ role in terms of developing standards for indigenous knowledge systems (IKS), SABS responded that it has initiated the following for the standardisation of African Traditional Medicines (ATM):

·         Conducted a value chain analysis of the ATM sector and published these in a report titled: Out of the Shadows.

·         Developed the Guidelines on Good Agricultural and Collection Practices, and sustainable harvesting.

·         Pilot testing of ATM remedies based on World Health Organisation’s Guideline on Residues and Contaminants.

·         Established a Technical Committee on ATM which is comprised of ATM associations; government departments and agencies.

·         SABS ATM Technical Committee has identified an initial programme of work for:

o    Moringa and moringa products

o    Conformity assessment of ATM preparations

o    Guidelines for ATM clinics

o    Dispensing guidelines for practitioners - Extemporaneous Preparations and Dispensing guidelines

·         Initiated discussions with the IDC on establishing a Spatial Development Agency for the ATM sector.

·         Presented to SADCSTAN (SADC Co-operation in Standardisation) on ATM. SABS is the nominated chairperson for the SADCSTAN Technical Committee on ATM and seeks to harmonise standards across the SADC region on ATM.

·         Presented to ARSO (African Organisation for Standardisation) on ATM and SABS is the nominated chairperson for the ARSO Technical Committee on ATM with Sudan as the secretariat.

·         Translating HACCP standards into indigenous languages to facilitate training of Traditional Health Practitioners in basic food hygiene standards.

·         In October, providing training on Standards development to members of the ATM Technical Committee.

Other IKS related projects included the development of standards for:

·         Mopani Worms in collaboration with the CSIR in the Processed Meats Technical Committee

·         Quality Crafts as part of IPAP deliverables.

7.     Conclusions

Overall the DTI, when compared with other departments within the Economic Services and Infrastructure cluster, is performing much better in all management performance respects. The management performance assessment covers strategic management, governance and accountability, human resource and systems management, and financial management.

However, the Department needs to pay attention to the concerns raised within the DPME Management Performance Assessment Tool, namely: human resource planning, management of diversity and implementation of the SMS Performance Management System; and in particular, the management of disciplinary cases. Notwithstanding these performance challenges, the DTI’s management performance is very good.  In many respects, it has outperformed other departments in its cluster and across all national departments and this indeed we applaud.

The committee is of the view that the DTI campus should house all DTI entities where possible, and that other Departments housed on the campus should seek alternative accommodation.

The committee supports the speedy development of black industrialists within the Broad-Based Black Economic Empowerment Framework.

The committee supports the role of development finance and is therefore concerned about the possible increase in the cost of loans if the NEF’s classification is amended and it is allowed to leverage funds from the market.

8.     Appreciation

The committee would like to thank the Minister of Trade and Industry, Dr R Davies and his Deputies, as well as the Director-General, Mr L October, the Group Chief Operating Officer, Ms J Scholtz and other senior management of DTI, and the entities and their management for their cooperation and transparency during this process. The committee also wishes to thank its committee support staff in particular the committee secretary, Mr A Hermans, the content advisor, Ms M Herling, the researcher, Ms Z Madalane, and the committee assistant, Ms N Cloete, for their professional support and conscientious commitment and dedication to their work.  The Chairperson wishes to thank all Members of the committee for their active participation during the process of engagement and deliberations and their constructive recommendations reflected in this report.

9.     Recommendations

Informed by its deliberations, the committee recommends that the House request that the Minister of Trade and Industry should:

9.1  Ensure that the Co-operative Development Agency, the Broad-Based Black Economic Empowerment Commission, the Co-operative Tribunal, the National Trust Fund on Indigenous Knowledge, and the National Council on Indigenous Knowledge are adequately funded for the 2014/15 financial years and over the MTEF period to ensure that these bodies are able to fulfil their mandates.

9.2  Consider the recapitalisation requests of the Export Credit and Insurance Corporation and the National Empowerment Fund in order for these institutions to fulfil their mandate of facilitating the export of trade and cross-border investments between South Africa and the rest of the world, and of broadening black participation in the economy respectively.

9.3  Ensure that government designated procurement products comply with the relevant national standards.

9.4 Consider ensuring a real increase in the allocation to the Consumer and Corporate Regulation programme to ensure adequate support to its regulatory entities, in particular the National Consumer Commission and the National Credit Regulator.

Report to be considered.

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Appendix 1: DTI’s Additional budget allocations for the 2014/15 financial year

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[[1]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm%22%20%5Cl%20%22_ftnref1%22%20%5Co%20%22)DPME (2013)

[[2]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm%22%20%5Cl%20%22_ftnref2%22%20%5Co%20%22)DTI (2013b)

[[3]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm%22%20%5Cl%20%22_ftnref3%22%20%5Co%20%22)The Tripartite Free Trade Agreement seeks to establish a free trade agreement between the Common Market for Eastern and Southern Africa, the East African Community and the Southern African Development Community. This will cover 26 countries and form a free trade area from South Africa to Egypt.

[[4]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm%22%20%5Cl%20%22_ftnref4%22%20%5Co%20%22)National Treasury (2013c)

[[5]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm%22%20%5Cl%20%22_ftnref5%22%20%5Co%20%22)DTI (2013a)

[[6]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm%22%20%5Cl%20%22_ftnref6%22%20%5Co%20%22)DTI (2012)

[[7]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm%22%20%5Cl%20%22_ftnref7%22%20%5Co%20%22)DTI (2012)

[[8]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm%22%20%5Cl%20%22_ftnref8%22%20%5Co%20%22)Portfolio Committee on Trade and Industry (2012)

[[9]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm%22%20%5Cl%20%22_ftnref9%22%20%5Co%20%22)National Treasury (2012b: 10)

[[10]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm%22%20%5Cl%20%22_ftnref10%22%20%5Co%20%22)Ibid

[[11]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm%22%20%5Cl%20%22_ftnref11%22%20%5Co%20%22)Portfolio Committee on Trade and Industry (2013)

[[12]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm%22%20%5Cl%20%22_ftnref12%22%20%5Co%20%22)National Treasury (2012a)

[[13]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm%22%20%5Cl%20%22_ftnref13%22%20%5Co%20%22)The manufacturing development incentives consist of a group of incentives focused on the manufacturing sector. This includes the new Manufacturing Competitiveness Enhancement Programme, the Automotive Production and Development Incentive, the Enterprise Investment Programme and other smaller incentives.

[[14]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm%22%20%5Cl%20%22_ftnref14%22%20%5Co%20%22)National Treasury (2012a) and own calculations.

[[15]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm%22%20%5Cl%20%22_ftnref15%22%20%5Co%20%22)DTI (2013b: 110)

[[16]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm%22%20%5Cl%20%22_ftnref16%22%20%5Co%20%22)Ibid

[[17]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm%22%20%5Cl%20%22_ftnref17%22%20%5Co%20%22)National Treasury (2012a)

[[18]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm%22%20%5Cl%20%22_ftnref18%22%20%5Co%20%22)National Treasury (2012a: 810-14)

[[19]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm%22%20%5Cl%20%22_ftnref19%22%20%5Co%20%22)Ibid

[[20]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm%22%20%5Cl%20%22_ftnref20%22%20%5Co%20%22)DTI (2012b) Budget in programmes 2012-13.

[[21]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm%22%20%5Cl%20%22_ftnref21%22%20%5Co%20%22)Ibid

[[22]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm%22%20%5Cl%20%22_ftnref22%22%20%5Co%20%22)Ibid

[[23]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm%22%20%5Cl%20%22_ftnref23%22%20%5Co%20%22)The Black Business Supplier Development Programme is a programme aimed at black-owned small enterprises where the DTI offers grants to assist black-owned small enterprises to improve their competitiveness and sustainability therefore, becoming  more active in the  economy and create employment.

[[24]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm%22%20%5Cl%20%22_ftnref24%22%20%5Co%20%22)National Treasury (2012a: 817)

[[25]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm%22%20%5Cl%20%22_ftnref25%22%20%5Co%20%22)The following section refers to the Department’s expenditure by economic classification for the first quarter.  Expenditure by economic classification for the second quarter was not yet available at the time when this report was prepared.

[[26]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm%22%20%5Cl%20%22_ftnref26%22%20%5Co%20%22)DTI (2013c)

[[27]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm%22%20%5Cl%20%22_ftnref27%22%20%5Co%20%22)DTI (2012)

[[28]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm%22%20%5Cl%20%22_ftnref28%22%20%5Co%20%22)DTI (2012)

[[29]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm%22%20%5Cl%20%22_ftnref29%22%20%5Co%20%22)DPME (2013)

[[30]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm%22%20%5Cl%20%22_ftnref30%22%20%5Co%20%22)DTI (2013c)

[[31]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm%22%20%5Cl%20%22_ftnref31%22%20%5Co%20%22)EDD (2013)

[[32]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm%22%20%5Cl%20%22_ftnref32%22%20%5Co%20%22)Business entities include companies, close corporations and co-operatives. However, no new close corporations are being registered since the advent of the Companies Act (No. 71 of 2008).

[[33]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm%22%20%5Cl%20%22_ftnref33%22%20%5Co%20%22)Intellectual property includes copyrights, patents, trademarks and designs. Once the Intellectual Property Laws Amendment Bill is promulgated, traditional knowledge and cultural expressions will also be registered.

[[34]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm%22%20%5Cl%20%22_ftnref34%22%20%5Co%20%22)CIPC (2012b: 14)

[[35]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm%22%20%5Cl%20%22_ftnref35%22%20%5Co%20%22)Revenue from exchange transactions includes fees for corporate information, company, cooperatives and intellectual property registration and maintenance, data sales, and increases in company share capital.

[[36]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm%22%20%5Cl%20%22_ftnref36%22%20%5Co%20%22)ECIC Annual Report 2013

[[37]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm%22%20%5Cl%20%22_ftnref37%22%20%5Co%20%22)**Budgetary Review and Recommendation Report of the Portfolio Committee on Trade and Industry, dated 18 October 2013**

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6.5.3.    Non-financial performance

6.5.4.    Key issues raised by the committee

7.         Conclusions

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References

Appendix 1: DTI’s Additional budget allocations for the 2014/15 financial year

The Portfolio Committee on Trade and Industry, having assessed the service delivery performance of the Department of Trade and Industry, against its mandate and allocated resources in particular the financial resources for the 1 April 2012 to 31 September 2013, reports as follows:

1.     Introduction

South Africa’s economy has demonstrated its resilience in this period of global economic turmoil, which impacted on the tradable sectors. The stable and robust macroeconomic regulatory framework, the New Growth Path, the Industrial Policy Action Plan and the vision of the National Development Plan have all contributed to this resilience.

In particular, the Industrial Policy Action Plan, supported by a strategic trade policy, has through the implemented mandate of the Department of Trade and Industry (DTI) positioned South Africa during the 2012/13 financial year to accelerate the export of beneficiated products.

Notwithstanding the structural constraints in the economy, the DTI has been able to mitigate against the numerous challenges facing the domestic, regional and global economy. It has been able to do this through not only adopting but implementing creative and effective programmes and approaches. It has recognised that all sectors of our society: business, labour, the private sector, community groupings and citizens in general throughout our country from rural to urban face challenges that require creative and customised communal resolution.

The robust and rigorous oversight of the committee on administrative price challenges resulted in significant reductions in port charges for the export of beneficiated products. Indeed, the challenges we face both globally, regionally and nationally are so great they cannot be solved in silos but call for a united action. In our country, both the private and the public sector need to work together. Indeed, we believe the DTI has striven to pursue this path.

Regional Integration has been pursued with vigour both horizontally and vertically using infrastructural development with an increased focus on intra-African trade. This is reflected in the SADC-EAC-COMESA Free Trade Agreement. The pillars of this tripartite initiative are expected to ensure an equitable spread of the benefits of regional integration, market development and industrial development.

According to the analyses derived from the Management Performance Assessment Tool published by the Department of Performance Monitoring and Evaluation (DPME), the DTI has outperformed in the areas of strategic management, governance and accountability and financial management [[1]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm#_ftn1).

1.1.         Mandate of the committee

As an integral part of its oversight role, Section 5 of the Money Bills Amendment Procedure and Related Matters Act requires the National Assembly, through its committees, to annually assess the performance of each national department. A committee must submit a report of this assessment known as a Budgetary Review and Recommendation Report (BRRR). The overarching purpose of the BRRR is for the committee to make recommendations on the forward use of resources to address the implementation of policy priorities and services as these may require additional, reduced or re-configured resources for the Department. This gives effect to Parliament’s constitutional powers to amend the budget in line with the fiscal framework.

The BRRR process enables the committee to exercise its legislative responsibility to ensure that the Department and its entities are adequately funded to fulfil their respective mandates. However, as the Budget Office is still in the process of being established, the committee was unable to exercise its full powers on providing detailed budgetary recommendations. The committee looks forward to a fully operational Budget Office, which will substantively contribute to the budgetary support the committee requires to undertake this process.

1.2.         Description of the core functions of the Department

The DTI’s key strategy is the implementation of the Industrial Policy Action Plan (IPAP), within the framework of the National Industrial Policy Framework and this serves to drive domestic, regional and international trade and investment to create sustainable jobs.  The DTI’s key priorities are derived from IPAP and the central theme is to facilitate labour-absorbing industrialisation in the manufacturing sector.  This is supported by incentives for new and expanding manufacturers, initiatives to improve productivity or competitiveness and export promotion of locally produced goods. The development of an enabling environment for business and manufacturers to operate effectively and efficiently to enable job creation and economic development is another key priority for the department. The creation of regulatory frameworks related to company and intellectual property legislation and consumer protection provide market certainty and thus support IPAP.

Furthermore, the DTI is responsible for improving trade and investment relations and supporting the deepening of regional integration in Africa.

In addition, the DTI drives the national broad-based black economic empowerment legislation as well as other interventions that promote the economic participation of vulnerable and previously disadvantaged individuals. In this regard, the DTI supports the development of small, medium and micro enterprises (SMMEs) and co-operatives.

In terms of its core functions, the DTI is responsible for overseeing 14 entities and administering 45 Acts [[2]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm#_ftn2). Its agencies are:

·         Companies and Intellectual Property Commission (CIPC)

·         Companies Tribunal (CT)

·         Export Credit Insurance Corporation of South Africa (ECIC)

·         National Credit Regulator (NCR)

·         National Consumer Commission (NCC)

·         National Consumer Tribunal (NCT)

·         National Empowerment Fund (NEF)

·         National Gambling Board (NGB)

·         National Lotteries Board (NLB)

·         National Metrology Institute of South Africa (NMISA)

·         National Regulator for Compulsory Specifications (NRCS)

·         Small Enterprise Development Agency (SEDA)

·         South African Bureau of Standards (SABS)

·         South African National Accreditation System (SANAS)

The DTI has a close collaborative relationship with the Economic Development Department (EDD), particularly related to the functioning of the Industrial Development Corporation (IDC), the International Trade Administration Commission (ITAC) and the Small Enterprise Finance Agency (SEFA) (formerly Khula Finance Ltd, the South African Micro-finance Apex Fund and the IDC’s small enterprises support section). These entities were shifted from the DTI to EDD in 2009. EDD is responsible for their administrative oversight, while the entities still support or are responsible for fulfilling parts of the DTI’s mandate in terms of industrial development, implementation of trade agreements and broadening economic participation respectively.

Based on legislation that the committee has dealt with over the last 18 months, the following new entities are envisioned to be established over the Medium Term Expenditure Framework (MTEF) and would require a budget allocation from National Treasury and oversight by the DTI:

·           Broad-based Black Economic Empowerment Commission (a trading entity)

·           Co-operatives Development Agency

·           Co-operatives Tribunal

·           National Lotteries Commission (this would incorporate the current National Lotteries Board)

·           National Council for Indigenous Knowledge

·           National Trust Fund for Indigenous Knowledge

1.3.         Purpose of the BRR Report

The purpose of this report is to analyse the financial and non-financial performance of the DTI, and identified entities, against predetermined objectives to inform recommendations for the forward-looking budget for the DTI and its entities. This report attempts to provide an assessment of the financial and non-financial performance of the DTI and the identified entities for the 2012/13 financial year, and the first six months of the 2013/14 financial year (from 1 April 2012 to 30 September 2013) within the context of the three-year MTEF.

The budget is informed by the national policy priorities as outlined in the State of the Nation Address (SONA). It is driven by the policy commitment to inclusive economic growth to attain social cohesion and job creation.

1.4.         Method

The committee met with the Auditor General on 17 September 2013 to discuss the results of the 2012/13 audit outcomes and key findings. It was then briefed by the DTI on its 2012/13 annual report and 2013/14 second quarter performance on 20 September 2013.

