SEZ Performance Monitoring and Evaluation Framework

Special Economic Zones and Economic Transformation Division:
SEZ Monitoring and Evaluation Unit

towards full-scale industrialisation and inclusive growth

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PREAMBLE

South Africa has embarked on an ambitious programme of establishing Special Economic Zones (SEZs) to promote industrialisation, investment and job creation. The SEZ Act (Act No. 16 of 2014) provides a legal framework for the initiative, which builds on the Industrial Development Zone (IDZ) programme, and seeks to create an internationally competitive SEZ value proposition. Section 11(b) of the Act provides for the SEZ Advisory Board to monitor the implementation of SEZ policy and strategy, and report annually to the Minister of Trade and Industry. This document serves as a road map for the manner in which SEZ monitoring and evaluation will be conducted, managed and reported on; which institutions will be involved in data collection and dissemination; and the setting up of norms and standards for performance evaluation.

Effective performance management information requires a clear understanding of different responsibilities and the structures involved in managing performance. This framework reflects simple but practical steps to ensure the effective and efficient monitoring and evaluation of SEZs. It also helps readers understand the role of performance information in planning, budgeting and reporting; key concepts, including the criteria for good performance indicators; an approach to developing performance indicators; the capacity required to manage and use performance information; and the publication of performance information.
## LIST OF ACRONYMS

<table>
<thead>
<tr>
<th>Acronym</th>
<th>Description</th>
</tr>
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<tbody>
<tr>
<td>Coega</td>
<td>Coega Development Corporation</td>
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<td>DI</td>
<td>Domestic investment</td>
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<td>FDI</td>
<td>Foreign Direct Investment</td>
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<td>IDZ</td>
<td>Industrial Development Zone</td>
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<td>IPAP</td>
<td>Industrial Policy Action Plan</td>
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<td>IT</td>
<td>Information technology</td>
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<td>KPI</td>
<td>Key Performance Indicator</td>
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<td>MEC</td>
<td>Member of the Executive Council</td>
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<td>SEZ</td>
<td>Special Economic Zone</td>
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<td>SEZ Act</td>
<td>Special Economic Zones Act (Act No. 16 of 2014)</td>
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<td>StatsSA</td>
<td>Statistics South Africa</td>
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VISION, MISSION AND STRATEGIC OBJECTIVES OF the dti

Vision
A dynamic industrial, globally competitive South African economy, characterised by inclusive growth and development, decent employment and equity, built on the full potential of all citizens.

Mission
• Promote structural transformation towards a dynamic industrial and globally competitive economy;
• Provide a predictable, competitive, equitable and socially responsible environment conducive to investment, trade and enterprise development;
• Broaden participation in the economy to strengthen economic development; and
• Continually improve the skills and capabilities of the dti to effectively deliver on its mandate and respond to the needs of South Africa.

Strategic objectives
• Facilitate transformation of the economy to promote industrial development, investment, competitiveness and employment creation;
• Build mutually beneficial regional and global relations to advance South Africa’s trade, industrial policy and economic development objectives;
• Facilitate broad-based economic participation through targeted interventions to achieve more inclusive growth;
• Create a fair regulatory environment that enables investment, trade and enterprise development in an equitable and socially responsible manner; and
• Promote a professional, ethical, dynamic, competitive and customer-focused working environment that ensures effective and efficient service delivery.
CHAPTER 1

1. Introduction

The SEZ monitoring and evaluation unit derives its mandate from the Special Economic Zones Act (Act No. 16 of 2014), as well as policy and strategy. The SEZ Act provides for the development, operation, regulation, administration and coordination of SEZs in South Africa. It gives instruction for the establishment of the SEZ Advisory Board with its secretariat, which will be responsible for, among other things, conducting performance monitoring and evaluation across the value-chain, and the development and implementation of the programme with the aim of providing informed advice to the Minister on the programme’s progress and contribution towards its main objectives.

This framework focuses on the following key mechanisms and processes:
• establishing and strengthening the monitoring and evaluation of institutional arrangements for SEZs;
• developing and strengthening data collection mechanisms;
• standardising the key performance indicators (KPIs) and reporting formats for SEZs; and
• developing norms and standards for SEZ performance evaluations.

The framework seeks to ensure that analyses of SEZ performance are based on a set of KPIs that all parties (licensee, operator and SEZ Advisory Board secretariat) agree on. This will be used for purposes of determining outcomes against targets set. This framework has been produced in response to Government’s emphasis on monitoring and evaluating all government activities with the aim of improving service delivery and ensuring value for money in all government expenditure. Adoption of the processes set forth in this framework will ensure standardisation, quality and credibility, and will bring about a systemic, disciplined and objective approach to assess and improve the reliability, integrity, efficiency and effectiveness of SEZs.

1.1. Aim of the framework

The purpose of this framework is to detail the manner in which SEZ monitoring and evaluation will be conducted; and how data will be collected, managed and disseminated. The framework also seeks to: clarify definitions and standards for performance information in support of regular audits of such information, where appropriate; improve integrated structures, systems and processes required to manage performance information; define roles and responsibilities for managing performance information; and promote accountability and transparency by providing the SEZ Advisory Board, Parliament and other relevant stakeholders with timely, accessible and accurate performance information.
1.2. Premise for this framework
Performance monitoring and evaluation is a key issue for many SEZ programmes across the world owing to a lack of clear sets of criteria for assessment and driving appropriate behaviour.

