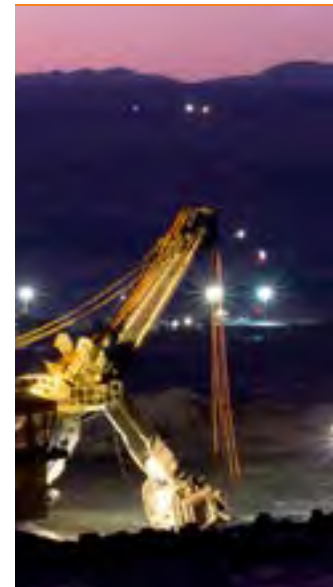


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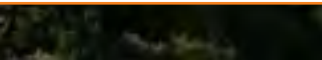
Advisory Board Special Report



the dti

Department:
Trade and Industry
REPUBLIC OF SOUTH AFRICA

towards full-scale industrialisation and inclusive growth
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1. Acronyms

CCA	Customs Controlled Area
CCGT	Combined Cycle Gas Technology
DDIs	Direct Domestic Investments
DFIs	Development Finance Institutions
DTPSEZ	Dube Trade Port SEZ
ELIDZ	East London IDZ
EMEs	Emerging Market Economies
FDC	Free State Development Corporation
FDIs	Foreign Direct Investments
JV	Joint Ventures
IDAD	Industrial Development and Administration Division
IDZ	Industrial Development Zone
IPAP	Industrial Policy Action Plan
RBIDZ	Richards Bay IDZ
MTSF	Medium Term Strategic Framework
MTEF	Medium Term Expenditure Framework
NDP	National Development Plan
MAP	SEZ Maluti-A-Phofung SEZ
OECD	Organisation for Economic Cooperation and Development
OEMs	Original Equipment Manufacturers
OSS	One Stop Shop
PGMs	Platinum Group Metals
PMUs	Project Management Units
SBIDZ	Saldanha Bay IDZ
SEZs	Special Economic Zones
SEZ&ET	Special Economic Zone and Economic Transformation
SOEs	State-Owned Enterprises
SMEs	Small and Medium Enterprises
TNPA	Transnet Port Authority

2. Foreword

The Minister of Trade and Industry, Dr Rob Davies (MP), established and appointed members of the Special Economic Zone (SEZ) Advisory Board in 2015 in terms of Act No. 15 of 2015. The main purpose of the Board is to advise the Minister on policy and strategy issues related to the designation of specific SEZs as well as the challenges and issues related to the performance, development, operation and promotion of the SEZ programme.

According to section 11b of the Act, the Board is expected to report to the Minister on an annual basis. However, since it was only legally operational for less than four months of the 2015/2016 financial year, the document prepared is not a traditional annual report, but rather a baseline report that provides stakeholders with historical information on the IDZ Programme and future plans for the SEZ Programme.

I am satisfied that the Board has provided the necessary guidance and inputs to the Secretariat to develop this baseline document. The report provides our stakeholders with background and introductory information, including the critical role of the SEZ Programme in the industrial development agenda.

As the first official documentation of the Board, the reports provides details of Board representation, key milestones achieved as well as the particulars and performance of designated SEZs and those in the pipeline. It also provides a set of conclusions that highlight the previous challenges experienced by the IDZs and how these are being addressed to ensure success of the new SEZ programme.

The Board is eager to interact and work with the SEZ executives and their respective Boards so that together we can effectively implement the new SEZ policy and legislation.

This baseline report precedes the 2016/17 SEZ Advisory Board annual report.

J Naidoo

Chairperson of the SEZ Advisory Board



3. Executive Summary

This report provides important baseline information since the start of the IDZ/SEZ programme in September 2000. It includes work done by the department prior to the appointment of the Advisory Board and so does not focus on any particular financial year, but rather serves as the starting point for the new SEZ programme.

The IDZ programme has been a key programme of the Department of Trade and Industry (**the dti**) since the early 2000s, but has experienced a number of challenges over time that thwarted the speed and efficiency of implementation. It is worthwhile to highlight such challenges as we enter this new dispensation of implementation of the SEZ legislation.

The SEZ Act (Act No. 16 of 2014) came into operation in February 2016. The main aim of the Act is to create enabling platforms for the effective and efficient implementation of the SEZ programme. Qualifying companies located in the designated zones will now have access to the value proposition of the SEZ programme as articulated in the SEZ legislation. These interventions seek to enable the country to attract foreign and domestic investments that promote strong local production capabilities in targeted manufacturing activities.