For the period under review, the committee had been monitoring the performance of the Companies and Intellectual Property Commission and the National Consumer Commission on an on-going basis. The committee considered the development of these two newly established entities vital to the economy and consumers.  It also identified the Export Credit and Insurance Corporation, the National Empowerment Fund and the South African Bureau of Standards for the annual report process. In this regard, the committee held meetings on 2, 8 and 9 October with the five entities.

One of the key limitations of the report was that not all entities’ annual reports and quarterly spending trends were monitored over the 18 month period. Therefore, there was a reliance on the DTI and the Auditor General to highlight challenges experienced by the other nine entities. However, all entities, with the exception of the NCC, received unqualified audit opinions.

In addition, due to the timing of the report, verified second quarter financial and non-financial information was not available. The key challenge was that the DTI and its entities were still in the process of verifying the non-financial information, which is due at the end of October each year. Therefore, the report has in many cases only captured performance up to the first quarter of the 2013/14 financial year.

1.5.         Outline of the contents of the Report

This BRR Report consists of nine sections. Section 1 briefly overviews the mandate of the committee, the DTI’s core functions, the purpose of this report and the method followed in preparing for this report, as well as the limitations of the Report.

Section 2 sets out the key policy focus areas for the DTI. This includes an overview of the relevant national priorities which the DTI contributes to, as well the DTI’s strategic objectives, outcome-orientated goals and key measurable objectives.

Section 3 provides a summary of the key financial and performance recommendations of the committee as captured in its previous BRRR and its 2013/14 Budget Report. Where available, the Minister of Finance and Minister of Trade and Industry’s responses to these recommendations, as prescribed by the Money Bills Amendment Procedure and Related Matters Act are captured.

Section 4 assesses the DTI’s financial performance against its vote allocation. Firstly, it considers the 2012/13 budget vote allocation in terms of the economic classification and per programme. Secondly, the actual total and programme expenditure for the period ending 31 March 2013 is assessed. Thirdly, a comparison of the DTI’s budgeted and actual expenditure as at 31 August 2013 is provided. Fourthly, the DTI’s requests for additional allocations for the 2014/15 to 2016/17 financial years are discussed.

Section 5 provides an overview and assessment of the DTI’s service delivery from 1 April 2012 to 31 August 2013. Initially, this section considers the period as at the end of 31 March 2013 and refers back to measurable objectives as set in sub-section 2.2. Next, it highlights service delivery performance from 1 April to 31 August 2013. Then, it discusses key issues raised by the committee during deliberations with the DTI.

Section 6 discusses the five identified entities identified by the committee for oversight during this BRRR process in terms of their mandates, strategic objectives and core issues previously identified by the committee. In addition, their financial and non-financial performance and their additional forward-looking budgetary and/or performance requirements are assessed.

Section 7 provides the committee’s concluding remarks followed by their appreciation in Section 8. The report then closes with the committee’s recommendations for the National Assembly’s approval in Section 9.

2.     Overview of the key relevant policy focus areas

The 2012 State of the Nation Address (SONA) highlighted a number of key issues related to the mandate of the Department of Trade and Industry, namely:

· **Job creation**: Job creation is a high government priority due to the high rate of unemployment, particularly among the youth. The New Growth Path framework identified the following job drivers – infrastructure development, tourism, agriculture, mining, manufacturing and the green economy. These have been incorporated within the revised Industrial Policy Action Plan.

· **Industrial development**: State interventions in the manufacturing sector, specifically the clothing and textiles sector and the revitalisation of local bus and train production, have yielded positive results in creating job opportunities. The establishment of the Saldanha Industrial Development Zone and new special economic zones should facilitate new investment in the manufacturing sector.

· **Incentives**: R20 billion worth of incentives have been announced under Section 12(i) of the Income Tax Act. These incentives are designed to support new industrial projects and manufacturing, and seven projects with an investment value of R8.4 billion rand have been approved.

· **Mineral Beneficiation**: A beneficiation strategy has been developed, which seeks to provide opportunities in the downstream part of the minerals sector. The Minister of Trade and Industry referred to the substantial value-addition that could be realised to exports of mineral sands, e.g. titanium, by beneficiating the raw minerals to the next step in the beneficiation value chain.

· **Green economy**: In accordance with the Green Economy Accord, there will be a continuous search for renewable energy sources, particularly electricity and biofuels. There was also a reference to more than 220 000 solar geysers installed thus far against the target of 1 million by 2014-2015.

· **Local Procurement**: The PPPFA Regulations has empowered the DTI to designate specific industries where local content is prescribed since December 2011. Designated sectors include clothing and textiles, canned vegetables, leather and footwear.

· **Reducing the cost of doing business**: A R1 billion reduction in port charges for exporters of manufactured goods. Furthermore, Eskom is expected to draft proposals on how to reduce the price increase requirement over the next few years to support economic growth and job creation.

· **Economic Transformation**: The need to increase productive economic participation by black South Africans and women still exists. In this regard, the Broad-Based Black Economic Empowerment Act had been amended.  These amendments included establishing a statutory Commission that will deal with non-compliance and circumvention; criminalising fronting and other forms of empowerment misrepresentation.

· **Trade Relations**: The reiteration of trade and other partnerships with developed countries, especially the United States of America, Europe and Japan, while strengthening bilateral relationships with the BRIC (Brazil, Russia, India and China).

· **Regional integration**: Strengthening trade and investment ties with African countries through deepening regional integration efforts such as the negotiations of the Tripartite Free Trade Agreement [[3]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm#_ftn3).

Furthermore, in the 2013 State of the Nation Address, President J Zuma reinforced the decision to accelerate industrialisation in the economy. In this regard, there was a call on the public and the private sector to work together to create a productive, investment-friendly environment. The government’s R827 billion infrastructure investment over the next three years [[4]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm#_ftn4)will facilitate serious private sector productive investment. This was expected to accelerate industrialisation, generate a pool of strategic skills and boost much needed job creation[[5]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm#_ftn5).

2.1.         Strategic plans of the Department

For the period under review, the DTI outlined the strategic objectives and key interventions as outlined in the MTEF for 2012 – 2015. The five intervention areas or themes are [[6]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm#_ftn6):

·         Industrial Development,

·         Trade, Investment and Exports,

·         Broadening Participation,

·         Regulation, and

·         Administration and Coordination.

The Department identified four key strategic outcome-orientated goals to ensure alignment of the DTI’s programmes to government-wide priorities and outcomes. These strategic goals are to [[7]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm#_ftn7):

·         Facilitate transformation of the economy to promote industrial development, investment, competitiveness and employment creation;

·         Facilitate broad-based economic participation through targeted interventions to achieve more inclusive growth;

·         Build mutually beneficial regional and global relations to advance South Africa’s trade, industrial policy and economic developmental objectives; and

·         Promote a professional, ethical, dynamic, competitive and customer-focused working environment that ensures effective and efficient service delivery.

The Department’s programmes/divisions had been slightly reorganised and renamed in the 2012/13 financial year. Firstly, the Communications and Marketing Division had been merged with the Administration programme and is now a Chief Directorate.  Secondly, the Industrial Development Division (IDD) and The Enterprise Organisation have been renamed as the Industrial Development: Policy Development and the Industrial Development: Incentive Administration Divisions respectively.  Thirdly, the Empowerment and Economic Development Division had been renamed as the Broadening Participation Division. These changes have been effected to reflect more accurately the work and key functions of these divisions.

There were no changes in terms of the strategic objectives and goals in the 2013/14 financial year.

2.2.         Measurable objectives of the Department

The Department in its strategic plan had listed key interventions that were aimed at addressing the challenges faced by the country. Particularly for the 2012/13 financial year, interventions were aimed at tackling the challenges of high unemployment and the impacts of the global economic crisis. The Department aimed at tackling this challenge through sector-specific support programmes, such as the Agro-processing; Automotive; Clothing, Textiles and Leather and Footwear; and Business Process Services sectors. These sectors are concentrated in the manufacturing and business services sectors, and they form the backbone of employment in the country. The committee recognised the labour-absorption potential of the agro-processing industry and therefore welcomed the DTI’s initiatives in this regard such as the establishment of small-scale maize milling plants and the designation of canned/processed vegetables for public procurement.

For the 2012/13 financial year, the Department had planned to continue creating an enabling environment to re-industrialise the country, as industrialisation is viewed as a tool through which South Africa can create jobs and stimulate economic growth. Industrialisation is implemented by the Department through the Industrial Policy Action Plan (IPAP). The key planned interventions were as follows:

·         The designation of a further three subsectors for local procurement under the Preferential Procurement Policy Framework Act.

·         Support for technical competencies via the Technology and Human Resources for Industry Programme (THRIP) would continue in the chemical, information and communication technology (ICT), metal and minerals, agriculture, biotechnology and energy sectors.

·         The support of 20 new projects to the value of R36 million through the Support Programme for Industrial Innovation (SPII).

·         The introduction of the Manufacturing Competitiveness and Enhancement Programme (MCEP) to provide adequate support for the manufacturing sector.

·         In terms of trade and investment, the Department intended to finalise the negotiation of the Economic Partnership Agreements during the medium-term expenditure framework (MTEF) period. In addition, the Department is committed towards a developmental approach that will deepen regional integration.

·         The Department set targets to support small businesses through the establishment of 44 incubators during the financial year including incubators established in partnership with private sector companies.

·         The Enterprise Investment Programme would provide assistance to the small business sector with the Tourism Support Programme supporting the tourism sector with an expected investment of R6.3 billion and R4.2 billion respectively. The DTI will implement an approved action plan developed as a result of the SMME (small, medium and micro enterprises) review report.

·         In terms of broadening participation, the Department is in the process of finalising the National Strategic Framework on Gender and Women Economic Empowerment. Furthermore, it aimed to support 60 new projects linked to women-owned enterprises through the Isivande Women’s Fund.

·         The Department also noted that it would finalise the Informal Sector Strategy and the Youth Development Strategy.

3.     Summary of previous key financial and performance recommendations of committee

3.1.         2012/13 BRRR recommendations [**[8]**](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm#_ftn8)

The committee recommended the following in relation to key areas of financial and non-financial performance:

·         The Department should address the weaknesses identified in the Auditor General’s report with respect the DTI and its entities, in particular IT challenges with respect to the CIPC.

·         The National Credit Act should be reviewed to ensure compliance of lending institutions with the Act, and to ensure the protection of vulnerable consumers against unscrupulous lending practices.

The National Treasury was in support of the first recommendation. It indicated its engagements with the DTI in terms of addressing matters relating to governance and compliance with the Public Finance Management Act. In this regard, the DTI was requested to produce comprehensive annual reports reflecting the performance of its incentive programmes. [[9]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm#_ftn9)

Furthermore, it indicated that the CIPC has been allowed to retain its R169 million surplus and its R1.1 billion in cash and cash equivalents from the 2011/12 financial year. It should therefore be adequately resourced to modernise its IT infrastructure and improve service delivery. [[10]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm#_ftn10)

In terms of the latter recommendation, the committee had received an initial briefing on the National Credit Amendment Bill on 10 October 2013. It is expecting the Amendment Bill to be referred to it during October 2013.

3.2.         2013/14 Committee Budget Report [**[11]**](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm#_ftn11)

The committee had recommended that the Minister should consider:

·           Increasing the budget for the Trade Investment South Africa Programme to establish and fund a presence in strategic foreign missions.

·           Increasing the allocation to the Consumer and Corporate Regulation Division programme, particularly to the National Consumer Commission, and the possibility of new agencies being created in the near future.

·           The establishment of a single board responsible for all technical infrastructure institutions to enhance co-ordination among these institutions.

4.     Overview and assessment of financial performance

4.1.         Overview of Vote allocation and spending (2009/10 - 2014/15)

The Department of Trade and Industry’s expenditure has been increased by an average annual growth rate of 11.9 per cent between the 2009/10 and the 2012/13 financial years.  In the 2010/11 financial year, expenditure declined from R5.9 billion in 2009/10 to R5.8 billion. However, expenditure has been on an upward trend since the 2011/12 financial year increasing from R6.8 billion and to R8.3 billion in the 2012/13 financial year. In the 2013/14 financial year, expenditure is expected to be R9.6 billion. The Department’s expenditure is forecast to reach R11.4 billion by the 2015/16 financial year.

**Table 1: 2009/10 – 2014/15 Expenditure**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Programme****(R’000)** | **2009/10** | **2010/11** | **2011/12** | **2012/13** | **2013/14** | **2014/15** |
| Audited | Audited | Audited | Main | Adjusted | Audited | Main | Estimates |
| Administration | 443 203 | 479 989 | 639 376 | 608 742 | 710 393 | 705 425 | 690 079 | 720 635 |
| International Trade and Economic Development | 122 998 | 106 949 | 132 920 | 133 462 | 133 116 | 132 705 | 138 638 | 150 733 |
| Broadening Participation | 1 160 601 | 798 077 | 887 513 | 879 891 | 940 319 | 929 694 | 968 307 | 1 003 953 |
| Industrial Development: Policy Development | 425 470 | 1 145 129 | 1 321 671 | 1 482 856 | 1 508 225 | 1 505 090 | 1 606 524 | 1 771 313 |
| Consumer and Corporate Regulation | 133 825 | 145 021 | 218 564 | 244 713 | 230 841 | 223 568 | 256 157 | 248 242 |
| Incentive Development: Incentive Administration | 3 338 234 | 2 792 994 | 3 283 548 | 5 437 585 | 4 551 356 | 4 514 551 | 5 543 134 | 5 645 748 |
| Trade and Investment South Africa | 298 979 | 328 582 | 317 388 | 304 826 | 276 836 | 275 395 | 369 741 | 417 405 |
| **Total** | **5 923 310** | **5 796 741** | **6 800 980** | **9 092 075** | **8 351 086** | **8 286 428** | **9 572 580** | **9 958 029** |

Source: National Treasury (2012a) and (2013) and DTI (2013b)

4.2.         Financial performance 2012/13

4.2.1.     Budgeted expenditure

In 2012, the Department of Trade and Industry had been allocated a total budget of R9.1 billion for the 2012/13 financial year [[12]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm#_ftn12), which was a nominal increase of R2.2 billion or 32.2 per cent compared to the 2011/12 financial year. In real terms, this increase reflected a R1.7 billion or 24.9 per cent increase.

The 2012/13 allocation increase of R2.2 billion was primarily due to additional allocations in terms of incentives linked to industrial development. This included the manufacturing development incentives [[13]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm#_ftn13)(an additional R1.4 billion was allocated), the capital investment incentives for special economic zones (an additional R500 million was allocated) and the clothing and textile production incentive (an additional R150 million was allocated). [[14]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm#_ftn14)However, the budget was adjusted downwards to R8.4 billion [[15]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm#_ftn15)by R805.7 million. This was mainly due to the late approval of the new MCEP applications and most disbursements were expected to occur in the 2013/14 financial year.

4.2.1.1.          Economic classification

In terms of the economic classification, the Department had allocated 85.5 per cent (R7.8 billion) of the R9.1 billion to transfers and subsidies, a nominal increase of 40.5 per cent since 2011/12. The current payments’ allocated share of the total budget allocation had declined from 18.8 per cent (R1.3 billion) of the 2011/12 budget allocation to 14.3 per cent (R1.3 billion) of the 2012/13 total budget of R9.1 billion, while payments for capital assets only received 0.2 per cent (R14.1 million) of the budget allocation compared to 0.48 per cent of the budget allocation (R32.9 million) in 2011/12. [[16]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm#_ftn16)

Spending on consultants for business and advisory services, as well as professional services, was expected to increase from R102.2 million in 2011/12 to R107.9 million in 2014/15, at an average annual rate of 1.8 per cent. Consultants were appointed to provide legal services, research and incentive reviews. However, this allocation would have declined in the 2012/13 and 2013/14 financial years to R95.2 million and R95.1 million respectively.[[17]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm#_ftn17)

4.2.1.2.          Programme allocations

In terms of allocations to various divisions, the Industrial Development: Incentive Administration Programme/Division was allocated the largest share of the budget (R5.4 billion or 59.8 per cent of the total budget allocation). The second largest share was allocated to the Industrial Development: Policy Development Programme/Division (R1.5 billion or 16.3 per cent of the total budget allocation) followed by the Broadening Participation Programme/Division with a share of R879.9 million or 9.3 per cent of the total budget allocation. These three programmes combined constituted 85.8 per cent of the total budget allocation while the remaining four programmes shared 14.2 per cent of the total budget allocation.

The spending focus over the medium term period was aligned to the broader government priority outcomes of decent job creation and economic development through industrial development as outlined in the New Growth Path. Other national priorities which the Department contributed towards included inter alia: development of productive infrastructure; investment priorities; developmental trade strategies; inclusive economic growth; promotion of alternative (energy) technologies and increased competitiveness. The above issues will be discussed below within the context of the respective divisions responsible for these.