For example, in November 2010, the monitoring and evaluation unit visited all existing IDZs (Coega, East London and Richards Bay) with the view of better understanding data management processes and systems used. Information gathered by the unit during the visits highlighted various deficiencies that negatively impacted on performance monitoring in the IDZs, where there was a lack of uniform, robust and standardised data collection mechanisms and reporting formats. There was also no specific baseline benchmarking data, either by sector or by zone, to draw comparisons towards effective and efficient analysis of performance.

This example illustrates that until recently, no coherent method of systematic policy monitoring and evaluation existed for the SEZ programme in South Africa. However, an evidence-based approach has since become popular when analysing public policy, resulting in performance evaluation being linked to the overall objectives set for SEZ programmes.

1.3. Goals and objectives of SEZs
The SEZ Act defines a SEZ as an economic development tool to promote national economic growth and exports by using support measures to attract targeted foreign direct investment (FDI) and domestic investment (DI), and technology. The purpose of establishing SEZs includes to:
• promote the acquisition and development of targeted industrial capabilities within the framework of the Industrial Policy Action Plan (IPAP), New Growth Path and New Development Plan;
• promote beneficiation and value-addition to the country’s minerals and other natural resources;
• develop world-class infrastructure required to support the development of targeted industrial activities;
• attract relevant FDI and DI;
• accelerate exports and economic growth and the creation of much-needed jobs; and
• contribute to balanced regional development.
1.4. **Enabling policy and legal requirements**

This section describes the policy and legal requirements aimed at improving public sector financial and performance information management in relation to this framework.

1.4.1. **Constitution**

Section 92 of the Constitution states that “members of the Cabinet are accountable collectively and individually to Parliament for the exercise of their powers and the performance of their functions”, and they must “provide Parliament with full and regular reports concerning matters under their control”. Section 133 provides for the accountability of members of the executive council (MECs) of a province to the provincial legislature. Similar arrangements are specified for municipalities in the Municipal Structures Act (Act No. 117 of 1998).

1.4.2. **SEZ Act**

Section 7 of the SEZ Act provides for the establishment of the SEZ Advisory Board and enables the board secretariat to conduct performance analyses of SEZs against an agreed set of KPIs. Section 11(1b) requires the advisory board to monitor the implementation of SEZ policy and strategy, and report annually to the Minister on the implementation of such policy and strategy.

1.4.3. **Public sector management reform**

The implementation of the Public Finance Management Act (Act No. 1 of 1999), the Municipal Finance Management Act (Act No. 56 of 2003) and the Public Service Act (1994, as amended) has enhanced control over public expenditure and empowered public sector managers to exercise their oversight role. A major challenge for the public sector is the efficient use of resources. Policy initiatives and legal requirements have been introduced to achieve this, including the integration of performance concepts from National Treasury’s annual Estimates of National Expenditure and other budget documents.

1.4.4. **Government-wide monitoring and evaluation system**

In 2004, Cabinet initiated plans for a government monitoring and evaluation system, which was subsequently developed by the Presidency as the Government-wide Monitoring and Evaluation Framework. Although there are various existing systems within government that gather performance information, there are a number of gaps in the information needed for planning service delivery and for reviewing and analysing policies. The Government-wide Monitoring and Evaluation Framework seeks to enhance government monitoring systems by describing them and explaining how they relate to each other.
CHAPTER 2

2. Enabling processes for proper performance information management

Performance information is an indicator of how well an institution is meeting its aims and objectives, and which policies and processes are working. Crucial to executing Government’s mandate of accountability and proper monitoring and evaluation is making the best use of available data and knowledge. Performance information is key to effective management, including planning, budgeting, implementation, monitoring and reporting. Performance information also facilitates effective accountability, enabling legislators, members of the public and other interested parties to track progress, identify the scope for improvement and better understand the issues involved.

The IPAP identifies SEZs as key mechanisms in support of long-term industrial and economic development. Accurate performance information is thus essential in ascertaining the extent of contributions made by SEZs towards broader economic objectives. For this to happen, an efficient performance monitoring and evaluation system that provides oversight on whether SEZs are delivering value for money is necessary.

The most valuable reason for measuring performance against baseline information and set targets is that what gets measured gets done. If an institution is aware its performance is being monitored, it is more likely to perform the required tasks well. The availability of performance information also allows managers to pursue results-based management approaches, such as performance contracts, risk management, benchmarking and market testing. This framework outlines key concepts in the design and implementation of management systems to define, collect, report and use performance information.

2.1. Institutional arrangements

The effective management of performance information requires a clear understanding of the different responsibilities and structures involved in managing performance. The SEZ Advisory Board, through the Minister of Trade and Industry, is charged with the responsibility of providing oversight on the development and implementation of the SEZ programme and therefore has a duty to ensure that appropriate systems to collect, collate, verify and store performance information are in place in all SEZs. These systems must be integrated with the national SEZ performance monitoring and evaluation system.
Proper consultation with all relevant stakeholders, such as Statistics South Africa (StatsSA), existing IDZ operators, provincial and local governments, and other relevant agencies will be done to ensure that there is appropriate capacity and that the information needs of different users are taken into consideration when specifying the range of information to be collected.

2.2. **Data collection mechanisms**

Methods used for data collection play an important role in the credibility of information. Quality data monitoring will lead to quality evaluation, and consistency is paramount in the supply of information from identified sources. Therefore, a concerted effort should be made to build good relationships with all identified institutions to supply data.

The following initiatives and processes are currently under way:

- **the dti** is in the process of developing an SEZ data collection system based on information technology (IT). This system will be linked with all SEZ data management systems. This integration of data systems will ensure the standardisation of data collected from all operational SEZs.
- **the dti** has signed a memorandum of understanding with StatsSA for SEZ data collection. The relationship is intended to ensure that SEZ performance data is of acceptable quality and is compliant with the guidelines of the national statistics system and prescripts of the South African Statistical Quality Assessment Framework.
- SEZ operators are establishing a data management function with a direct link to **the dti**’s SEZ monitoring and evaluation function. This function will be responsible for collecting, populating and managing IT-based data in the respective SEZs.
CHAPTER 3

3. Key performance information concepts and KPIs

To clearly demonstrate how Government uses resources to deliver on its mandate, performance information needs to be structured appropriately.

3.1. Monitoring and evaluation cycle: Linking policy, planning, budgeting and management

Figure 1: Monitoring and evaluation cycle

Source: Adapted from the dti Monitoring and Evaluation Framework, 2013
3.2. **Inputs, activities, outputs, outcomes and impacts**

When describing what government institutions do for purposes of measuring performance, the following terms are used:

- **Inputs** – All resources that contribute to the production and delivery of outputs. Inputs are “what we use to do the work”. They include finances, personnel, equipment and buildings.

- **Activities** – The processes or actions that use a range of inputs to produce the desired outputs, and ultimately outcomes. In essence, activities describe “what we do”.

- **Outputs** – The final products or goods and services produced for delivery. Outputs may be defined as “what we produce or deliver”.

- **Outcomes** – The medium-term results for specific beneficiaries that are the consequence of achieving specific outputs. Outcomes should relate clearly to an institution’s strategic goals and objectives set out in its plans. Outcomes are “what we wish to achieve”.

- **Impacts** – The results of achieving specific outcomes, such as reducing poverty and creating jobs.

When monitoring and assessing outcomes and impacts of the policy, consideration must be given to the unintended consequences of government interventions. These also need to be identified and monitored in order for risks to be managed and corrective action to be taken. In managing results, budgets are developed in relation to inputs, activities and outputs, with the aim of achieving the outcomes and impacts. Figure 2 illustrates the relationship between these core performance information concepts.
The flow of information will empower and enable decision-makers to make evidenced-based choices.

3.2.1. KPIs
Defining a good and SMART (specific, measurable, assignable, realistic and time-related) performance indicator requires careful analysis of what is to be measured. One needs to have a thorough understanding of the nature of the input or output; the activities; the desired outcomes and impacts; and all relevant definitions and standards used in the field.
A good performance indicator should be:

- **Reliable** – The indicator should be accurate enough for its intended use and respond to changes in the level of performance.
- **Well-defined** – The indicator needs to have a clear, unambiguous definition so data will be collected consistently and be easy to understand and use.
- **Verifiable** – It must be possible to validate the processes and systems that produce the indicator.
- **Cost-effective** – The usefulness of the indicator must justify the cost of collecting data.
- **Appropriate** – The indicator must avoid unintended consequences and encourage service delivery improvements, and not give managers incentives to carry out activities simply to meet a particular target.
- **Relevant** – The indicator must relate logically and directly to an aspect of the institution’s mandate, and the realisation of strategic goals and objectives.

### 3.3. Organisational indicators

#### 3.3.1. SEZ high-level management indicators

The SEZ Act creates four distinct structures, namely, the licensee, the SEZ entity with its board, the SEZ operator and businesses located in SEZs.

Each structure has its own roles and functions, and the Act provides a framework to ensure that the structures perform their functions and fulfil the Act’s objectives. Each structure is required to be appropriately skilled to perform the functions provided for in the Act. Thus government, by means of the Act, policy and strategy provides a strategic direction and intent for the SEZ programme. The licensee, the SEZ entity with its board, and the SEZ operator are responsible for operationalising the strategic objectives of the programme. Government, therefore, would measure the organisational efficiency of an SEZ through its contribution to the attainment of the overall programme’s strategic intent.
Chapter 27 and the regulations emerging from SEZ Act require operators to supply the dti with the following information:

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<th>Performance indicator</th>
<th>Description</th>
<th>Frequency</th>
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| **Business and financial Plan**                    | Submit business and financial plan two months before the end of the financial year:  
- Projection of revenue  
- Projection of expenditure  
- Cover the affairs of SEZ entity for the following two financial years                                                                                       | Annually  |
| **Financial statements**                           | Submit financial statements within three months after the end of the financial year to the Auditor-General                                                                                             | Annually  |
| **Annual report**                                  | Submit within five months of the end of the financial year to the Minister of Trade and Industry:  
- Annual report  
- Audited financial statements  
- Auditor-General’s report on financial statements                                                                                                           | Annually  |
| **Implementation of one-stop shop model**          | Submit progress report on the implementation of one-stop shop model                                                                                                                                       | Biannually|
| **Incubation programme/supplier development programme** | Submit progress report on incubation programme/supplier development programme support                                                                                                                      | Annually  |
| **Performance progress report**                    | Submit performance report in line with the agreed-upon KPIs                                                                                                                                               | Quarterly |
| **Infrastructure progress report**                 | Submit progress report in line with Section 3.5.2 on the implementation of the infrastructure projects supported by government                                                                              | Monthly   |
3.4. **Economic output indicators**

3.4.1. **High-level output focus**

Figure 3 illustrates the areas of focus regarding SEZ high-level output performance, as informed by the objectives of the programme.