· ***Industrial Development***

The DTI’s Industrial Development theme is now clearly reflected by the new divisions/programmes Policy Development (formerly the Industrial Development Division) and Incentive Administration (formerly The Enterprise Organisation).  The Industrial Development theme was allocated 76.1 per cent of the total departmental budget allocation. The Incentive Administration Programme was allocated 78.6 per cent of this theme’s budget allocation while the Policy Development Programme was allocated 21.4 per cent of this budget allocation.

Industrial development expenditure increased from R2.8 billion in 2008/09 to R4.6 billion in 2011/12, an average annual rate of increase of 18 per cent. [[18]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm#_ftn18)This growth was mainly due to the introduction of incentive support programmes for the clothing and textile, and automotive sectors. The incentives increased expenditure on Industrial Development in general such that the Policy Development programme grew from R418.7 million in 2008/09 to R1.3 billion in 2011/12, an average annual rate of 46.3 per cent, and the Incentive Administration programme also grew from R2.4 billion to R3.3 billion over the same period at an average annual rate of 11.4 per cent. [[19]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm#_ftn19)The theme’s budget allocation is expected to grow over the medium term to R8.6 billion, at an average annual rate of 23.1 per cent, mainly as a result of additional allocations for incentive programmes.

*Industrial Development: Policy Development Programme*

This programme focuses on developing and implementing policies, strategies and programmes aimed at growing manufacturing and related sectors of the economy and thereby contributing to the direct and indirect creation of decent jobs, value addition and competitiveness in domestic and export markets. The Industrial Policy Action Plan (IPAP) is the Department’s flagship to contribute to the mandate of decent employment through inclusive economic growth.

The programme’s budget allocation was mainly spent on transfers, namely 92.8 per cent or R1.4 billion of the budget allocation. This included transfers to support the standards, quality assurance and accreditation institutions, about R413.5 million. This was planned to be distributed as follows:

·         South African National Accreditation System (SANAS) – R30.3 million (47.1 per cent increase since 2011/12).

·         National Metrology Institute of South Africa (NMISA) – R76.5 million (22.3 per cent increase since 2011/12).

·         National Regulator for Compulsory Specifications (NRCS) – R78.1 million (110.1 per cent increase since 2011/12).

·         South African Bureau of Standards (SABS) – a R180.5 million contribution towards research (-0.53 per cent decrease since 2011/12) and R48 million for infrastructure investment (48.5 per cent decrease since 2011/12).

Other significant budgeted transfers included:

·         The Clothing and Textile Production Incentive, which is administered by the Industrial Development Corporation (IDC). The incentive was allocated R750 million, an increase of 25 per cent since 2011/12.

·         The National Foundry Technology Network, which is administered by the Council for Scientific and Industrial Research (CSIR) on behalf of the DTI, was allocated R21 million, an increase of 200 per cent since 2011/12. In addition, the Intsimbi National Tooling Initiative was allocated R49.2 million, an increase of 36.6 per cent since 2011/12.

*Industrial Development: Incentive Administration Programme*

The Incentive Administration Programme has been created to design and implement programmes that support investment, competitiveness, employment creation and equity. It consists of a range of incentives focused on broadening participation, manufacturing investment, services investment, infrastructure development support, product and systems development and business development and after care.

Due to the nature of this programme, 97 per cent of the allocation was transferred to public corporations or private enterprises. Manufacturing Development Incentives had been allocated R3.2 billion or 59.4 per cent of the programme’s budget allocation. The main sub-programmes within this incentive were [[20]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm#_ftn20):

·         Manufacturing Competitiveness Enhancement Programme, which was being launched in the 2012/13 financial year: R1.2 billion

·         Automotive Production and Development: R1 billion

·         Enterprise Investment Programme: R800 million

·         Small and Medium Enterprise Development Programme: R190 million.

The overall allocation for Industrial Development Zones (IDZ) had decreased by 0.94 per cent since 2011/12. However, the Coega IDZ’s allocation had increased from R387 million in 2011/12 to R417.9 million in 2012/13 (or an 8.9 per cent increase). Furthermore, the programme had introduced an incentive for Special Economic Zones (SEZs), a new model which would include IDZs as one category of SEZs. Capital investment incentives for SEZs was allocated R500 million from 2012/13, which would increase to R1 billion in 2014/15. SEZs will allow provinces in the country that do not have access to a sea port or airport to develop a regional economic zone to promote domestic and export production capacity. The specific allocations to existing IDZs will be given a period of three years to adjust to the SEZ environment. The existing budget line items for specific IDZs and IDZ funding will be included in the SEZ funding arrangements going forward. The other infrastructure development incentive, the Critical Infrastructure Programme, was allocated R182 million for 2012/13, a 53.5 per cent increase since 2011/12.

The Services Sector Development Incentives was allocated R439 million, an increase of 31.7 per cent compared to 2011/12. This consisted of the [[21]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm#_ftn21):

·         Business Process Outsourcing Programme: R209 million

·         Film and Television Production Incentive Scheme: R233.4 million.

The Broadening Participation incentives was allocated R135 million in 2012/13, an increase of 14 per cent compared to 2011/12. This consisted of the [[22]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm#_ftn22):

·         Black Business Supplier Development Programme [[23]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm#_ftn23)(BBSDP): R90 million.

·         Co-operatives Incentive Scheme: R45 million.

· ***Broadening participation***

The Broadening Participation Programme drives the development of policies and strategies that create an enabling environment for small, medium and micro enterprises (SMMEs) and cooperative enterprises, and the enhancement the competitiveness of local and provincial economies for inclusive economic growth and job creation. The allocation to this programme for the 2012/13 financial year had increased by R14.2 million (1.64 per cent compared to 2011/12) in nominal terms. However, in real terms, the programme’s allocation decreased by R34.8 million or 4.02 per cent.

In terms of the economic classification, R789.4 million (or 89.7 per cent) of the programme’s budget was allocated to transfers and subsidies and 54.2 per cent of transfers was allocated to the Small Enterprise Development Agency (SEDA). SEDA’s Technology programme was allocated R113 million (or 14.3 per cent) of the transfer allocation. The remainder of the transfer budget was mainly allocated to National Research Foundation’s Technology and Human Resources for Industry Programmes (THRIP), Productivity South Africa’s Workplace Challenge Programme, which finances and supports world class manufacturing and value chain efficiency improvements in South African companies, and IDC’s Support Programme for Industrial Innovation (SPII). Given the emphasis on the important contribution of SMMEs, skills and innovation play in developing the economy and inclusive economic growth, the mostly low or negative nominal increases accompanied by negative real percentage changes for most sub-sections of this programme could have a negative impact on broadening participation and limit support for SMMEs and especially cooperative development.

· ***International Trade and Economic Development (ITED)***

The International Trade and Economic Development Programme plays a critical role in facilitating international and African bilateral and multilateral trade relations and agreements. The budget allocation for the 2012/13 financial year had been R133.5 million, which decreased by R11.3 million (-7.8 per cent) from the previous year’s allocation of R144.8 million. The ITED programme has two sub-programmes namely the International Trade Development and African Economic Development. The Africa Economic Development sub-programme’s proportion of the programme’s budget allocation had decreased from 48.2 per cent in 2011/12 to 38.3 per cent in 2012/13, as well as a decline of 26.8 per cent compared to the 2011/12 budget allocation. This was reported to be due to the shifting of the Tripartite Summit of the Common Market for East and Southern Africa, the East African Community and the Southern Africa Development Community from the 2012/13 financial year to the previous financial year (i.e. 2011/12) [[24]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm#_ftn24).

In terms of economic classification, current payments were allocated about R97.8 million (73.3 per cent) of the programme’s budget allocation. This was constituted by compensation of employees (R74.5 million or 76.2 per cent of the current payments’ allocation) and goods and services (R23.3 million or 23.8 per cent of the current payments’ allocation). Transfers and subsidies were allocated R35.4 million (or 26.5 per cent) of the programme’s budget allocation. This was mainly for memberships and/or contributions to international organisations (R15.9 million or 47.7 per cent of transfers), such as the World Trade Organisation, and regional spatial development initiatives (e.g. the Maputo Corridor) that the Development Bank of Southern Africa (R18.5 million or 52.3 per cent of transfers) administers on behalf of the DTI.

· ***Trade and Investment South Africa***

Trade and Investment South Africa (TISA) is responsible for increasing export capacity and supporting direct investment flows through strategies for targeted markets and an effectively managed network of foreign trade offices. Expenditure increased from R310.2 million in 2008/09 to R345.1 million in 2011/12, at an average annual rate of 3.6 per cent, and was expected to increase to R378.3 million over the medium term, at an average annual rate of 3.1 per cent. This programme was allocated R304.8 million in 2012/13 compared to R345.1 million allocated in the 2011/12 financial year and this indicated a real decrease of R57.3 million and a negative real percentage change of 16.6 per cent. Transfers and subsidies were allocated R120 million (39.4 per cent) of the programme‘s budget allocation. This was mainly for the Export Credit Insurance Corporation’s interest make-up (IMU) scheme (81.4 per cent of transfers). This contribution had decreased by 19.7 per cent compared to 2011/12.

· ***Consumer and Corporate Regulation***

The Consumer and Corporate Regulation Division plays a critical role in developing and implementing regulatory solutions to facilitate easy access to redress and efficient regulation within the economic environment. The Division’s allocation had increased by 6.6 per cent compared to 2011/12. The largest proportion of this budget (69.2 per cent) was allocated to transfers to the regulatory entities responsible for enforcing regulation and providing services to the public. Most entities had received a nominal increase in their allocations with the exception of the Companies and Intellectual Property Commission (CIPC) and the new Companies Tribunal. The CIPC was expected to be self-funded but has been receiving a relatively small allocation to assist its transition from the former Companies and Intellectual Property Registration Office. The National Credit Regulator’s allocation was also effectively showing a negative real percentage change of 2.8 per cent since 2011/12.

In general, there had been a call for regulatory entities to focus on enforcement and compliance with legislation by relevant stakeholders, as well as for increased research, awareness and education. In this regard, the real increases within areas of gambling and consumer protection were crucial.

· ***Administration***

The Administration Programme ensures the successful implementation of the Department’s mandate through sustainable and integrated, customer centric resource solutions and services. In the 2012/13 financial year, the former Communication and Marketing programme had been incorporated into this programme under two new sub-programmes, namely Media Relations and Public Relations, and Communications to better align the department’s activities and programmes. The allocation for the year 2012/13 was R608.7 million which amounted to 3.4 per cent of the total budget. The largest allocation (58 per cent of the programme’s allocation) went to the corporate services sub-programme. This sub-programme provides human resource management, information and communication technology, corporate governance, legal services and facilities management support.

Expenditure in this sub-programme increased from R245.6 million in 2008/09 to R408.2 million in 2011/12, at an average rate of 18.5 per cent, and was expected to decrease to R402.5 million over the medium term, at an average annual rate of 0.5 per cent. The main cost drivers were compensation of employees and goods and services, such as advertising costs, consultants and professional services, and lease payments. As the activities of the Communication and Marketing programme would be incorporated into this programme over the MTEF period, funding would be directed at increased coverage and promotion of the department’s activities and services offered, and extensive coverage of international missions in both domestic and international media.

4.2.2.     Actual total and programme expenditure

The DTI spent R8.3 billion, 99.2 per cent of its final allocation. In the 2011/12 financial year, total expenditure was 98.9 per cent of the final budget allocation. Expenditure increased by 21.8 per cent since the 2011/12 financial year. A detailed programmatic breakdown of the expenditure share and percentage change from the 2011/12 financial year to the 2012/13 financial year is provided below.

**Table 2: Expenditure share and percentage change from 2011/12 to 2012/13**

|  |  |  |  |
| --- | --- | --- | --- |
| **Programme**(R million) | **Audited expenditure** | **Expenditure share (%)** | **% change from 2011/12-2012/13** |
| 2011/12 | 2012/13 | 2011/12 | 2012/13 |
| Administration | 639 376 | 705 425 | 9.4 | 8.5 | 10.3 |
| International Trade and Economic Development | 132 920 | 132 705 | 2.0 | 1.7 | 4.7 |
| Broadening Participation | 887 513 | 929 694 | 13.0 | 11.2 | 4.8 |
| Industrial Development: Policy Development | 1 321 671 | 1 505 090 | 19.4 | 18.2 | 13.9 |
| Consumer and Corporate Regulation | 218 564 | 223 568 | 3.2 | 2.7 | 2.3 |
| Industrial Development: Incentive Administration | 3 283 548 | 4 514 551 | 48.3 | 54.5 | 37.5 |
| Trade and Investment South Africa | 317 388 | 275 395 | 4.7 | 3.3 | -13.2 |
| **Total** | **6 800 980** | **8 286 428** | **100.0** | **100.0** | **21.8** |

Source: National Treasury (2013a), DTI (2013b) and own calculations

In terms of the economic classification, R6.9 billion was transferred (83.3 per cent of total expenditure), R1.3 billion was spent on current payments (15.4 per cent of total expenditure) and R40.5 million on purchasing capital assets (0.49 per cent of total expenditure). The remainder was for payments for financial assets. Therefore, the planned proportion to be spent on transfers and subsidies was reduced, while that of current payments and capital assets increased. However expenditure on goods and services decreased from the 2011/12 financial year to the 2012/13 financial year.

4.2.3.     Auditor General Report

Over the past five years (observed period) between 2008/09 and 2012/13, the Department has had unqualified audit reports. The Department received an unqualified Audit report for the 2012/13 financial year. However, the Auditor General noted the following areas of concern:

·         Significant uncertainties related to the disclosed contingency liabilities for lawsuits and incentive grants, which have not been provided for in the financial statements.

·         Material impairments and losses of R82 million. Firstly, a total of R79 million was written off. This was as a result of debtors being written off through the General Export Incentive Scheme (GEIS) debtors. Secondly, material impairments with an amount of R121 million resulted from outstanding debtors of longer than 12 months.

·         There were inadequate preventative and detective controls in place to ensure compliance with laws and regulations of supply chain management as required by the National Treasury. Hence, there was procurement of goods and services under R500 000 that occurred without obtaining the required three price quotations.

·         The Department did not put in place effective measures to prevent irregular expenditure of R33 million.

4.3.         Financial overview

For the 2013/14 financial year, the Department is in the process of making slight adjustments to the budget. According to the Department, the budget with the approval of the National Treasury is to be adjusted down by R7.1 million from R9.57 billion to R9.56 million. A number of shifts are proposed by the Department, particularly at a programme level and an economic classification level. The proposed adjustments are upward adjustments on the Administration, International Trade and Economic Development, and Broadening Participation programmes and downward adjustments on the Industrial Development, Industrial Development: Incentive Administration, and Trade and Investment South Africa.

**Table 3: 2013/14 Budget Revision per programme**

|  |  |  |  |
| --- | --- | --- | --- |
| **Programme**(R’000) | **Original** | **Revised Budget** | **% Adjustment** |
| Administration | 690 079 | 726 030 | 5.2 |
| International Trade and Economic Development | 138 638 | 141 639 | 2.2 |
| Broadening Participation | 968 307 | 1 010 208 | 4.3 |
| Industrial Development | 1 606 524 | 1 596 675 | -0.6 |
| Consumer and Corporate Regulations | 256 157 | 256 158 | 0.0 |
| Industrial Development: Incentive Administration | 5 543 134 | 5 493 135 | -0.9 |
| Trade and Investment South Africa | 369 741 | 341 642 | -7.6 |
| **Total** | **9 572 579** | **9 565 480** | **-0.1** |

**Source:**DTI (2013c)

4.3.1.     Reasons for the adjustments

The Department has given the following reasons for applying to the National Treasury to adjust its budget:

·         The Department has mandated Small Enterprise Development Agency (SEDA) to provide non-financial support services to small, medium and micro enterprises (SMMEs) through-out the country. Over the years, SEDA has been diligent in delivering a variety of programmes to SMMEs. In this regard the Department plans to increase SEDA’s budget by R40.9 million.

·         Redirected between the Clothing and Textiles Production Incentive Programme (PIP) and the Clothing and Textiles Competitiveness Improvement Programme (CIP). This amounts to 10 per cent of the PIP budget which is redirected in support of national cluster activities.

·         To date since re-launching of the revised Broadening Participation Development Incentive programme, a total of 1 508 projects have been approved, with projects for enterprise improvement worth over R500 million and approximately R250 million paid as grants to approved applicants. Therefore, for this programme, the Departments plans to increase the budget through a shift/virement of an amount of R220 million.

·         The expected applications and claims are based on the Light Motor Vehicle Manufacturer production cycle, for example, when they are introducing a new model or a face-lift/upgrade.  The applications for Component manufacturers are influenced and the volumes determined by this. In this regard, this budget will be reduced by R265 million.