**Figure 3: High-level output focus areas**
The monitoring and evaluation unit will be responsible for facilitating the collection, storing, managing and analyses of information, and reporting on the progress in each area by all designated SEZs, either collectively or individually.

Figure 4 illustrates the high-level input focus. Performance indicators will be developed to measure these areas.

Below is a summary of the identified KPIs for monitoring the annual performance of each SEZ. These indicators will measure economic, efficiency and effectiveness of the overall SEZ programme. Reporting on these indicators will be standardised to all SEZs to ensure comparability. Baseline benchmarking information will also be collected for both domestic and international comparative analysis. The KPIs are placed into two broad categories: output KPIs and input KPIs.
The relevance and importance of each of these targets are discussed below.

3.4.2. Output KPIs

3.4.2.1. Investment projects approved against target

Investment projects in SEZs normally go through the following three stages:

- approval from the SEZ board for the investing company to establish a project in the zone;
- the signing of a lease by the investor to take land/buildings in the zone; and
- the commencement of the project for trading operations.

Significant delays between each of these stages could emerge and it is not uncommon for investment projects to fail to proceed from one stage to the next. Therefore, the KPI for investment is the number of projects that become operational, as approval and lease signing are only milestones in the process.

The operator’s performance in moving projects efficiently through the entire process also needs monitoring. At the beginning of each year, the licensee and SEZ board must agree on targets with the operator on:

- the number of investment projects the SEZ board will approve during the year;
- the number of leases that will be signed during the year (some of these will be projects approved in the preceding year); and
- the number of new projects that will become operational during the year.

Ultimately, success in operating a zone hinges on the number of projects that remain operational. Therefore, the final KPI for a project should be the cumulative number of investment projects operational at year end against the target set.

A key role for any SEZ is to attract as much FDI and DI as possible. It can, however, be considerably easier to get domestic companies to operate in a zone than to convince foreign companies to choose South Africa and the zone specifically for their operations. Therefore, when setting annual targets, it is important for them to be categorised under foreign and domestic companies.
Another important consideration is that a track record of approving projects that fail to become operational, or fail to remain operational, can be indicative of poor project vetting and management by the SEZ operator.

3.4.2.2. Job creation in investor companies against target (both domestic and foreign)

A major goal of the overall SEZ programme is job creation. Simply measuring the number of investment projects being established in a zone is an insufficient indicator of success. From a job-creation perspective, 10 projects employing five staff each (50 staff) is clearly of less benefit than five projects employing 100 staff each (500 staff). Thus, KPIs must be set each year for the operator regarding:

• the number of jobs that will be approved against the target; and
• the number of new jobs created against the target and remain in existence.

The key target here is the number of jobs actually created during the financial year. Some of these jobs will be created from investment projects established in previous years, from projects approved in the preceding year or from projects approved in the current year where the project becomes operational in the same year. However, it is important for a target to be set for the number of jobs that will be approved during the financial year, as these job approvals are the feedstock for future jobs actually created and a measure of the activity of the operator in the year in question.

During the approval stage, it is important for the monitoring and evaluation unit to be aware of operators’ and investor companies’ propensity to exaggerate their job projections in order to meet the job creation criteria. The monitoring and evaluation unit should be satisfied that projections for jobs associated with any approval are realistic and the timeframe for the jobs coming on stream is not greater than three to five years.

However, as with projects, ultimate success is not measured by the number of jobs created, but by the number of jobs that remain in existence. Jobs created that are soon lost indicate failure by the operator. Thus, the third annual job creation KPI must be the cumulative number of jobs in investor companies at year end against the target set.
All the above job-creation targets should be categorised in terms of jobs in foreign-investor companies and jobs in domestic companies.

3.4.2.2.1. Although construction jobs created on SEZs are temporary, they provide an important indication of the impact of a SEZ on job creation opportunities and skills development.

3.4.2.3. **Fixed assets investment by investor companies against target**

The size of fixed asset investments (buildings and equipment) in zones can be a useful indicator of the project’s scale, as investors are unlikely to invest large sums in projects whose sustainability is doubtful. Thus, KPIs should be set and monitored each year for:

- projected company investment in projects approved during the year by the zone board against target;
- projected company investment in projects by companies that signed leases during the year against target; and
- cumulative investment at year end.

Once again, this KPI should be categorised into FDI and DI.

3.4.2.4. **Land allocated against target**

It is important to be aware of the rate at which land in the zone is allocated. This allows for:

- an understanding of the time required by the operator to fill the zone if it is already fully built;
- an indication of whether the operator is going to achieve the target, if it has been given a timeframe to fully let the zone as part of the operator permit; and
- an understanding of the timeframe for a second phase if the zone is being built in phases.

KPIs in respect of land allocated will include:

- percentage of zone allocated at year end to companies in operation against target;
- percentage of zone allocated to companies that have signed leases but have not yet started operations against target;
- percentage of land allocated to companies that have been approved by the zone board, but have not yet signed a lease against target; and
percentage of land allocated to all of the above companies against target.