4.3.2.     Financial performance for the first half of 2013/14

In the first half of the 2013/14 financial year, the Department had projected spending of R3.9 billion; however, the Department had fallen short of this projection. In the first half of the financial year, expenditure totalled R3.2 billion, approximately 14 per cent short of the targeted expenditure. While other programmes’ under-spending was at a relatively accepted level, below 10 per cent of budgeted spending, spending for the Industrial Development: Incentive Administration and Trade and Investment South Africa’s spending were at higher levels of at 24.2 per cent and 15.5 per cent respectively. The Administration programme and the International Trade and Economic Development were the only exceptions, spending on these programme were slightly over the budgeted amounts, 1.87 per cent and 4.0 per cent overspending respectively.

**Table 4: Expenditure by programme as at 31 August 2013**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Programme** | **Revised budget 2013/14** | **YTD projection** | **YTD expenditure** | **Variance** | **Available Budget** |  |
| **R’000** | **R'000** | **R'000** | **R'000** | **%** | **R'000** |  |
|  |
| Administration | 694 029 | 271 855 | 276 940 | (5 085) | -1.87 | 417 089 |  |
| International Trade and Economic Development | 138 638 | 45 024 | 46 834 | (1 810) | -4.02 | 91 804 |  |
| Broadening Participation | 964 807 | 426 915 | 419 234 | 7 681 | 1.80 | 545 573 |  |
| Industrial Development | 1 606 074 | 888 506 | 847 123 | 41 383 | 4.66 | 758 951 |  |
| Consumer and Corporate Regulations | 256 157 | 132 821 | 120 887 | 11 934 | 8.99 | 135 270 |  |
| Industrial Development: Incentive Administration | 5 543 134 | 1 934 668 | 1 465 922 | 468 746 | 24.23 | 4 077 212 |  |
| Trade and Investment South Africa | 369 741 | 170 959 | 146 499 | 24 460 | 14.31 | 223 242 |  |
| **TOTAL** | **9 572 580** | **3 870 748** | **3 323 439** | **547 309** | **14.14** | **6 249 141** |  |

Source: DTI (2013c)

4.3.2.1.          Expenditure by economic classification [**[25]**](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm#_ftn25)

The overall expenditure for the quarter was 17.9 per cent lower than the budgeted quarterly expenditure. Under-spending was as a result of 98 per cent being under-spent on capital assets, 18 per cent on transfer payments, 16 per cent on goods and services, and 7.8 per cent on compensation of employees.

**Table 5: Expenditure by economic classification as at 30 June 2013**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Economic classification**(R’000) | **Revised Budget 2013/15** | **YTD Cash flow projections** | **YTD Expenditure** | **Variance** | **% variance** | **Available budget** | **% budget available** |
| Compensation of employees | 854 246 | 190 869 | 175 896 | 14 973 | 7.84 | 678 350 | 79.41 |
| Goods and services | 638 835 | 158 746 | 132 654 | 26 092 | 16.44 | 506 181 | 79.23 |
| Payments for financial assets | 0 | 0 | 604 | -604 | 0.00 | -604 | 0.00 |
| Capital assets | 20 177 | 4 662 | 353 | 4 309 | 92.43 | 19 824 | 98.25 |
| Transfer payments | 8 059 322 | 2 051 382 | 1 663 895 | 387 487 | 18.89 | 6 395 427 | 79.35 |
| **Total** | **9 572 580** | **2 405 659** | **1 973 402** | **432 257** | **17.97** | **7 599 178** | **79.38** |

Source: DTI (2013d)

· **Expenditure on Goods and Services**

Within the goods and services classification, the main under-spending was on the following services: consultants and professional services (legal costs); contractors; and outsourced services. In terms of goods, the following were under-spent on: inventory and property payments (regional offices). However, there was significant over-spending on advertising (over-spending of more than 50 per cent of the budgeted amount) and consumable supplies. For consumable supplies, there was an over-spending of R883 000, which exceeded the annual budget as well. An amount of R1.04 million was consumable in the first quarter while the annual budget is R748 000.

· **Expenditure: Transfer Payments to Incentives**

Transfer payments form the largest budget item for the Department. During the first quarter of the 2013/14 financial year, there was under-spending of 18.9 per cent of the quarterly budget, a variance of more than R387.4 million. Transfer payments on incentives were the main cause of the under-spending; this was mainly within the:

·         Manufacturing Competitiveness Enhancement Programme,

·         Automotive Production and Development Programme, and

·         Critical Infrastructure Programme.

However, there was significant over-spending in all of the other incentives including the Black Business Supplier Development Programme, Export Market and Investment Assistance, Business Processing Service Incentives, Co-operatives Incentive Scheme, and Film and TV Production Incentive.

· **Expenditure on unbudgeted items**

Payment for financial assets was not budgeted for in the 2013/14 financial year. However, in the first quarter, there was an expenditure of R604 000 towards this item. Inventory: Clothing material and accessories in another item was also not budgeted for; however, a total of R24 000 was spent on this item.

·         Automotive Production and Development Programme (R30.7 million): Claims had not yet been processed and first required verification and approval by the division.

·         Critical Infrastructure Programme (R30.1 million): There were outstanding compliance issues before the projected amount could be paid.

·         National Foundry Technology Network – Metals (R10.5 million): There were outstanding financial statements from the CSIR, which are required before the transfer can be made.

4.4.         2014/15 MTEF financial allocations

The DTI requested additional funds from National Treasury of R1.3 billion for the 2014/15 financial year, of which R1.2 billion is intended to be transferred to its entities. An additional total of R4 billion was requested over the MTEF for the entities. This included funding for the [[26]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm#_ftn26):

· **Companies Tribunal**: R46.1 million over the MTEF period for its ICT strategy implementation plan.

· **National Credit Regulator**: R90.4 million over the MTEF period for the acquisition of a new building. The DTI qualified that the NCR would need to either lease or acquire a new building due to the risk of the existing lease of the Midrand building not being renewed. The building was also located in an industrial area, which was not well located to enhance its accessibility.

· **National Consumer Tribunal**: R42.6 million over the MTEF period for the expansion of the mandate once the National Credit Amendment Bill has been promulgated.

· **National Consumer Commission**: R93.6 million over the MTEF period for its ICT strategy implementation plan and the designing and hosting of its website.

· **National Gambling Board**: R26.1 million over the MTEF period as its legislative mandate is not currently fully funded.

· **Export Credit Insurance Corporation**: R406.3 million over the MTEF period for interest make-up transfers for existing and pipeline export credit projects that are being supported.

· **National Empowerment Fund**: R3.3 billion over the MTEF period to fund the rapidly increasing programme transaction pipeline which is aligned with government’s programme of economic development.

In line with the committee’s recommendation to increase the budget for the Trade and Investment South Africa Programme, the DTI has requested an additional R75 million over the MTEF period (R20 million in 2014/15, R25 million in 2015/16 and R35 million in 2016/17). This is intended to fund the establishment of additional foreign offices to expand the DTI’s global footprint. See Appendix 1 for further details are additional budget requests.

In addition, there was a request for funding for new priorities such as the establishment of the Co-operative Tribunal, Co-operative Development Agency and to support the Co-operative Apex Organisation. However, there was no indication of funding needs for the other new entities to be established, namely: the Broad-based Black Economic Empowerment Commission, the National Lotteries Commission, the National Council for Indigenous Knowledge and the National Trust Fund for Indigenous Knowledge.

5.     Overview and assessment of service delivery performance

5.1.         Service delivery performance for 2012/13

The Department in its strategic plan had listed key interventions that were aimed at addressing the challenges faced by the country. Particularly for the 2012/13 financial year, interventions were aimed at tackling the challenge of high unemployment and the impact of the global economic crisis. The Department have succeeded in supporting new and existing jobs through sector-specific support programmes, such as the Automotive; Clothing, Textiles and Leather and Footwear; and Business Process Services sectors. These sectors are concentrated in the manufacturing and business services sectors, as they form the backbone of employment in the country.

In engaging with the key interventions as per the DTI’s Annual Report, it is clear that the Department had some challenges with regard to implementing certain interventions. However, in others, it had performed well and exceeded targets. The performance regarding the key interventions were as follows:

· **Preferential Procurement Policy Framework Act**: The Act was amended and allows the Minister of Trade and Industry to designate sectors and products where there the state is obliged to procure from local suppliers or for a certain local content portion to be included in these products. Four additional sectors were approved namely: furniture, pharmaceuticals, solar water heaters and power and telecoms cables.

· **Technology and Human Resources for Industry Programme**: Amendments were made to the THRIP in line with audit outcomes of the 2011/12 financial year. The reported targets changed from 2 200 students approved for funding and 850 researchers approved for financial support in the Strategic Plan to 1 350 students approved for funding and 700 researchers approved for financial support in the Annual Report. The Department exceeded both the new targets by supporting 1 506 students and 1 135 researchers.

· **Support Programme for Industrial Innovation**: According to the Annual Report, this was one of the targets that were amended as a result of the 2011/12 audit process. In the Strategic Plan, it was noted that through this programme a total of 20 new projects with support amounting to R36 million would be approved [[27]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm#_ftn27). The amendment in the Annual Report maintained the number of companies to be supported but increased the value of the support to R41 million. In this regard, the Department had exceeded its targets and supported 53 projects to the value of R203.5 million.

· **Manufacturing Competitiveness Enhancement Programme**: The Department received a large number of applications therefore, it exceeded its targets. The Department approved a total of 189 enterprises for this incentive compared a target of 140 enterprises.

· **Finalisation of the negotiation of the SADC-EU Economic Partnership Agreement**: During the 2012/13 financial year, the Department aimed to produce a report on the conclusion of negotiations [[28]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm#_ftn28); however, the trade negotiations were not concluded during the financial year as previously planned. The Department produced a progress report on the negotiations.

· **Support for small businesses through the establishment of 44 incubators**: The establishment of 44 incubators was a cumulative number from a baseline of 34 from the 2011/12 financial year therefore the target for the 2012/13 financial year was 10 incubators as per the Strategic Plan (2012 – 2015). However, the 2012/13 Annual Report indicated a different target of 4 incubators to be established. The Department managed to establish 8 incubators during the 2012/13 financial year.

· **Enterprise Investment Programme**: The programme had targeted to approve a total of 450 SMMEs with a projected value of R6.3 billion and create 9 240 jobs. During the financial year, the Department approved 548 SMMEs with projects valued at R10.8 billion and estimated that 12 269 jobs had been created, which was 3 029 more jobs than the target.

· **Tourism Support Programme**: The TSP target was an approval of 300 SMMEs with a projected investment of R4.2 billion and 6 160 jobs created. The TSP was transferred to the Department of Tourism mid-year. At the time, the Department had approved 122 SMMEs with a R1.5 billion investment and created 1 357 jobs. However, the DTI continued to service the approvals and only operational budget was transferred. According to the DTI the Department of Tourism had been in a process of reviewing the incentives.

· **National Strategic Framework on Gender and Women Economic Empowerment**: The Department’s target was to finalise and submit this framework to Cabinet for approval. However, by the end of the financial year, the framework had not yet been submitted to Cabinet.

· **Support through the Isivande Women’s Fund**: This was another target that was amended as a result of audit outcomes. However, with the amendments, the target changed from 60 women-owned enterprises to 18 women-owned enterprises supported and the Department supported 22 enterprises.

· **Youth Development Strategy**: The Department’s target was to finalise and submit this strategy to Cabinet for approval. However, due to an internal decision to first develop and implement a programme of action, given that youth development was a high priority, the strategy development was still on-going and had not yet been submitted to Cabinet.

· **Black Business Supplier Development Programme**: The DTI had aimed to approve a total of 700 applications. It exceeded this target and approved 1 212 applications. This was as a result of an increased number of applications that were received.

· **Trade promotion**: 43 trade and investment missions exist.

The DTI reported that it had requested adjustments to some of its targets due to conditions outside of its control. The request was approved by the Minister in the third quarter of the 2012/13 financial year.

Furthermore, the DTI scored overall well in terms of in the Department of Performance Monitoring and Evaluation’s Management Performance Assessment Tool [[29]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm#_ftn29). This assessment tool compares the performance of the National Department between national departments noting the average of all national departments and the performance of the respective department’s cluster, in this case the Economic Services and Infrastructure cluster.

5.1.1.     Audit opinion

In terms of the audit opinion for performance indicators, some of the indicators and targets remained unsuitably developed to ensure measurability and that they could be achieved. As a result of this, the Department had achieved 36 of the 56 targets that were set for the financial year. This translated to 64 per cent of targets being met.

5.2.         Service delivery performance as at 31 August 2013

The DTI highlighted a number of key achievements as at 31 August 2013. These included [[30]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm#_ftn30):

· **Local procurement**: Work is being undertaken on the potential designation of smoke detectors, valves products and actuators. There has also been progress on the local procurement of pharmaceutical products, namely: contraceptives and anti-TB drugs.

· **Beneficiation**: A policy directive for ferrous and non-ferrous scrap metal was published under the International Trade Administration Act. The policy directive allowed scrap metal to be preferentially sold domestically before being exported to support beneficiation by local foundries, mills, mini-mills and scrap metal processors. [[31]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm#_ftn31)The ITAC issued final regulations on scrap metals export controls in August 2013. These regulations came into effect from 16 September 2013. The DTI also significantly assisted EDD and ITAC in formulating the scrap metal policy intervention which will create a significant cost advantage for local processing industries.

· **Green economy**: The Solar Photovoltaic (PV) Localisation Roadmap was launched in conjunction with the Solar PV Industry Association. In addition, the DTI secured an R11.5 billion pipeline of investment in Renewable Energy projects.

· **Clothing and textile, footwear and leather sector**: The Mr Price Footwear and Leather Goods Cluster has been established, which will see the low end market being supplied with locally manufactured goods. Furthermore, a combined approval to date of more than R2.1 billion has been achieved and over R1.27 billion has been disbursed to the participating enterprises from CIP and PIP respectively. Since inception, 20 385 jobs have been created as a result of the support.

· **Automotive assembly and components sectors**: 7 projects are being supported under the Automotive Incentive Scheme.

· **Manufacturing Competitiveness Enhancement Programme**: 87 projects are being supported.

· **Regional integration**: Substantive progress has made on tripartite negotiations on Technical Barriers to Trade Chapter. South Africa/SACU negotiating positions for T-FTA have been developed and advanced. The 2002 SACU Agreement amended to establish the SACU Summit, which should strengthen SACU’s decision-making processes.

· **Trade promotion**: 2 National Pavilions were organised in 31 August 2013, namely: FILDA and FACIM. Exports to the tune of R1 198 million were facilitated. 341 companies were trained to raise awareness on export processes.

· **Trade relations**: South Africa registered its position in support of the extension of the United States’ African Growth Opportunity Act (AGOA) beyond 2015 and pressed for the need for the country’s continued retention as a beneficiary during the AGOA Forum held in Addis Ababa, Ethiopia, 9-13 August 2013.

· **Support Programme for Industrial Innovation**: 20 new projects approved to the value of R 58.96 million.

· **Technology and Human Resources for Industrial Progamme**: a total of 1 135 researchers were supported.

· **Incubation Support Programme**: 30 incubators have been approved and 10 projects have been supported.

· **Co-operatives**: The President assented to the Co-operatives Amendment Act, 2013 on 5 August 2013. The International Day of Co-operatives was held in Durban in July 2013. 64 projects were supported under the CIS incentive.

· **Economic transformation**: 263 projects were supported under the BBSDP incentive.

· **Intellectual Property**: The Final Policy Framework on Intellectual Property presented and approved by Cabinet for public consultations.

· **Women empowerment**: The DTI received the Top Award for best government department in women empowerment.

5.3.         Bills introduced to Parliament

The DTI introduced the following Bills to Parliament by the end of the September 2013:

·         Broad-based Black Economic Empowerment Amendment Bill

·         Co-operatives Amendment Bill

·         Lotteries Amendment Bill

·         Special Economic Zones Bill

5.4.         Issues raised during the deliberations

The committee raised the issue of intellectual property (IP) and the potential challenges associated with the protection of indigenous knowledge (IK). The committee welcomed the publication of the Intellectual Property Policy document, as among others, it seeks to address the impediments that prevent access to affordable medication through the abuse of patents. A concern for the committee was that investment would not be forthcoming if the protection of IP is not secure. The DTI acknowledged the challenges it faced with respect to IP but that it should be seen in the context of a developing economy. With respect to generic medicine, South Africa’s involvement led to a breakthrough at the World Trade Organisation with South Africa potentially becoming a world leader in this regard. With respect to the IP Policy document, the DTI informed the committee that consultation was on-going and that inter-departmental co-ordination was critical. The DTI re-iterated its stance with respect to the current IP legislation in that it was a measure to prevent the loss of IK.