It is of critical importance for land to be appropriately allocated and efficiently used, as developing serviced land on zones is expensive for Government. Hence, the criteria for assessing operators' performance must include the efficient utilisation of allocated land.

3.4.2.5. Revenues raised against target

A key duty of the operator is to maximise revenue from the zone on behalf of the licensee. This revenue will flow from a number of sources, such as:

• land sales to investors/developers who are building their own factories;
• rent on land from investors who are building/developing their own factories, where the zone policy is to rent rather than sell land;
• factory rentals where the licensee is building factories on behalf of investors (this should only happen in a situation where the investor cannot be persuaded to build their own factory or a private sector developer cannot be found to build and rent to the investor. Particular care must be taken so that revenue being raised by the operator represent a proper return on investment for government capital being used to build factories); and
• services provided by the operator to companies in the zone.

However, the performance indicator cannot simply be total revenue raised; rather, it should extend to whether the revenue raised is maximised according to activities undertaken. Effective performance involves the operator getting the best price possible for land sold, land rented, factories rented and services provided. In the case of land sold, land rented and factories rented, the performance indicator is revenue raised per square metre. In the case of revenue raised from services provided, the performance indicator is ensuring that these revenues exceed the costs of providing the service.

Accordingly, the KPIs for revenues raised are as follows:
• total revenue raised from land sales and revenue per square metre against target;
• total revenue raised from land rentals and revenue per square metre against target;
• total revenue raised from factory/office rentals and revenue per square metre against target; and
3.4.2.6. Annual exports

A major goal of the SEZ programme is contributing to an increase in exports. Zone operators are mandated to attract companies that derive a significant proportion of their sales from export markets. KPIs relevant in this regard are:

- annual total export sales from zone against target; and
- export sales as a percentage of total sales against target.

Collecting data to measure this KPI is difficult, as companies are understandably reluctant to divulge confidential information on their sales and export levels (subsidiaries of public companies may not be able to do so). Getting information on export sales as a percentage of total sales should prove less difficult as it does not require companies to divulge actual company data on volumes of sales.

3.4.3. Input KPIs

The aim of input performance indicators is to ensure that the operator is managing the zone as efficiently and cost-effectively as possible by minimising staff, capital expenditure and operational costs.

3.4.3.1. Operating staff costs against target

There is a need to ensure that the operator is keeping staff numbers to an appropriate level. Different zones will, however, require different numbers and types of staff depending on the zone’s stage of development, and it will be difficult for the secretariat to accurately estimate the number of staff required at any particular time. If the operator has been contracted by the licensee through a procurement process that required the operator to specify in advance the number and cost of staff required, this becomes the target against which actual staff numbers employed can be measured. Alternatively, operators should be required to specify prior to each year the number, type and cost of staff required to run the zone. The secretariat should seek a breakdown of staff numbers and specifications of the functions they will be carrying out, and track accordingly the appropriateness of the staffing levels. The secretariat may be assisted in this regard by comparing the staffing levels to similar zones nationally and internationally.
The relevant KPIs are:
• the number of permanent staff against target;
• the cost of permanent staff against target;
• the number of temporary staff against target; and
• the cost of temporary staff against target.

3.4.3.2. Infrastructure capital costs and timeframes against targets

The secretariat should be in receipt of a capital expenditure schedule from the operator that specifies, in detail, the planned infrastructure roll-out for the coming years and associated estimated costs. Target dates should be set for the planning, tendering, execution and completion of all significant contracts. Infrastructure contracts will be planned, phased and coordinated in a manner that insures, where necessary, that contracts are coterminous.

The phasing and timing of site development contracts are critical to controlling expenditure. The objective should be to ensure that there are a sufficient number of serviced sites available at any given time to satisfy investors’ needs, while simultaneously avoiding expenditure on site development for which there is no foreseeable demand.

A KPI for the operator is how effectively the roll-out of infrastructure is managed in terms of meeting targeted completion dates and costs. Each item of infrastructure provision, including roads, lighting, water, sewage and fencing, should be secured by the operator through a transparent and competitive tender process. The monitoring and evaluation unit must be satisfied that cost overruns are not incurred in relation to successful tenders, and that infrastructure items are completed in accordance with the timings specified, as these are key indicators of how effectively the operator is managing the roll-out of infrastructure provision.

The monitoring and evaluation unit may commission an occasional independent value audit on a particular contract completed to ensure the operator is commissioning work at appropriate prices. Benchmarking may also be used by the secretariat to evaluate costs incurred by the operator, for example, benchmarking the cost of providing linear metres of road in a zone against the cost elsewhere in South Africa.
The KPIs are:
• contract start date against target;
• contract completion date against target;
• percentage of contract completion by year end against target; and
• contract cost incurred against target.

3.4.3.3. Top structures/factories’ costs and timings
Where operators, after having exhausted all other avenues, are required to build factories/top structures to rent to investor companies, it is essential that:
• an adequate return on investment for government capital used to build the factories is received;
• the cost of building the factory is minimised; and
• the factories are built in a timely manner.

Contracts for the construction of factories must be awarded after an open, transparent tender process and built according to the agreed specifications with the investor company, where relevant. The secretariat must ensure that cost and time overruns do not occur regarding construction contracts, and that the factory cost per square metre is in keeping with national norms.

The KPIs for the operator are:
• return on investment on government capital against target;
• construction cost per square metre against target;
• construction completion date against target; and
• percentage of construction completed by year end against target.

3.4.3.4. Operational costs against target
The secretariat should receive an operational expenditure schedule that details proposed budgeted operational expenditure over the year, covering areas such as administration, marketing and maintenance costs. The secretariat must be satisfied that the proposed activities are necessary and that the budgeted costs are appropriate for the levels of activity involved. At the end of year, the secretariat must verify that the outcome of these costs is in keeping with the targeted budgets. Accordingly, the relevant KPI is operational cost outcome against target.

The annexure attached provides the summary of all KPIs.
4. Roles and responsibilities in managing performance information

4.1. Responsibilities

The Minister of Trade and Industry, MECs of provincial departments of economic development and mayors are accountable to Parliament, provincial legislatures and municipal councils respectively, and should provide these institutions with full and regular reports concerning matters under their control. The SEZ Advisory Board, in turn, will ensure that designated SEZs set up appropriate performance information systems so they are able to fulfil their reporting responsibilities. The SEZ Advisory Board will also oversee such systems to ensure that they are functioning optimally and comply with this framework and other related standards and guidelines.

- The Director-General of the Department of Trade and Industry, heads of provincial departments of economic development and SEZ operators, as the accounting officers, will be responsible for establishing the systems to manage performance information.
- SEZ monitoring and evaluation units and other line managers in their respective SEZs are accountable for establishing and maintaining performance information processes and systems within their areas of responsibility. Their performance agreements must reflect these responsibilities.
- SEZ monitoring and evaluation units will also be responsible for developing norms and standards for performance evaluation.

Various officials within the SEZs are responsible for capturing, collating and checking performance data related to their activities. The integrity of the institution’s overall performance information depends on how conscientiously these officials fulfil these responsibilities. Their performance agreements and assessments should thus deal explicitly with the quality of this aspect of their work.

4.2. Integrated performance information structures and systems

Performance information systems of the dti should be integrated with the performance management processes and systems of SEZs. The SEZ monitoring and evaluation manager must ensure that the institution has:

1. Documentation addressing:
   - the integration of performance information structures and systems within existing management processes and systems;
• definitions and technical standards of all information collected by the institution;
• processes for identifying, collecting, collating, verifying and storing information;
• the use of information in managing for results; and
• the publication of performance information.

2. Appropriate capacity to manage performance information.

3. Appropriate systems to collect, collate, verify and store information.

4. Consultation processes that ensure the information needs of different users are taken into consideration when specifying the range of information to be collected.

5. Processes to ensure information is appropriately used for planning, budgeting and management within the institution, including processes to evaluate performance periodically.

6. Processes to ensure that responsibility for managing performance information is included in the individual performance agreements of line managers and other officials.


4.3. Management capacity

The SEZ board or head official of an institution must ensure that there is adequate capacity to integrate and manage performance information with existing management systems. Each institution will need to decide on the appropriate positioning of the responsibility to manage performance information. Ideally, this should be aligned with planning and financial management functions.

This responsibility should focus on the overall design and management of indicators, data collection, collation and verification processes within the institution. Where such systems are lacking, it is necessary to support the relevant line manager to put them in place. It must be emphasised that line managers remain responsible for establishing and running performance information systems within their sections, and for using performance information to make decisions.
CHAPTER 5

5. Publishing performance information

5.1. Information submission and publication

• SEZ monitoring and evaluation unit will facilitate the publication of the peer-reviewed performance reports on either the dti’s website, the department’s intranet, or both.
• The SEZ Act provides for the SEZ Advisory Board to submit strategic and financial plans to the minister three and two months, respectively, before the end of the financial year.
• SEZ operators are responsible for submitting performance information to the dti in accordance with the prescripts of the SEZ Act, SEZ regulations and guidelines, SEZ funding agreements and agreed upon KPIs.
• SEZ operators must be transparent and accountable to the public in accordance with Section 195 of the Constitution.
• SEZ operators must provide private individuals and the private sector access to information held by Government for decision-making purposes according to the POPI Act.
• SEZ operators must provide researchers with access to information.
• SEZ operators need to develop policies and procedures to publish performance information to meet these different needs.

5.2. Accountability reports

The Constitution stipulates that Cabinet members are accountable collectively and individually to Parliament for the exercise of their powers and the performance of their functions, and must provide Parliament with full and regular reports concerning matters under their control. The SEZ Act requires the Minister of Trade and Industry to report on the progress of SEZs to Parliament. In this regard, instruments of compliance and accountability will be developed to enable the Minister to report accordingly.
CHAPTER 6

Conclusion

The SEZ Act and related policy provide an enabling environment for SEZs to function effectively and efficiently. In terms of the Act and policy, the national Government (led by the dti), other spheres of government and the respective zones will dedicate various resources to ensure the harmonisation and effective functioning of SEZs. Thus, monitoring and evaluation will enable all SEZ stakeholders to determine whether committed resources are sufficient, are being used appropriately, and/or whether capacity within SEZs is sufficient and appropriate and whether the SEZs are doing what they plan to do.