The balance of payment position remains a concern for the committee. Although a number of policy interventions were implemented, the deficit continues to increase. The DTI informed the committee that the country’s largest vulnerable factor is the exchange rate. In order to the address the current account deficit, the proportion of exports earnings based on commodity goods had to be reduced, while increasing the reliance of exports earnings on manufactured goods.  A large component of South Africa’s import basket (about 25 per cent) consisted of oil and petroleum products, with luxury goods and pharmaceutical products also being a major contributing factor.

Government’s beneficiations initiatives should be pursued more aggressively as the export of raw materials and import of finished products was still prevalent. The committee also enquired about the role of the local government in relation to the incubator programmes.

During the 2012/13 financial year, the committee had held public hearings and a colloquium on the impact of high administered prices, such as electricity tariffs and port charges, on the manufacturing sector. One of the outcomes of the colloquium was Transnet’s proposal for a new proposed tariff structure to be shared between shipping lines, cargo owners and tenants on a 21 per cent, 46 per cent and 33 per cent basis respectively. The proposal is aimed at ensuring that tariffs are aligned to international standards and increasing South Africa’s competitiveness with other international markets.

Transnet also proposed the Beneficiation Promotion Programme. This programme seeks to promote increased beneficiation of goods, labour-intensive sectors, economic growth, and improvements in the competitiveness of South Africa’s metals sector and attract investments instead of the exportation of raw materials. This programme has been formulated in line with the IPAP, the National Development Plan, the Beneficiation Strategy for the Mineral Industry and the Department of Trade and Industry’s Metals Sector Strategy.

Through this programme, Transnet proposed that cargo charges for labour-intensive products and value-added products are reduced according to the various stages of beneficiation. The most beneficiated products would therefore pay the lowest cargo charge to promote local beneficiation. The committee welcomed the support for local manufacturing and beneficiation through the lowering of port tariffs.

However, increasing electricity tariffs remained a concern for the committee. This has contributed to South Africa’s relative lack of competitiveness and contributed, in some instances, to the failure of some small entrepreneurial businesses, especially in the manufacturing sector, which resulted in the retrenchment of thousands of workers. According to the DTI, a further contributing factor was the differentiated electricity tariffs between and within municipalities which remains a major threat to the manufacturing sector. The DTI through weekly engagements with the National Treasury and Eskom was trying to understand the demand and supply measures, but the underlying problem of electricity as a revenue stream for municipalities remains a concern. The DTI acknowledged that challenges associated with access to cheap electricity curtailed the beneficiation initiatives. South Africa should target higher levels of production associated with beneficiation. The DTI also informed the committee it was busy investigating opportunities in beneficiation in five critical value chains such as platinum, titanium, gold, diamonds, and iron and steel.

A “Team South Africa” approach with respect to business, embassies and foreign trade missions would contribute to attracting foreign direct investment into the South African economy.  The current vacancy rate in the foreign trade missions limits South Africa’s ability to promote its trade and investment opportunities abroad; which are important for increasing job creation opportunities. South Africa should have a united approach when dealing with international business. The DTI also informed the committee that a programme exists that trains individuals for deployment to overseas missions

The DTI informed the committee that its export strategy has evolved with the establishment of export councils to provide assistance to exporters on a sector- or industry basis. Through this approach, sectors can engage in the global market as a collective force. The DTI provides guidelines and financial assistance to these export councils. Industries with export councils include the automotive, electro-technics, wire, stainless steel, aluminium, flower, wine, cosmetics, crafts, ceramics and textile sectors *.*

6.     Financial and non-financial performance of identified entities

6.1.         Companies and Intellectual Property Commission

6.1.1.     Introduction

The Companies and Intellectual Property Commission (CIPC) was established by the Companies Act (No. 71 of 2008) and became operational on 1 May 2011. The CIPC’s core mandate is to register business entities [[32]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm#_ftn32), intellectual property [[33]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm#_ftn33)rights holders and regulated practitioners and maintain and disclose the related information; and raise awareness and knowledge regarding company and intellectual property laws. It also monitors and enforces compliance with the provisions in the 15 pieces of legislation related to corporate and intellectual property regulation it administers.

This core mandate falls within the Department of Trade and Industry’s strategic objective to “create a fair regulatory environment that enables investment, trade and enterprise development in an equitable and socially responsible manner”. The CIPC, therefore, has a critical role to play in enhancing the ease of doing business, maintaining South Africa’s credibility and lowering the administrative burden for business entities; while protecting intellectual property rights holders.

6.1.1.1.          Strategic objectives

The CIPC has three strategic goals, namely to [[34]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm#_ftn34):

·         Improve the competitiveness of the South African business environment.

·         Promote innovation, creativity and indigenous cultural expression.

·         Promote broader formal economic participation.

It implements these goals through seven strategic objectives. These are to:

·         Encourage the formalisation of South African businesses and their identity.

·         Encourage the maintenance of high standards of corporate governance, transparency and brand awareness and protection.

·         Promote the protection and commercial exploitation of innovations in key sectors.

·         Promote our cultural heritage and support a strong competitive South African creative industry that provides benefits to local artists.

·         Provide easy access to credible, reliable and relevant information and advice and secure value-added services.

·         Build an enabling and intelligent work environment anchored in a governed and sustainable organisation.

·         Improve the reputation and organisational performance of CIPC.

6.1.1.2.          Core issues identified by the committee

During the Portfolio Committee on Trade and Industry’s previous engagements with the CIPC, the following core issues were identified:

1.1.      The accessibility of the CIPC through their call centre, website and other media.

1.2.      The operability and integrity of the CIPC’s legacy information technology (IT) system.

1.3.      The integrity of CIPC’s information.

1.4.      The progress in developing a “one-stop shop” type of system among the relevant government agencies to enhance the ease of doing business.

1.5.      The CIPC’s programme performance information was non-compliant with the National Treasury Framework in terms of the usefulness and reliability of performance information submitted for auditing purposes in the 2011/12 financial year. 66 per cent of the performance indicators used by the CIPC were not verifiable and a performance system that could assist management with valid, accurate and complete reporting was also absent.

6.1.2.     Financial performance

6.1.2.1.          2012/13 Financial Year

The CIPC’s revenue was R397 million at the end of the 2012/13 financial year, a 9.1 per cent decline since 2011/12. Revenue from exchange transactions [[35]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm#_ftn35)contributed 49.9 per cent to total revenue, while revenue from annual returns fees and penalties contributed the remainder. Revenue from exchange transactions had been increasing by 4.4 per cent since the 2011/12 financial year, while revenue from annual returns fees and penalties had been declining by 19.4 per cent since the 2011/12 financial year. The decline in annual returns fees and penalties may be linked to the waiver on penalties for the 2011/12 and 2012/13 financial years due to shutdowns of the online annual returns system.

In terms of expenditure, the CIPC spent R284.6 million, an increase of 4.3 per cent since the 2011/12 financial year. Employee costs contributed 56.1 per cent of total expenditure, followed by consulting and professional fees (R40.3 million or 14.2 per cent) and operating leases for property, the off-site storage facility and vehicles (R22.9 million or 8.1 per cent).

Irregular expenditure in the 2012/13 financial year amounted to R2.7 million (0.94 per cent of total expenditure). This was mainly due to the procurement of network services through the State Information Technology Agency (SITA) worth R1.7 million and the extension of the appointment of the database administrator (R883 000).

The CIPC is intending to continuously invest in improving its ICT systems. In this regard, it has indicated that it will be investing R30 million in the 2013/14 financial year.

In terms of the financial statements, the Auditor-General’s opinion was unqualified with emphasis of matters, which was an improvement from a qualified opinion in the 2011/12 financial year. However, the following matters were emphasised:

· *Significant uncertainties*: No provision was made for any possible liability as a result of the outstanding lawsuit with a service provider related to the termination of the enterprise content management system contract.

· *Events after reporting date*: Management could not quantify the effect of the annual returns system’s technical shutdown at the end of June 2013 for approximately six weeks. This affected the ability of customers to lodge their annual returns, which was a key source of revenue for the CIPC.

Furthermore, the Auditor-General raised a number of areas of non-compliance with laws and regulations and internal control matters.

· *Procurement and contract management*: A deviation was approved by the accounting authority from pursuing a competitive bidding process to procure services with a transaction value of greater than R500 000. Despite it being plausible to embark on a competitive bidding process.

· *Expenditure management*: Ineffective steps were taken to prevent irregular expenditure of R2.7 million (0.94 per cent of total expenditure).

· *Employee costs*: The unauthorised appointment of an employee on a short-term contract at a higher salary than the maximum salary scale.

· *Predetermined objectives*: There were no procedures to effectively report to the executive authority quarterly. The accounting authority had not ensured the maintenance of effective, efficient and transparent systems of financial and risk management and internal control.

The following related internal control concerns were raised:

· *Financial and performance management*: Inadequate processes to ensure the preparation of reliable performance reporting and insufficient monitoring of compliance in the areas of contract management and predetermined objectives.

6.1.2.2.          2013/14 Financial Year

As at 30 September 2013, the CIPC had received R215.9 million from annual returns (R95.9 million) and exchange transactions (R119.97 million). This equated to 54.4 per cent of total revenue for the 2012/13 financial year.

It had spent R129.3 million including R3 million committed funds, compared to projected expenditure of R160.5 million at the time (a variance of 19.8 per cent and 37.3 per cent of total budgeted expenditure). This was primarily due to under-spending of goods and services of R23.5 million including R13.3 million for internet and network costs and R8.3 million for communications costs.

6.1.3.     Non-financial performance

6.1.3.1.          2012/13 Financial Year

The planned indicators and targets are in alignment with those stated in the 2012/13 Annual Performance Plan. Of the 18 planned performance indicators, only six targets were achieved or exceeded and one could not be measured (39 per cent of planned targets).

Under some of the unachieved targets, the CIPC has listed other activities it has undertaken that could contribute to future achievement. This is evident under indicators such as the ‘% of registered enterprises receiving compliance certificates’ and the ‘% reduction in the number of name objections (registered enterprises)’.

The CIPC has listed 42 service delivery standards covering companies and close corporations (14 standards), cooperatives (9 standards), compliance and business rescue (6 standards), patents and designs (6 standards), trade marks (5 standards), and copyright in films (2 standards). One of its performance indicators was to maintain service delivery standards that are available on the website. However, it reported that 24 of the published standards were monitored but fails to indicate to what extent they were maintained.

· ***Human resources***

The CIPC’s key employment statistics are reflected in the table below:

**Table 6: CIPC Employment Profile**

|  |  |
| --- | --- |
| Total posts | 606 |
| Total Employment | 468 |
| Vacancy rate (% of total available posts) | 22.8 |
| Black employees (84.8% of total employees) | 397 |
| Female Employees (60.9% of total employees) | 285 |
| Female Employees in senior management (37% of senior managers) | 10 |
| Employees with disabilities (1.7% of total employees) | 8 |

Source: CIPC (2013: 110-132)

Due to an agreement between the trade union and management of the CIPC, a moratorium was set on employing new staff members until the new organisational structure was approved and existing staff placed.

· ***Audit opinion***

The Auditor-General reported material findings on the annual performance report concerning the usefulness and reliability of the information.

In terms of the usefulness of the information, the Auditor General found that 23 per cent of the reported targets were not consistent with the targets set in the Annual Performance Plan; 38 per cent of the targets were not measurable; and 38 per cent of the indicators could not be verified. This was attributed to the lack of sufficient reviewing controls; a lack of awareness of the requirements of the Framework for Managing Programme Performance Information; and the lack of information systems to record and document actual achievements against targets respectively.

In terms of the Business regulation and reputation objective, the Auditor General could not obtain the necessary information and explanations to verify the reliability of the information, there was insufficient appropriate evidence to support this.

The Auditor-General raised a number of areas of non-compliance with laws and regulations and internal control matters.

· *Predetermined objectives*: There were no procedures to effectively report to the executive authority quarterly. The accounting authority had not ensured the maintenance of effective, efficient and transparent systems of internal control.

The following related internal control concerns were raised:

· *Leadership*: Lack of appropriate oversight to ensure that planned and reported indicators agree; and that targets were in accordance with the National Treasury Framework for Managing Programme Performance Information; as well as inadequate monitoring controls to ensure compliance with applicable legislation.

· *Financial and performance management*: Inadequate processes to ensure the preparation of reliable performance reporting and insufficient monitoring of compliance in the areas of predetermined objectives.

The CIPC were addressing issues related to their reporting mechanisms and ensuring that indicators/targets were measurable. In terms of their reporting mechanisms, it was reviewing the processes and systems to extract performance information, as well as reviewing its governance structures and introducing new project delivery methodology to ensure monitoring and achievement of planned targets.

6.1.3.2.          2013/14 Financial Year

The CIPC indicated that it had launched the FNB project and its redeveloped online Annual Return System in August 2013, which should enhance efficiencies in service delivery to companies. Penalties for annual returns that could not be submitted on time due to system development were waived. The CIPC was also investigating several avenues to enhance annual return compliance rates from 39 per cent to an initial target of 50 per cent.

The implementation of its new organisational structure is progressing well. The CIPC was also in the process of establishing self-service terminals at its new office in Sunnyside, Pretoria. The self-service terminals would integrate fingerprint identification verification when registering a business entity or changing details pertaining to a business entity.

Challenges related to its ability to respond to customer queries remained, but the implementation of the Swedish contact centre model has shown a slight increase in the call answered rate. This is expected to improve gradually over time.

Although the first phase of data cleansing has been completed, the quality and integrity of the databases require continued work of maintaining updated information and correcting existing information based on the annual returns. This process included the deregistration of dormant business entities.

The CIPC has shown improvement in meeting their service delivery targets in terms of processing companies, trademarks, patents and design applications. However, the processing of co-operative applications is lagging behind, mainly as these applications are all manually processed. The automation of these processes are dependent on the finalisation of the new Co-operatives regulations. Furthermore, the establishment of the Co-operatives Development Agency should be expedited to ensure that all co-operatives, especially in rural areas, are assisted and supported. There were also limited staff resources dealing with co-operatives as well as equipment and system challenges. In addition, processing of film copyrights is also delayed.

At the end of September 2013, 33 per cent of the 691 cases under investigation were finalised. These cases mostly dealt with unauthorised director changes, reported irregularities from the Independent Regulatory Body for Auditors (IRBA) and internal company disputes.

6.1.3.3.          2014/15 MTEF financial allocations

The CIPC intends to increase its main fees at 5 per cent an annum to keep up with inflation and its intellectual property fees at 20 per cent an annum for the next five years, as these have not been adjusted for more than ten years. Furthermore, new sources of income are expected to be realised over the short to medium term.

Expenditure on employee costs were expected to rise from the 2013/14 financial year to 2017/18 as new employees are appointed within the new structure and a new remuneration framework is developed.

6.1.4.     Key issues raised by the committee

The committee raised concerns with respect to the number of calls not being answered and the modest target set by the CIPC in this regard.  The CIPC informed the committee that it was critical that the call centre is located within the CIPC so that the database was accessible. The Swedish model being rolled-out in October 2013 would remove the notion of a call centre and implement a switchboard system where calls will be diverted to employee volunteers with knowledge of the CIPC. It acknowledged that the system requires a culture change among staff taking responsibilities for calls. The CIPC would measure the number of calls received and answered. This would form part of job descriptions, and would be measured as part of the performance management system.

The committee was concerned that at times the CIPC’s website was unavailable without it effectively communicating this to the public. This aggravated the public’s perception regarding the CIPC’s unavailability and unresponsiveness. The CIPC acknowledged that effective communication with the public was essential. It would endeavour to inform the public timeously regarding planned disruptions and delays in restoring online functionalities.

With respect to trusts, the CIPC informed the committee that trusts were not administered by the CIPC but by the Master of the High Court.

6.2.         Export Credit and Insurance Corporation

6.2.1.     Introduction

The ECIC is mandated to facilitate export trade and cross-border investments between South Africa and the rest of the world. The entity was established under the Export Credit and Foreign Investments Insurance Act (No. 78 of 1957). The ECIC is a public entity, established in terms of the Companies Act. It is therefore subject to paying taxes, complying with the provisions of the Public Finance Management Act, and is designated as a section 3B entity.

The ECIC is a self-funded, state-owned entity under the Department of Trade and Industry. The ECIC is also supervised by the Financial Services Board (FSB).

6.2.1.1.          Strategic Objectives

The ECIC [[36]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm#_ftn36)is driven by five strategic goals which are to:

·         Facilitate export trade and investment outside South Africa.

·         Build mutually beneficial local, regional and global relations to advance South Africa’s trade and economic development objectives.

·         Promote a professional, competitive and customer focused workforce that ensures an effective and efficient service to our customers.

·         Foster risk orientation by creating enterprise-wide risk awareness and apply effective risk management practices.

·         Consistently utilise sound business environmental and social principles, and apply international best practice.

To achieve its strategic objectives and to fulfil its mandate, the ECIC undertakes to: [[37]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm#_ftn37)

·         Formulate export credit and investment underwriting policies,

·         Evaluate potential projects,

·         Establish the rationale for support,

·         Assess export credit risk,

·         Structure securities to mitigate risk,

·         Set country and sector credit limits, and

·         Manage and diversify the credit insurance portfolio.

6.2.2.     Financial and non-financial performance

6.2.2.1.          2012/13 Financial Year

Some of the key performance highlights were:

·         The entity receives its income from insurance premiums. During the 2012/13 financial year, the entity’s net insurance premium revenue amounted to R361.9 million.

·         Its operating expenses for the year amounted to R51.6 million. These were mainly for employee costs (46.4 per cent), remuneration to non-employees (10.1 per cent), rental expenses (5.1 per cent), administration costs (14.5 per cent) and external auditing fees (2 per cent).

·         ECIC had 10 targets for the financial period. Of the 10 targets, 8 were exceeded and two were achieved.

· ***Human resources***

The ECIC is a small organisation. By the end of the 2012/13 financial year, the ECIC had employed 42 employees, 6 employees more than at the end of the previous financial year. Of the 42 employees, 26 per cent was in management positions and the remaining 74 per cent in operational and support functions.

**Table 7: ECIC Employment Profile**

|  |  |
| --- | --- |
| Total number of posts | 53 |
| Total Employment | 42 |
| Vacancy rate (18.9% of total available posts) | 10 |
| Black employees (86% of total employees) | 36 |
| Female Employees (57% of total employees) | 24 |
| Female Employees in Management (45% of Management) | 5 |

Source: ECIC (2013: 37-40)

Four posts were filled after the financial year end. According to the organisational structure [[38]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm#_ftn38), there were still 6 vacant posts, namely the Chief Executive Officer, the company secretary, the professional assistant to the chief operating officer, actuary, senior underwriter and investment officer. The Chief Operations Officer was acting as the Chief Executive Officer at the time. However, the position of Chief Executive Officer was filled during the 2013/14 financial year.

· ***Audit opinion***

The ECIC is audited by independent auditors. For the 2012/13 financial year, the ECIC received an unqualified audit opinion from its auditors with no matters of emphasis and/or additional matters were raised. The independent auditors also established that there were no material findings in terms of the usefulness and reliability of the ECIC’s performance reporting against its Annual Performance Plan.

Furthermore, there were no material losses through criminal conduct and any irregular expenditure and fruitless and wasteful expenditure that occurred during the 2012/13 financial year. However, a minor fruitless or wasteful loss was incurred, namely the reprinting of annual reports due to an error at a cost of R26 000.

6.2.2.2.          2013/14 Financial Year

The ECIC reported on its first quarter financial and non-financial performance for the 2013/14 financial year. It had introduced a new target to support SMEs that wanted to export credit insurance. However, there had not been any applications presented to the Credit Insurance Committee at the end of June 2013.

As corporate social investment (CSI) had been focused on providing bursaries mainly during January and February, CSI spending was less than the targeted 1 per cent of R5 million. The ECIC also indicated that they were investigating other initiatives where they could engage and invest in social development initiatives.

6.2.2.3.          2014/15 MTEF financial allocations

The ECIC has raised the need to secure funding for the Interest Make-Up (IMU) scheme from 2015/16 of at least R300 million from National Treasury. The IMU supports industrial development as it reduces risks to banks for lending credit linked to expansions in exports. Therefore, loans can be offered to South African firms that have secured export contracts, especially to other African countries, that will increase economic growth and/or job creation opportunities.

6.2.3.     Key issues raised by the committee

The committee welcomed the report of the ECIC and the support it provides in terms of insurance to our exports. The ECIC’s informed the committee that their strategic goals are aligned with the DTI’s objectives to build mutually beneficial regional and global relations, to advance South Africa’s exports, and to promote a professional, competitive and customer-focused working environment that ensures effective and efficient service delivery.

The ECIC was of the view that the current global economic environment and the depressed economic outlook of South Africa’s traditional trading partners highlight the importance of export facilitation and investment into new markets. As a result of the global environment, African countries have become competitive in the global arena looking for growth and investment opportunities. Africa as a growth node presents opportunities in mining, infrastructure, and industrial projects for South Africa. In addition, its membership of BRICS presents new opportunities for value-added products. However, a closer collaboration between the public and private sector is needed to enhance the country’s competitiveness.

The infrastructure programme is vital to unlock Africa’s economic potential of the continent, but a major challenge of the infrastructure backlogs hampers regional integration. The ECIC informed the committee that it is working closely with the Industrial Development Corporation to offer performance bond insurance for SMME exporters. In line with the IPAP, the ECIC also offers special products for boat-builders such as the provision of insurance for advance payment guarantees required by overseas buyers, and insurance for a working capital facility offered by a bank during the boat-building phase.

One of the key goals of the ECIC is to facilitate export trade and investment outside South Africa which is in line with the National Development Plan’s objective to increase intra-regional trade in Southern Africa as well as with its regional neighbours. However, there were challenges facing the organisation that raised the riskiness of underwriting transactions in the region, such as the political instability in sub-Saharan Africa, inefficient border management, and poor regulations. The business of the ECIC is to look at political risks associated with projects, but also to look at opportunities given these political risks. Instability does not reign throughout the continent with the ECIC focusing on identifying opportunities for our exporters.

With respect to the 18 per cent vacancy rate reflected in the report, the ECIC informed the committee that the vacancies were due to the establishment of new positions with only one or two positions not yet filled.

The committee fully supports the recapitalisation of the ECIC, given the value of the work it does in increasing diversified and value-added exports, enabling expansion of the manufacturing sector and job creation.

6.3.         National Consumer Commission

6.3.1.     Introduction

The National Consumer Commission (NCC) was established by the Consumer Protection Act (CPA) (No. 68 of 2008) and became operational on 1 April 2011. The NCC’s core mandate is to assist in protecting consumer rights by increasing consumer awareness of what these rights are and investigating prohibited conduct by business and enforcing compliance with the provisions of CPA. This core mandate falls within the Department of Trade and Industry’s strategic objective to “create a fair regulatory environment that enables investment, trade and enterprise development in an equitable and socially responsible manner”. The NCC, therefore, has a critical role to play in empowering consumers, especially rural and low income consumers, who are often most affected by unfair business practices and least able to address these challenges.

6.3.1.1.          Functions

According to the Act, the NCC’s functions include the:

·         Development of codes of good practice relating to the provisions of the Act.

·         Promotion of legislative reform through consultation with provincial consumer protection authorities, national organs of state and consumer protection groups, alternative dispute resolution agents and suppliers.

·         Promotion of consumer protection within organs of state.

·         Enforcement of the Act including the investigation and evaluation of any prohibited conduct and offences, issuing and enforcing compliance notices.

·         Research to increase knowledge of the nature and dynamics of the consumer market.

·         Promotion of public awareness of consumer protection matters.

·         Liaison with other regulatory authorities on matters of common interest.

·         Provision of advice and recommendations to the Minister.

6.3.1.2.          Core issues identified by the committee

During the Portfolio Committee on Trade and Industry’s previous engagements with the NCC, the following core issues were identified:

·         Lack of compliance with the Public Financial Management Act (PFMA), especially related to the implementation of governance structures.

·         Lack of leadership in ensuring sufficient oversight over financial reporting, legal compliance and related controls in the 2011/12 financial year.

·         Substantial irregular expenditure of R8.5 million or 25.5 per cent of total expenditure.

·         Performance targets and actual performance measured were misaligned in certain instances.

·         Procedural discrepancies in the issuing of compliance notices leading to legal cases against the NCC and substantial financial burden on the NCC.

·         There was a breakdown in the relationship between the NCC and the National Consumer Tribunal.

·         The high vacancy rate within the NCC, especially of key positions.

6.3.2.     Financial performance

6.3.2.1.          2012/13 Financial Year

The NCC received a transfer of R48.3 million from the DTI, a 36.6 per cent increase from the 2011/12 financial year. The NCC spent R44.7 million, leaving a surplus of R3.7 million or 7.7% of total revenue, which is outside the accepted range of 5 per cent of revenue. A breakdown of the expenditure for the 2011/12 financial year is provided in the figure below:

Source: (NCC 2013b: 103)

Employee related costs include remuneration for employees, the members of the audit committee and the executive management. The executive management’s total remuneration consisted of 25.5% of this budget.

The notes on the administration and other operating costs continue to not provide much further detail on the actual amounts spent on sub-categories. This is concerning as these two categories contribute 98 per cent to the other operating expenditure.  There had been a decline in expenditure on travel and subsistence costs from R0.47 million in 2011/12 to R 0.33 million in 2012/13.

· ***Irregular expenditure***

Irregular expenditure increased from R8.5 million in 2011/12 to R15.6 million in 2012/13 (34.9 per cent of total expenditure), of which:

·         R8.2 million (52.7 per cent of irregular expenditure) was due to not following the proper procurement process.

·         R2.9 million (18.4 per cent of irregular expenditure) was due to irregular legal fees.

·         R2.4 million (15.5 per cent of irregular expenditure) was as a result of documentation/contracts not being available. This was linked to an alleged burglary at the NCC offices.

·         R1 million (6.4 per cent of irregular expenditure) was linked to a deposit paid for the call centre management system that was contracted to RAM (see NCC (2012b: 108) for further detail).

·         R0.8 million (5.4 per cent of irregular expenditure) was irregular in terms of the PFMA.

·         R0.2 million (1.5 per cent of irregular expenditure) was due to non-compliance with procurement processes for goods and services between R10 000 and R500 000.

· ***Fruitless and wasteful expenditure***

Fruitless and wasteful expenditure increased significantly from R135 in 2011/12 to R3.6 million in 2012/13 (8 per cent of total expenditure). However, R1.6 million of this was identified in the 2012/13 financial year but was attributable to the previous financial year. This expenditure included:

·         Legal fees for the former Commissioner in her personal capacity (R45 600 in 2011/12 and R27 622 in 2012/13).

·         Assets paid for and never received (R1 million in 2011/12 and R0.3 million in 2012/13).

·         Assets no longer in use (R0.13 million in 2012/13).

·         VAT incorrectly claimed (R0.48 million in 2011/12 and R0.76 million in 2012/13).

·         Call centre management system (R0.72 million in 2012/13).

Many of the NCC’s service delivery challenges link directly or indirectly to the lack of financial resources. However, additional financial resources cannot be secured without a proven track record of spending and good governance, which in turn require the proper management of resources in compliance with the PFMA. Failing the establishment of well-functioning governance systems and implementing appropriate policies and procedures, the NCC’s access to additional funding will be limited. In this regard, the filling of critical management positions is essential.

· ***Auditor-General’s Report***

In terms of the financial statements, the Auditor-General’s opinion was qualified compared to an unqualified opinion in the 2011/12 financial year. The qualified opinion was based on:

·         Irregular expenditure that could not be adequately confirmed due to supporting information being stolen from the NCC’s premises and inadequate filing of information.

·         Operating expenditure for the prior year was incorrectly allocated to the 2012/13 financial year.

Other emphasis of matters related to (i) significant uncertainties linked to disclosed contingent liabilities for a lawsuit and a claim for cancelling contracts and the retention of R2.8 million without Treasury approval; (ii) the restatement of corresponding figures; and (iii) material impairments as a result of long outstanding receivables.

He raised a number of areas of non-compliance with laws and regulations and internal control matters. Many of these have remained and worsened since the Auditor-General’s report for the 2011/12 financial year.

· *Internal audit*: The Commissioner had not ensured that the internal audit function was established, which resulted in poor reporting to the audit committee, lack of evaluation of the effectiveness and efficiency of internal controls, the reliability and integrity of financial and operational information and compliance with laws and regulations.

· *Audit committees*: Due to the abovementioned concerns, the audit committee was unable to fulfil its functions of reviewing the effectiveness of the NCC’s internal audit function, internal control systems, the adequacy, reliability and accuracy of the financial information and the institution’s compliance with legal and regulatory provisions.

· *Budgets*: Quarterly reports of actual and projected revenue and expenditure were not submitted to the DTI and the NCC retained its accumulated surpluses without Treasury approval.

· *Annual financial statements, performance and annual report*: Firstly, financial statements were not fully prepared in all material respects in relation to the prescribed financial reporting framework and/or were not supported by full and proper records. Secondly, there had been material misstatements on the initial financial statements received by the Auditor-General’s office but these had been subsequently corrected.

· *Expenditure management*: Reasonable steps had not been taken to prevent and detect irregular and fruitless and wasteful expenditure. Furthermore, no disciplinary action had been taken against officials responsible for these types of expenditure. In addition, payments for goods and services were paid prior to their receipt, which is in contravention of Treasury regulations.

· *Procurement and contract management*: There had been non-compliance with Treasury regulations with transactions above and below the value of R500 000. Due to documents being stolen and the NCC’s inadequate filing system, sufficient appropriate audit evidence could not be obtained.

· *Asset management*: Proper control systems to safeguard and maintain assets were not implemented.

The following related internal control concerns were raised:

· *Leadership*: The accounting authority had not ensured sufficient oversight over financial reporting, legal compliance and related controls; human resource management; establishment and communication of policies and procedures; and the development and monitoring of the implementation of action plans to address internal control deficiencies.

· *Financial and performance management*: Management had not exercised adequate monitoring to prevent legal non-compliance; implemented proper record keeping; and prepared regular, accurate and complete financial and performance reports.

· *Governance*: The internal audit unit was not adequately resources and functioning and the audit committee had not promoted accountability and service delivery through evaluating and monitoring responses to risks and providing oversight over the effectiveness of the internal control environment.

· ***Investigations***

Two investigations had been on-going during the 2012/13 financial year:

·         An independent consulting firm were investigating certain procurement irregularities with regard to the appointment if certain officials at the NCC. This was concluded in May 2013 and certain recommendations were made for follow-up.

·         The Public Protector South Africa’s investigation regarding allegations of irregular procurement and recruitment was concluded and recommendations were made to improve the NCC’s financial controls and supply chain management processes.

6.3.2.2.          2013/14 Financial Year

In terms of the financial state of the NCC, the following issues have come to the fore:

·         For the 2013/14 financial year, and the next three years going forward, the NCC’s budget will not sufficiently provide for the expected service delivery levels.  This is particularly as a result of the high vacancy rate as mentioned above.

·         The NCC has requested additional funds from the Department for the 2013/14 financial year.

·         Furthermore, for the 2013/14 financial year, an amount of R1.4 million has been allocated to meat investigations linked to meat testing and labelling. This allocation has taken away from other activities as outlined on the APP.

6.3.2.3.          2014/15 MTEF financial allocations

Although the NCC did not indicate their need for additional forward looking funds, the committee raised concerns around its current funding. The committee was of the view that the NCC is a critical commission. It was encouraged by the progress made by the new Commissioner in establishing governance structures and the necessary policies and procedures in compliance with the PFMA. However, the committee was concerned by the NCC’s almost 76 per cent vacancy rate, as this compromised its service delivery. In addition, the NCC was barely able to conclude one investigation on meat product labelling due to lack of funding. Its inability to adequately investigate the non-compliance of sectors due to inadequate financial and human resources inhibits its enforcement capacity.

6.3.3.     Non-financial performance

6.3.3.1.          Realignment of non-financial performance indicators

Under the previous Commissioner, the NCC had set eleven priorities for the 2012/13 – 2016/17 periods. These were (NCC 2012: 15):

·         Protect consumers from hazards through advocacy, education and awareness.

·         Improve consumer redress as envisaged by the CPA (complaints handling system)

·         Protect consumers from unethical business practices and misconduct through law enforcement and compliance.

·         Conduct research for policy, legislative and regulatory framework improvement.

·         Achieve customer and stakeholder expectations.

·         Ensure the establishment of a functional organisation.

·         Achieve the mandate of the NCC with an optimal staff complement.

·         Implement an organisation wide performance management system.

·         Create the brand of the NCC as South Africa’s consumer voice.

·         Provide an effective Information and Communication Technology (ICT) infrastructure and network.

·         Implement an effective and efficient financial management system.

However, the strategic plan was revised in January 2013. This led to a simplification of the NCC’s strategic objectives, namely to (NCC 2013a: 13):

·         Promote compliance with the Consumer Protection Act.

·         Be a well-governed and capacitated organisation.

Furthermore, performance indicators and targets were refined to ensure that these were aligned to the NCC’s core mandate and were measurable and achievable. This refinement has impacted on the ability to monitor the NCC actual performance against the targeted performance, as the targets and the performance indicators have been significantly changed from those in the initial Strategic Plan (NCC 2012) and the revised Strategic Plan (NCC 2013a) does not provide performance indicators or targets.