This framework will be revised should the need arise, in line with the SEZ legislative regime.
## ANNEXURE 1:

### Glossary

<table>
<thead>
<tr>
<th>Term</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accessibility indicators</td>
<td>These indicators explore whether the intended beneficiaries are able to access services or outputs</td>
</tr>
<tr>
<td>Accountability documents</td>
<td>These are documents that executive authorities use to give full and regular reports on the matters under their control to Parliament and provincial legislatures in terms of the Constitution. They include plans, budgets and annual reports</td>
</tr>
<tr>
<td>Activities</td>
<td>The process or actions that use a range of inputs to produce the desired outputs and ultimately outcomes</td>
</tr>
<tr>
<td>Adequacy indicators</td>
<td>The quantity of input or output relative to the need or demand</td>
</tr>
<tr>
<td>Baseline</td>
<td>The current performance levels an institution aims to improve when setting performance targets</td>
</tr>
<tr>
<td>Economy indicators</td>
<td>These indicators explore whether specific inputs are acquired at the lowest cost and at the right time, and whether production is economical</td>
</tr>
<tr>
<td>Effectiveness indicators</td>
<td>These indicators explore how well the outputs of an institution achieve the desired outcomes</td>
</tr>
<tr>
<td>Efficiency indicators</td>
<td>These indicators explore how productivity inputs are translated into outputs</td>
</tr>
<tr>
<td>Framework for Managing Programme Performance Information</td>
<td>A framework developed by National Treasury that provides guidance on mapping performance to national, provincial and local government</td>
</tr>
<tr>
<td>Government-wide monitoring and evaluation system</td>
<td>A system developed by the Presidency that describes monitoring and evaluation in government</td>
</tr>
<tr>
<td>Impact</td>
<td>The results of achieving specific outcomes</td>
</tr>
<tr>
<td>Input</td>
<td>The resources that contribute to production and the delivery of outputs</td>
</tr>
<tr>
<td>Outcomes</td>
<td>The medium-term results for specific beneficiaries that are the consequence of achieving specific outputs</td>
</tr>
<tr>
<td>Output</td>
<td>The goods and services produced by the institution for delivery</td>
</tr>
<tr>
<td>Performance indicators</td>
<td>Identified specific numerical measurements that track progress towards achieving a goal</td>
</tr>
<tr>
<td>Performance standards</td>
<td>These express the minimum acceptable level of performance or the level of generally expected performance</td>
</tr>
<tr>
<td>-----------------------</td>
<td>------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Performance targets</td>
<td>These express a specific level of performance institutions or individuals aim to achieve within a given period</td>
</tr>
<tr>
<td>Quality indicators</td>
<td>The quality of the input or output measured against predetermined standards</td>
</tr>
<tr>
<td>Quantity indicators</td>
<td>The number of inputs, activities and outputs</td>
</tr>
<tr>
<td>Start and end times</td>
<td>When an activity begins and ends (the delivery date)</td>
</tr>
<tr>
<td>Timeline indicators</td>
<td>These indicate whether activities and outputs are on time</td>
</tr>
</tbody>
</table>

**ANNEXURE 2: SUMMARY OF KPIS**

<table>
<thead>
<tr>
<th>SEZ Key Performance Indicator Framework</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Output Indicators</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Description</th>
<th>Indicator</th>
<th>Definition</th>
<th>Frequency of data collection</th>
<th>Unit of measure</th>
<th>Source</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Investment support</strong></td>
<td>Investment that is directly related to those industries or sectors identified as government priority sectors in line with the Industrial Policy Action Plan (IPAP) and National Development Plan</td>
<td>Approved Investors by the SEZ Board</td>
<td>Refers to the investors that have been approved by the SEZ board</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Signed Investors</td>
<td>Refers to the investors that have signed lease agreement with the operator, but which are not yet in operation</td>
<td>Quarterly</td>
<td>Number</td>
<td>SEZ Operator</td>
</tr>
</tbody>
</table>

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*SEZ Performance Monitoring and Evaluation Framework*
<table>
<thead>
<tr>
<th>Criteria</th>
<th>Description</th>
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<th>Definition</th>
<th>Frequency of data collection</th>
<th>Unit of measure</th>
<th>Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment support</td>
<td>Investment that is directly related to those industries or sectors identified as government priority sectors in line with the Industrial Policy Action Plan (IPAP) and National Development Plan</td>
<td>Operational Investors</td>
<td>Refers to the investors which are already operating in an SEZ.</td>
<td>Quarterly</td>
<td>Number</td>
<td>SEZ Operator</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Pipeline Investors</td>
<td>Refers to the investors that have not made any commitment, but negotiations are at an advanced stage with an SEZ.</td>
<td>Quarterly</td>
<td>Number</td>
<td>SEZ Operator</td>
</tr>
<tr>
<td>Employment creation</td>
<td>Sustaining and creating new employment opportunities in the SEZ area, local municipal, district and rural ecosystem. Reduction in regional and Provincial employment achieved</td>
<td>No. of direct jobs approved</td>
<td>Number of estimated direct jobs to be created by an industry that has signed a lease agreement with the operator</td>
<td>Quarterly</td>
<td>Number</td>
<td>SEZ Operator</td>
</tr>
<tr>
<td></td>
<td></td>
<td>No. of new direct jobs created</td>
<td>Actual number of jobs created by an industry. Direct jobs represents the number of people whose work is directly billed to the industry</td>
<td>Quarterly</td>
<td>Number</td>
<td>SEZ Operator</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Indirect Jobs created</td>
<td>Are defined as those jobs generated by industry chain linkages. These can be reported at least annually.</td>
<td>Annually</td>
<td>Number</td>
<td>SEZ Operator</td>
</tr>
</tbody>
</table>
## SEZ Key Performance Indicator Framework