6.3.3.2.          Actual performance

As the Auditor-General indicated, only 3 of the 16 targets were achieved. This was linked to the following key challenges:

·         Lack of human resources and ICT support.

·         Lack of financial resources.

·         Late assessment and analysis of performance, as the revised Strategic Plan was implemented in quarter 3 and 4.

Progress made was concentrated in the area of consumer advocacy, education and awareness, with the exception of capacitating consumer protection groups and creating the brand of the NCC as the South African consumer voice. However, it will be critical to establish the effectiveness of these programmes in empowering consumers and raising their awareness of their rights.

Furthermore, there has been a significant shift in the operations of the Enforcement and Investigations Unit, with the focus returning to investigations and the NCC referring complaints to the relevant authorities, where the NCC has been the first port of call, rather than handling all complaints itself. There appears to have been good progress made in addressing areas of non-compliance when a less confrontational approach was adopted by the NCC in dealing with the ICT, medical and pharmaceutical and retail and manufacturing sectors.

The NCC has “withdrawn” matters that were before the National Consumer Tribunal and revised its internal processes to ensure that matters were procedurally correct. The two changes will lower the number of legal cases the NCC is involved in and thus lower the associated legal costs.

6.3.3.3.          Audit opinion

The Auditor General found no material findings on the annual performance report concerning the usefulness and reliability of the information. However, 81 per cent of the planned targets were not achieved during the 2012/13 financial year and there were material misstatements that were subsequently corrected by management.

The then Acting Commissioner had attributed this to the late revision of the Strategic Plan to realign the work of the NCC to its legislative mandate as prescribed in the CPA.

6.3.3.4.          Human resources

Based on the human resource information provided on pages 33-36 of the Annual Report (NCC 2013b), the following is highlighted:

·         The NCC has an approved structure with 132 positions. However, only 32 of these positions were filled at the end of March 2013, representing a vacancy rate of 75.8 per cent.

·         The NCC was also employing a further 33 employees that were outside of the approved structure, two contractors and one seconded official, resulting in a total staff complement of 68.

·         The then Acting Commissioner had indicated that the NCC had been undergoing a skills audit in an attempt to place the 33 employees within the approved structure and to ensure that the appropriate skills were available within the NCC.

·         The vacancy rate was expected to remain high over the current financial year due to financial constraints, which cannot be addressed without adequately functioning governance structures and policies and procedures in place to ensure compliance with the PFMA.

·         The high vacancy rate, especially related to certain critical positions, will affect service delivery into the future, as the demand for the NCC’s services increase and alternative consumer protection mechanisms are not accredited and functional.

6.3.4.     Key issues raised by the committee

The committee welcomed the transparency reflected in the NCC’s report. This related to the irregular employment of 33 employees, and the payment of the private legal fees of the former commissioner among others. The committee is concerned with a number of other issues relating to the racial composition of staff, irregular expenditure, the ability of the NCC to fulfil its mandate, the break-in at the NCC, and the financial soundness of the organisation.

With respect to employment of staff, the NCC informed the committee that irregular employment was associated with the previous commissioner who, before her departure, appointed 33 staff members on full-time basis who were previously on month to month contracts. In order to maintain stability at the NCC, it was agreed by the Minister that the employees would be absorbed into the new organisational structure.

The delay in the investigation into the break-in at the NCC remains a concern to the committee, as it is not clear what records have been stolen.

In its 2011 and 2012 BRRRs, the committee raised the issues of jurisdiction and the relationship with the National Consumer Tribunal. The NCC informed the committee that it is working closely with the Consumer Goods Council as well as the National Consumer Tribunal to fund a common solution to protect consumers. Currently, the NCC is collaborating with these bodies in developing a set of protocols to ensure that consumers understand the roles of the different bodies.

In the 2011/12 Annual Report, the Auditor-General’s opinion was unqualified in terms of the financial statements, namely that the statements fairly represented the financial position of the NCC, based on existing information. However, he raised a number of areas of non-compliance with laws and regulations and internal control matters. In 2012/13, the NCC received a qualified report which was due to irregular expenditure and a number of audit concerns. This included the discovery of a number of discrepancies from the 2011/12 financial year. The committee suggested that the NCC engages with the Auditor-General on how the matter could be addressed to ensure that this did not become a recurring concern in future audit reports. In addition to 81% of the planned targets were not met, issues such as non-compliance with laws and regulations and lack of internal controls had deteriorated further in the 2012/13 financial year. A concern for the committee was how the NCC intends to address these irregularities to ensure a unqualified opinion in 2013/14. The NCC acknowledged its shortcomings with respect to the abovementioned.

During numerous engagements with the NCC, the issue of the demographic profile of the employees were raised which did not reflect South Africa’s racial profile. The committee was concerned that its 2012/13 report reflected no progress in this regard. Another concern was the high vacancy rate at the NCC given the importance of consumer protection. Currently, due to financial constraints, the NCC is not in a position to go on a recruitment drive, but would attempt to address the racial aspects of its employment equity profile in this process.

6.4.         National Empowerment Fund

6.4.1.     Introduction

The mandate of the National Empowerment Fund (NEF) is to promote and facilitate the participation of black people in economic activities. The NEF achieves this mandate by giving financial and non-financial support to black empowered businesses. Furthermore, the NEF encourages the creation of wealth for black people through the promotion of savings and investment.  This mandate is aligned to the country’s aim of promoting the participation of black people in the economy and creating jobs.

The NEF offers a range of products and services aimed at assisting black empowered businesses. These include financial support through various funds targeted at starting businesses, expansions and acquisitions; and non-financial support such as mentoring of small businesses, providing funding and business planning advice as well as risk monitoring for start-ups.

6.4.1.1.          Strategic objectives

The NEF’s performance targets are directly aligned to its strategic objectives which are to: [[39]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm#_ftn39)

·         Provide finance to business ventures established and managed by black people.

·         Invest in black-empowered businesses that have high employment creating opportunities.

·         Advance black economic empowerment through commercially sustainable enterprises.

·         Facilitate investment across all provinces in South Africa.

·         Establish the NEF in the South African economy as a credible and meaningful development finance institution.

·         Establish the NEF as a sustainable development finance institution.

6.4.1.2.          Core issues raised from the 2011/12 Annual Report engagement

In the committee’s engagement with the NEF during the Budgetary Review and Recommendation Report (BRRR) process for the 2011/12 financial year, the following key issues came into the fore:

· ***The number of businesses funded by the NEF that were still operating***

According to the NEF by the end of the 2011/12 financial year, a total of 384 transactions had been approved and approximately 300 of the businesses assisted through those transactions were still operating successfully. However, most of the businesses that were no longer operating successfully were SMMEs and had been adversely affected by the harsh economic conditions. With this in mind, the NEF provides a mentorship programme through its post-investment unit to ensure that businesses can continue operations.

· ***Memorandum of Understanding (MOU)***

During its engagements with the committee, the NEF informed the committee that it was in the process of establishing a Memorandum of Understanding (MOU) with the Ministry of Trade and Investment in the United Kingdom (UK). This MOU is aimed at UK-owned subsidiaries in South Africa to ensure that they incorporate South African suppliers in their value chains. Furthermore, the NEF sought to have similar MOUs with other countries in various sectors.

· ***Recapitalisation and reclassification of the NEF***

During these engagements, the NEF’s Chief Executive Officer (CEO) informed the committee that there was a need for the recapitalisation of the NEF despite the NEF having capital available for future disbursements of R3.7 billion based on the cash and cash equivalents and the investments available for sale at the end of March 2012. This has been slightly reduced to R3.6 billion at the end of March 2013. [[40]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm#_ftn40)There was a need for recapitalisation over the MTEF of R3.3 billion [[41]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm#_ftn41).

In 2004, the NEF was capitalised with an amount of R2.5 billion from the Government. Between 2004 and 2010, this amount was disbursed. From 2010, the NEF has been a financially self-sustaining entity through interest income from its investments. However, during the budget process in April 2013, the NEF brought up the issue of recapitalisation or reclassification to the committee.

According to the NEF’s CEO, the entity has pursued the two options available to it in order to raise the required funds, the reclassification from being a Schedule 3A entity to a Schedule 2 entity to ensure that the NEF has the ability to acquire alternative funding from the market. Furthermore, the NEF has applied, for funding, to the DTI and the National Treasury.

During the committee’s engagement with the Department on 20 September 2013, the Director-General, Mr*Lionel October, informed the committee that the Department supported the NEF in its application for additional funding.*

6.4.2.     Financial performance

6.4.2.1.          2012/13 Financial Year

· ***Financial overview***

By the end of the observed financial year (2012/13), the NEF’s total assets were R5.4 billion, approximately 2 per cent more than they were at the end of the previous financial year. Total current liabilities amounted to R49.2 million for the financial year. The liabilities were much less than the cash that the NEF has easy access to through its bank including current account, short-term deposits and cash on hand, these amounted to R1.7 billion.

From the 2011/12 financial year, there was a significant amount of investments that were approved and committed to but not disbursed. This impacted on disbursements in the 2012/13 financial year with disbursements on core activities amounting to R703 billion, 18% higher than disbursements in the 2011/12 financial year.

The NEF’s revenue stream has fluctuated in the past two financial years. Revenue declined by 6.7 per cent from R359.5 million in 2010/11 to R335.5 million in 2011/12 and increased by 3.6 per cent in 2012/13. This was a direct result of a decline in interest received from investments.

Administrative costs amounting to R191.9 million in 2011/12 continued to increase to R218.5 million in 2012/13. The increase in administrative expenditure was mainly as a result of an increase in staff costs which increased from R108.6 million in 2011/12 to R131.4 million in 2012/13.

There was a significant increase in the provision for impairments during the 2012/13 financial year. The provision for impairments on investments had more than doubled (176 per cent more) for the observed financial year from R105 million in 2011/12 to R289.8 million in 2012/13. The increase in the provision for impairments is attributed to harsh economic conditions that impacted on businesses during the year.

· ***Audit opinion***

The NEF is audited by independent auditors. For the 2012/13 financial year, the NEF received an unqualified audit opinion from its auditors with no matters of emphasis and/or additional matters. The independent auditors also established that there were no material findings in terms of the usefulness and reliability of the NEF’s performance reporting against its Annual Performance Plan.

6.4.2.2.          2013/14 Financial Year

No 2013/14 information was available.

6.4.3.     Non-financial performance

6.4.3.1.          2012/13 Financial Year

During the financial year under review, the NEF had a total of 23 targets out of which 17 targets were achieved. This represents 76 per cent achievement of targets.

Among the targets that were not achieved were those that relate to the first strategic objective, *“Provide finance to business ventures established and managed by black people”.*Targets under this strategic objective relate to disbursement facilities through various funds of the NEF including the uMnotho Fund, Strategic Projects Fund, the iMbewu Fund and the Rural and Community Development Fund. The NEF had planned to establish a total of 104 new disbursement facilities but managed to disburse only 87 during the financial year. However, the value of disbursed facilities was significantly higher than the target, with a R26.5 million deviation.

According to the NEF, this can be attributed to the average level of required funding per project being higher than projected.

In terms of non-financial support, the NEF has managed to achieve its target with the exception of opening two new offices in other provinces. The entity notes that this was as a result of financial constraints. Recapitalisation is being pursued.

At a sustainability level for the NEF, the entity aimed at ensuring sustainability through obtaining a 12 to 15 per cent return on investments, minimising impairments and write-offs. In this regard, the NEF has not managed to achieve the main targets, the targeted level of impairments was not reached and return on investments was lower than the targeted level.

Some of the key achievements during the 2012/13 financial year were:

·         Funding given to businesses was projected to support a total of 15 555 jobs (11 408 new jobs and 4 147 retained jobs).

·         Assistance in the form of disbursed funds amounting to R946.5 million has been given to businesses.

·         The better spread of investment across all provinces has been achieved.

· ***Human Resources***

The NEF’s structure allows for 195 employees. By the end of the 2012/13 financial year, 168 employees were employed. This number results in a relatively high vacancy rate. However, according to the NEF, it is still able to perform its functions.

**Table 8: NEF Employment Profile**

|  |  |
| --- | --- |
| Total posts | 195 |
| Total Employment | 168 |
| New employees (employed during the financial year) | 29 |
| Vacancies (13.8% vacancy rate) | 27 |
| % of Female employees | 60% |

Source: NEF (2013: 62-63)

6.4.3.2.          2013/14 Financial Year

No 2013/14 information was available.

6.4.3.3.          2014/15 MTEF financial allocations

The NEF faced the risk that it would be unable to follow through on its equity options secured in early stage projects if it was not recapitalised. In this instance, it would have to sell its equities to continue its strategic initiative. Furthermore, this will also impact on its sustainability over the MTEF based on its current capital and internally-generated cash flows.

The NEF, with the support of the DTI, has been engaging the National Treasury to allow it to be rescheduled from a Schedule 3A entity to a Schedule 2 entity to allow it to leverage its capital. This would allow it to access possible funding from the Industrial Development Corporation of approximately R1 billion. In addition, it has sought recapitalisation over the last two years through the MTEF process.

6.4.4.     Key issues raised by the committee

In numerous engagements with the committee, the NEF informed the committee that in order to fulfil its mandate that of promoting and facilitating the participation of black people in economic activities it should be recapitalised. The NEF had considered two options available to raise the necessary funds, namely (i) reclassification to a Schedule 2 entity and (ii) requesting funds from the fiscus. The DTI informed the committee that the NEF had raised the matter in 2011. The initial focus of the engagement with the National Treasury was with respect to the reclassification from a Schedule 3A to a Schedule 2 entity. This process is ongoing. The DTI also supported the NEF’s request for recapitalisation.

The committee enquired whether the NEF would be able to fulfil its mandate given its current financial position and the fact that it has suspended further investment and financing decisions. The NEF informed the committee that it is solvent, but had reassessed its financial position. After a number of engagements between the Board and the Executive and with government, the NEF concluded that additional time was required to raise the necessary capital. The NEF then took a decision to suspend financing and investment decisions which will enable the NEF to honour its existing commitments. This would provide the necessary space for the NEF to renegotiate with the fiscus with regard to recapitalisation.

In response to the NEF listing on the JSE to raise the necessary funds, the NEF informed the committee that it would not be financially prudent to do so at this stage, as its underlying investments required time to mature. Securing funds from the fiscus and also using funds generated by the MTN share scheme to fund the operations and investments of the NEF would be more desirable. Another option for the NEF was first to seek finances from South African development finance institutions (DFIs) before it goes to the international market.

The committee enquired about the criteria used in the provision of funds to entrepreneurs and how the NEF ensures that these small companies have the potential to contribute to economic growth and job creation. The committee further enquired to the role of the NEF in addressing the apartheid legacy given that rural areas are not seen as economic hubs. The NEF informed the committee that the rationale for providing the necessary funds for projects was to create opportunities that would stimulate economic growth and job creation. The Strategic Project Fund was created to expedite black economic participation in leading sectors which would impact positively on the South African economy. Many of these projects, with the majority being local, have potential to grow the economy and contribute towards job creation. The NEF also informed the committee that their long-term vision was to invest in the rest of Africa. The establishment of the Rural and Community Development Fund sought to promote sustainable change in social and economic relations and which supports goals of growth and development in the rural economy through financing sustainable enterprises. The NEF was of the view that this can only be achieved through the mobilisation of rural communities into legal entities or co-operatives to facilitate participation in broader economic activities. This would contribute to the economic transformation of rural South Africa.

In response to a question with respect to investment in economically marginalised provinces, the NEF informed the committee that not only the NEF, but other local DFIs, have problems identifying viable projects. A partnership model between the province, the NEF and local DFIs is required with the province playing a lead role in identifying investment opportunities.

6.5.         South African Bureau of Standards

6.5.1.     Introduction

The South African Bureau of Standards’ (SABS) legislative mandate is established under the Standards Act, 2008 (Act No. 8 of 2008). The Agency is mandated to:

·           Develop, promote and maintain South African National Standards (SANS);

·           Promote quality in connection with commodities, products and services; and

·           Render conformity assessment services and assist in matters connected therewith. [[42]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm#_ftn42)

In line with this mandate, SABS provides standards setting, testing, certification, training, design and innovation products and services.

6.5.1.1.          Strategic objectives

In 2010, SABS produced a five year strategy, including the number of planned targets to be achieved before 2015/16. SABS had predicted that during the first five years of the strategy the economy will experience low growth but beyond 2015/16 growth will experience higher levels of growth. However, the financial forecast and target did not take into account the even lower levels of growth that the country experienced since 2010. This created unrealistically high performance targets. Therefore, the Executive Authority and the Accounting Authority took a decision to adjust the targets.