### Output Indicators

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Description</th>
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<th>Source</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Employment creation</strong></td>
<td>Sustaining and creating new employment opportunities in the SEZ area, local municipal, district and rural ecosystem. Reduction in regional and Provincial employment achieved</td>
<td>Induced Jobs created</td>
<td>Refers to an accounting of the multiplier effects of direct and indirect jobs. Induced jobs include both suppliers to the industries and jobs created by the wages spent. These can be reported at least annually.</td>
<td>Annually</td>
<td>Number</td>
<td>SEZ Operator</td>
</tr>
<tr>
<td></td>
<td></td>
<td>In-house jobs created</td>
<td>Number of jobs created by the zone operator</td>
<td>Annually</td>
<td>Number</td>
<td>SEZ Operator</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Export sales by sector</td>
<td>Goods and services sold to other countries.</td>
<td>Quarterly</td>
<td>US Dollar value(R'000)</td>
<td>SEZ Operator</td>
</tr>
<tr>
<td><strong>Downstream and upstream stimulation</strong></td>
<td>Encourages and drives up and downstream uptake of local goods and services into value added exports</td>
<td>Proxy indicator: Imports by sector</td>
<td>Goods and services bought from other countries</td>
<td>Quarterly</td>
<td>US Dollar value(R'000)</td>
<td>SEZ Operator</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Indirect exports</td>
<td>Goods and services sold to domestic companies as intermediate inputs</td>
<td>Quarterly</td>
<td>Rand value(R'000)</td>
<td>SEZ Operator</td>
</tr>
</tbody>
</table>
# SEZ Key Performance Indicator Framework

## Output Indicators

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</thead>
<tbody>
<tr>
<td>Small business development</td>
<td>Extent of sourcing and or participation of SMME's in the value chain of the investor and or during the construction and operation of industrial facilities/infrastructure (OPEX and CAPEX costs)</td>
<td>SMMEs</td>
<td>The number of SMMEs supplying the material/service to the industries located in the SEZ</td>
<td>Quarterly</td>
<td>Rand value(R'000)</td>
<td>SEZ Operator</td>
</tr>
<tr>
<td>Infrastructure Development</td>
<td>Demonstrated likely impact of the developed infrastructure where the SEZ is established</td>
<td>Construction Jobs</td>
<td>The number of jobs created during the construction process.</td>
<td>Quarterly</td>
<td>Rand value(R'000)</td>
<td>SEZ Operator</td>
</tr>
</tbody>
</table>

## Input Indicators

<table>
<thead>
<tr>
<th>Criteria</th>
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<th>Unit of measure</th>
<th>Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial Information</td>
<td>Financial support provided by government to SEZs for either OPEX or CAPEX or Top structures</td>
<td>Transfers by National Government to SEZ: Disaggregated by OPEX, CAPEX, or Top structure</td>
<td>Fund disbursed to the SEZ by National Government</td>
<td>Quarterly</td>
<td>Rand value(R'000)</td>
<td>SEZ Operator</td>
</tr>
<tr>
<td>Criteria</td>
<td>Description</td>
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<td>Frequency of data collection</td>
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<td>----------------------------------------------------------------------------</td>
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<td>-----------------</td>
</tr>
<tr>
<td>Financial Information</td>
<td>Financial support provided by government to SEZs for either OPEX or CAPEX or Top structures</td>
<td>Transfers by Provincial Government to SEZ: Disaggregated by OPEX, CAPEX, or Top structure</td>
<td>Fund disbursed to the SEZ by Provincial Government</td>
<td>Quarterly</td>
<td>Rand value (R'000)</td>
<td>SEZ Operator</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Transfers by Local Government to SEZ: Disaggregated by OPEX, CAPEX, or Top structure</td>
<td>Fund disbursed to the SEZ by Municipal Government</td>
<td>Quarterly</td>
<td>Rand value (R'000)</td>
<td>SEZ Operator</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Own Revenue generation by source</td>
<td>Revenue generated by the SEZ through SEZ activities</td>
<td>Quarterly</td>
<td>Rand value (R'000)</td>
<td>SEZ Operator</td>
</tr>
<tr>
<td></td>
<td></td>
<td>PPP Arrangements: Disaggregated by OPEX, CAPEX, or Top structure</td>
<td></td>
<td>Quarterly</td>
<td>Rand value (R'000)</td>
<td>SEZ Operator</td>
</tr>
<tr>
<td>Utility &amp; Logistic</td>
<td></td>
<td>Electricity Consumption and costs</td>
<td>Amount of Electricity consumption and costs</td>
<td>Quarterly</td>
<td>K/W</td>
<td>SEZ Operator</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Water Consumption and cost</td>
<td>Amount of water consumption and costs</td>
<td>Quarterly</td>
<td>Litres</td>
<td>SEZ Operator</td>
</tr>
</tbody>
</table>
### SEZ Key Performance Indicator Framework

#### Output Indicators

<table>
<thead>
<tr>
<th>Criteria</th>
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<th>Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial Information</td>
<td>Utility &amp; Logistic</td>
<td>Transport cost by Road, Air and Sea</td>
<td>Transportation costs of goods and services from zones to their destinations</td>
<td>Quarterly</td>
<td>KM</td>
<td>SEZ Operator</td>
</tr>
</tbody>
</table>