SABS set nine priorities as outlined below:

·         Increasing the value in SABS services to the economy.

·         Publishing home-grown standards.

·         Awarding conforming tests, reports and certificates.

·         Producing standards and conforming assessments to meet Industrial Policy Action Plan (IPAP) requirements.

·         Increasing SABS’ membership in international organisations and management structures of multilateral standardisation organisations.

·         Reducing time for publishing standards.

·         Developing leadership development programmes.

6.5.2.     Financial performance

6.5.2.1.          2012/13 Financial Year

The entity’s income is acquired from commercial operations including Testing, Certification, Training, and Standards and from grant funding received from the Department of Trade and Industry (DTI). For the 2012/13 financial year, SABS’ revenue amounted to R484.9 million from commercial activities and R163.1 million in grant funding.

Expenditure was dominated by remuneration to employees. Employee remuneration accounted for approximately 60 per cent of total expenditure. Other significant expenditures included direct operating expenses, municipal rates and consumable supplies.

· ***Audit Opinion***

The SABS has been audited by the Auditor General and it is satisfying to note that the entity has maintained a clean audit for the past four years between 2009/10 and 2012/13.

For the 2012/13 financial year, the SABS received an unqualified audit with no findings (clean audit opinion). The Auditor General also established that there were no material findings in terms of the usefulness and reliability of the SABS’ performance reporting against its Annual Performance Plan. Furthermore, the Auditor General noted that there were no findings of irregular expenditure.

However, according to the Auditor General, fruitless and wasteful expenditure increased during the 2012/13 financial year. In 2011/12, fruitless and wasteful expenditure amounted to R0.89 million and in the 2012/13 financial year, fruitless and wasteful expenditure increased to R1.23 million.

Furthermore, the Auditor General noted that Information Technology (IT) controls could be improved.

6.5.2.2.          2013/14 Financial Year

At the end of June 2013, the SABS sales revenue (R113.1 million) was lower than targeted (R132.7 million). This was attributed to low revenue received from the Mark Scheme and new business that had not materialised. Overall income was 13 per cent less than budgeted for the first quarter (R158 million was received compared to budget income of R181.3 million). Administrative and operating expenditure over the period was R155.4 million compared to R170.5 million budgeted expenditure.

6.5.3.     Non-financial performance

6.5.3.1.          2012/13 Financial Year

Within the strategic priorities and the adjusted targets, the following performance resulted:

·         SABS achieved 10 of the 11 targets set for the 2012/13 financial year.

·         The one target that was not achieved deviated by a small margin. This target was the number of projects introduced and to expand conformity assessment services where 5 projects were introduced instead of 6 projects.

· ***Human Resources***

The SABS’ approved structure allows for 1 374 employees. By the end of the 2012/13 financial year, 1 089 employees were employed. This number resulted in a relatively high vacancy rate at 20.74 per cent. A total of 175 new employees were employed during the financial year.

**Table 9: SABS Employment Profile**

|  |  |
| --- | --- |
| Total posts | 1 374 |
| Total Employment | 1 089 |
| New employees (employed during the financial year) | 175 |
| Vacancies (20.74% vacancy rate) | 285 |
| % of Female employees | 55.4% |

Source: SABS (2013: 110 -127)

There were 91 resignations during the year representing 8.4 per cent of total employment. The SABS is currently the only institution that provides technical training related to standards. It therefore tends to provide these skills to the private sector and the rest of the country. However, with the review of its remuneration structure, it expects to reduce the number of resignations.

*Employment Equity*

Female employees account for 55.4 per cent of total employees in the organisation and 60 per cent of senior management. Employees with disabilities accounted for 2.1 per cent.

**Table 10: SABS Employment Equity Profile**

|  |  |
| --- | --- |
| **EMPLOYMENT EQUITY** | **EMPLOYEES WITH DISABILITIES** |
| **Race** | **Male** | **Female** | **Male** | **Female** |
| African | 380 | 323 | 5 | 4 |
| Coloured | 24 | 27 | 0 | 0 |
| Indian | 35 | 23 | 1 | 0 |
| White | 156 | 121 | 4 | 9 |
| **Total** | **595** | **494** | **10** | **13** |

Source: SABS (2013: 110 -127)

*Other employment issues*

·         Cases of misconduct/disciplinary hearings – a total of 19 cases were adhered to during the year of which 8 led to dismissals. The cases were particularly linked to bringing the company into disrepute, negligence, and theft and fraud.

·         In 2008, certain functions and resources shifted from the SABS to the NRCS. This led to employee dissatisfaction because the two organisations’ remuneration structures differed, SABS was unable to offer similar wage increases to that negotiated for the NRCS’ employees by the shared shop stewards.  This led to a strike action that led to a loss of R0.7 million in revenue.

6.5.3.2.          2013/14 Financial Year

Of the 12 non-financial indicators reported on, six met or exceeded the first quarter target. The indicators not met included:

·         Number of SMMEs for whom improvement projects are implemented.

·         Per cent of committees fully using installed modules of e-commerce.

·         Per cent of the 36 laboratories that are on Laboratory Information Management System (LIMS).

·         Per cent of laboratories on Mission-Directed Work Teams (MDWT).

·         Number of laboratories where a business development capacity is established (officer appointed).

·         Number of laboratories where technical thought leadership is introduced (scientific officer appointed).

Despite the initial lag, substantial progress appears to have been made during the second quarter to reach the annual targets. However, in terms of LIMS, there was a decision to configure all laboratories first and then to bring all laboratories online simultaneously by March 2014. Currently, 90 per cent of laboratories have been configured.

6.5.4.     Key issues raised by the committee

The committee enquired about the status of the Polymerase Chain Reaction (PCR) Laboratory and whether the SABS conducts testing on the level of brine contained in frozen chicken. The SABS informed the committee that the PCR laboratory is in place but no testing had been done because it is not mandatory for industry to do so. With respect to the testing of brine in frozen chicken, the SABS currently did not have a testing facility for brine in frozen chicken. No legislation or regulation exists that would require testing of food products by industry or that would require the SABS to set up a facility that can be utilized by industry.

The committee expressed a view that the importation of substandard products, especially water geysers, must be curtailed.  The SABS informed the committee that government was procuring products that did not conform to the domestic standards. As standards for water geysers were not regulated, SABS cannot intervene. Compulsory specifications fall within the mandate of the National Regulator for Compulsory Specifications which must ensure that the procurement of solar heaters, which is a government designated product for procurement, meets the necessary compulsory specifications. The SABS informed the committee that in other countries like Brazil, products being imported must undergo the necessary testing and standardization processes.

With respect to SMMEs, the committee enquired whether the SABS assisted in ensuring that products developed and produced by SMMEs were SABS compliant. The SABS informed the committee that they established a unit focusing on supporting SMMEs with product development, testing and understanding the requirements for specific products. As part of this programme, the SABS informed the committee that it had formed a partnership with the Department of Economic Development in the Eastern Cape.

With respect to the outreach strategies to promote SABS, the SABS informed the committee that it had appointed a general manager for marketing, communication and stakeholder management. The general manager is currently developing a strategy that should include outreach programmes, awareness campaigns, television and radio adverts. The SABS are involved with schools through Saturday classes and had donated laboratory equipment to schools.

In response to questions regarding the relationship between SABS, the International Standards Organisation (ISO) and local standards, as well as the role of standards in the enhancement of intercontinental trade, the SABS informed the committee that ISO is a worldwide federation of national standards bodies, currently comprising of more than 160 member states. The objective of ISO is to promote the harmonisation of standards and related activities in the world with a view to facilitate the international exchange of goods and services, and to develop cooperation in the spheres of intellectual, scientific, technological and economic activities. The results of ISO technical work are published as international standards. SABS is one of the founding members of ISO (established in 1947) and has been a significant contributor to international standardisation. The SABS is a leading standardization body in Africa and is held in high esteem by ISO as the gateway to Africa for international standardisation.

In response to the question on SABS’ role in terms of developing standards for indigenous knowledge systems (IKS), SABS responded that it has initiated the following for the standardisation of African Traditional Medicines (ATM):

·         Conducted a value chain analysis of the ATM sector and published these in a report titled: Out of the Shadows.

·         Developed the Guidelines on Good Agricultural and Collection Practices, and sustainable harvesting.

·         Pilot testing of ATM remedies based on World Health Organisation’s Guideline on Residues and Contaminants.

·         Established a Technical Committee on ATM which is comprised of ATM associations; government departments and agencies.

·         SABS ATM Technical Committee has identified an initial programme of work for:

o    Moringa and moringa products

o    Conformity assessment of ATM preparations

o    Guidelines for ATM clinics

o    Dispensing guidelines for practitioners - Extemporaneous Preparations and Dispensing guidelines

·         Initiated discussions with the IDC on establishing a Spatial Development Agency for the ATM sector.

·         Presented to SADCSTAN (SADC Co-operation in Standardisation) on ATM. SABS is the nominated chairperson for the SADCSTAN Technical Committee on ATM and seeks to harmonise standards across the SADC region on ATM.

·         Presented to ARSO (African Organisation for Standardisation) on ATM and SABS is the nominated chairperson for the ARSO Technical Committee on ATM with Sudan as the secretariat.

·         Translating HACCP standards into indigenous languages to facilitate training of Traditional Health Practitioners in basic food hygiene standards.

·         In October, providing training on Standards development to members of the ATM Technical Committee.

Other IKS related projects included the development of standards for:

·         Mopani Worms in collaboration with the CSIR in the Processed Meats Technical Committee

·         Quality Crafts as part of IPAP deliverables.

7.     Conclusions

Overall the DTI, when compared with other departments within the Economic Services and Infrastructure cluster, is performing much better in all management performance respects. The management performance assessment covers strategic management, governance and accountability, human resource and systems management, and financial management.

However, the Department needs to pay attention to the concerns raised within the DPME Management Performance Assessment Tool, namely: human resource planning, management of diversity and implementation of the SMS Performance Management System; and in particular, the management of disciplinary cases. Notwithstanding these performance challenges, the DTI’s management performance is very good.  In many respects, it has outperformed other departments in its cluster and across all national departments and this indeed we applaud.

The committee is of the view that the DTI campus should house all DTI entities where possible, and that other Departments housed on the campus should seek alternative accommodation.

The committee supports the speedy development of black industrialists within the Broad-Based Black Economic Empowerment Framework.

The committee supports the role of development finance and is therefore concerned about the possible increase in the cost of loans if the NEF’s classification is amended and it is allowed to leverage funds from the market.

8.     Appreciation

The committee would like to thank the Minister of Trade and Industry, Dr R Davies and his Deputies, as well as the Director-General, Mr L October, the Group Chief Operating Officer, Ms J Scholtz and other senior management of DTI, and the entities and their management for their cooperation and transparency during this process. The committee also wishes to thank its committee support staff in particular the committee secretary, Mr A Hermans, the content advisor, Ms M Herling, the researcher, Ms Z Madalane, and the committee assistant, Ms N Cloete, for their professional support and conscientious commitment and dedication to their work.  The Chairperson wishes to thank all Members of the committee for their active participation during the process of engagement and deliberations and their constructive recommendations reflected in this report.

9.     Recommendations

Informed by its deliberations, the committee recommends that the House request that the Minister of Trade and Industry should:

9.1  Ensure that the Co-operative Development Agency, the Broad-Based Black Economic Empowerment Commission, the Co-operative Tribunal, the National Trust Fund on Indigenous Knowledge, and the National Council on Indigenous Knowledge are adequately funded for the 2014/15 financial years and over the MTEF period to ensure that these bodies are able to fulfil their mandates.

9.2  Consider the recapitalisation requests of the Export Credit and Insurance Corporation and the National Empowerment Fund in order for these institutions to fulfil their mandate of facilitating the export of trade and cross-border investments between South Africa and the rest of the world, and of broadening black participation in the economy respectively.

9.3  Ensure that government designated procurement products comply with the relevant national standards.

9.4 Consider ensuring a real increase in the allocation to the Consumer and Corporate Regulation programme to ensure adequate support to its regulatory entities, in particular the National Consumer Commission and the National Credit Regulator.

Report to be considered.

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·         Zuma, J. (2013) State of the Nation Address. Joint sitting of Parliament of the Republic of South Africa, 14 February 2013.

Appendix 1: DTI’s Additional budget allocations for the 2014/15 financial year

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[[1]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm#_ftnref1)DPME (2013)

[[2]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm#_ftnref2)DTI (2013b)

[[3]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm#_ftnref3)The Tripartite Free Trade Agreement seeks to establish a free trade agreement between the Common Market for Eastern and Southern Africa, the East African Community and the Southern African Development Community. This will cover 26 countries and form a free trade area from South Africa to Egypt.

[[4]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm#_ftnref4)National Treasury (2013c)

[[5]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm#_ftnref5)DTI (2013a)

[[6]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm#_ftnref6)DTI (2012)

[[7]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm#_ftnref7)DTI (2012)

[[8]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm#_ftnref8)Portfolio Committee on Trade and Industry (2012)

[[9]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm#_ftnref9)National Treasury (2012b: 10)

[[10]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm#_ftnref10)Ibid

[[11]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm#_ftnref11)Portfolio Committee on Trade and Industry (2013)

[[12]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm#_ftnref12)National Treasury (2012a)

[[13]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm#_ftnref13)The manufacturing development incentives consist of a group of incentives focused on the manufacturing sector. This includes the new Manufacturing Competitiveness Enhancement Programme, the Automotive Production and Development Incentive, the Enterprise Investment Programme and other smaller incentives.

[[14]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm#_ftnref14)National Treasury (2012a) and own calculations.

[[15]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm#_ftnref15)DTI (2013b: 110)

[[16]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm#_ftnref16)Ibid

[[17]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm#_ftnref17)National Treasury (2012a)

[[18]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm#_ftnref18)National Treasury (2012a: 810-14)

[[19]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm#_ftnref19)Ibid

[[20]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm#_ftnref20)DTI (2012b) Budget in programmes 2012-13.

[[21]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm#_ftnref21)Ibid

[[22]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm#_ftnref22)Ibid

[[23]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm#_ftnref23)The Black Business Supplier Development Programme is a programme aimed at black-owned small enterprises where the DTI offers grants to assist black-owned small enterprises to improve their competitiveness and sustainability therefore, becoming  more active in the  economy and create employment.

[[24]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm#_ftnref24)National Treasury (2012a: 817)

[[25]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm#_ftnref25)The following section refers to the Department’s expenditure by economic classification for the first quarter.  Expenditure by economic classification for the second quarter was not yet available at the time when this report was prepared.

[[26]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm#_ftnref26)DTI (2013c)

[[27]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm#_ftnref27)DTI (2012)

[[28]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm#_ftnref28)DTI (2012)

[[29]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm#_ftnref29)DPME (2013)

[[30]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm#_ftnref30)DTI (2013c)

[[31]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm#_ftnref31)EDD (2013)

[[32]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm#_ftnref32)Business entities include companies, close corporations and co-operatives. However, no new close corporations are being registered since the advent of the Companies Act (No. 71 of 2008).

[[33]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm#_ftnref33)Intellectual property includes copyrights, patents, trademarks and designs. Once the Intellectual Property Laws Amendment Bill is promulgated, traditional knowledge and cultural expressions will also be registered.

[[34]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm#_ftnref34)CIPC (2012b: 14)

[[35]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm#_ftnref35)Revenue from exchange transactions includes fees for corporate information, company, cooperatives and intellectual property registration and maintenance, data sales, and increases in company share capital.

[[36]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm#_ftnref36)ECIC Annual Report 2013

[[37]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm#_ftnref37)Ibid

[[38]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm%22%20%5Cl%20%22_ftnref38%22%20%5Co%20%22)ECIC (2013: 14)

[[39]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm%22%20%5Cl%20%22_ftnref39%22%20%5Co%20%22)NEF Annual Report 2012/13

[[40]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm%22%20%5Cl%20%22_ftnref40%22%20%5Co%20%22)NEF (2013)

[[41]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm%22%20%5Cl%20%22_ftnref41%22%20%5Co%20%22)DTI (2013) AR presentation

[[42]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm%22%20%5Cl%20%22_ftnref42%22%20%5Co%20%22)SABS: Corporate Plan (2013/14 – 2015/16)Ibid

[[38]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm#_ftnref38)ECIC (2013: 14)

[[39]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm#_ftnref39)NEF Annual Report 2012/13

[[40]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm#_ftnref40)NEF (2013)

[[41]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm#_ftnref41)DTI (2013) AR presentation

[[42]](https://server/pmg%20shared/WEBSITE%20FILES/comreports/2013/comreports/131021pctradereport.htm#_ftnref42)SABS: Corporate Plan (2013/14 – 2015/16)