The National Development Plan (NDP) highlights the need for the creation of decent work, the reduction of inequalities, and defeat of poverty. This can be achieved through increasing the industrial capacity and capabilities of the economy, accelerating the exploitation of mineral resources, logistics and skills, refocusing the beneficiation strategy to support fabrication and phasing support for manufacturing to encourage employment, investment and trade in line with the Industrial Policy Action Plan (IPAP).

The IPAP has identified SEZs as strategic interventions designed to accelerate economic development through greater investment, export volumes and job creation. After the conclusion of the SEZ legislative regime, the significance of the SEZs to achieve these above objectives has gained momentum. Furthermore, to achieve the above stated objectives, the SEZ governance model and other internal control mechanisms, (including a monitoring and evaluation programme) are being systematically put in place to ensure that the implementation of the SEZ programme is in line with its strategic intent and objectives.

Between the 2013/14 and 2015/16 financial years, the Government designated three additional IDZs, namely Saldanha Bay (SBIDZ), Dube Trade Port (DTPIDZ) and Maluti-a-Phufong (MAPIDZ). The Cabinet recently approved the designation of the Musina-Makhado SEZ. This increased the number of designated zones in the country to seven. Currently, there are another three applications for designation in the pipeline.

The purpose of this report, therefore, is to highlight the implementation progress of the IDZ/SEZ programme since inception as well as all operations related to the mandate of the Advisory Board as supported by the Secretariat as articulated in the SEZ Act, including its oversight role of the implementation of the SEZ programme.

As at March 2015/16, **the dti** had expended a total of R8.3 billion to the seven designated IDZs. During this period, a total of

69 investors with an estimated private investment¹ value of R8.9 billion were operating in the zones, creating a total of 71 966 job opportunities, of which 9 755 (14%) were direct jobs and 62 211 (86%) construction and indirect jobs. There are 46 funded capital projects at various stages of development in the zones. In 2015/16, the department funded a total of 26 capital projects in the SEZs.

The report provides an indication that, even though there is still more work need to be done, the SEZ systems and processes to manage and effectively govern the implementation of the SEZ policy and strategy are being systematically put in place. The One Stop Shop (OSS) Model, which is a critical value proposition for SEZs, is being developed not only for investors intending to locate in the designated zones, but all potential investors attracted into the country. The finalisation of the OSS will act as an additional catalyst for investment promotion and attraction into the zones.

The SEZ funding model, which is project based, is beginning to yield desired results as infrastructure funded by **the dti** is linked to the attraction of targeted investors in line with the objectives of the programme.

Going forward, the focus will be on the development and promotion of viable SEZs. Marketing of designated zones and development of targeted industrial clusters within and around these zones will be prioritised. Associated with SEZs is the development of Regional Industrial Clusters. These are seen as a critical component in government's efforts to bring to the fore regions, which have been lagging behind in industrial development.

Work is under way to realise this objective by ensuring that regions, which have not been designated as SEZs could instead benefit from industrial clusters with a potential to create new industrial capabilities and create much needed employment opportunities. For this to take place, effective governance of the SEZs becomes a key success factor.

It is in this regard that the SEZ Advisory Board is confident that proper implementation of the SEZ programme would contribute meaningfully towards the industrialisation agenda of the country and South African Development Community (SADC).

4. Introduction

4.1. Policy and legislative framework

Government has prioritised the SEZ Programme as an essential instrument to fast-track implementation of its industrial development agenda as reflected in the IPAP and NDP. In recognition of the shortfalls in the IDZ programme, the SEZ legislative regime introduces clear governance and management reforms of the IDZs, with the old IDZs becoming a type of SEZ. The SEZ legislation is meant to govern all activities related to the SEZ programme and to provide for the establishment of the SEZ Advisory Board. In terms of the SEZ Act (Act No. 16 of 2014), which was promulgated in February 2014, the Minister of Trade and Industry has an overall responsibility for the development and implementation of policy, strategy and programmes for the effective development of SEZs and regulation of the same.

¹ Private investment value refers only to the capital funding injected into the economy by the private company located in the zone

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The main shortcomings of the IDZ programme include:

- **Design deficiencies**, including the fact that the programme focused only on a few regions that had access to an international airport or seaport. The support mechanisms were not holistic to provide a range of necessary and complementary systems. In addition, the programme was based on ad-hoc and uncoordinated planning arrangements, which lacked harmonisation with national, provincial and regional economic strategies.
- **Insufficient institutional arrangements** to ensure effective participation of all spheres of Government. The IDZ programme was neither aligned to the host region's economic strategies nor an integral part of the city or town in which the IDZs were situated.
- **Financing arrangements** – IDZs were fully dependant on government incentives/funding, even though such provision was on an ad-hoc basis and dependent on the availability of funds in the medium-term fiscal provision.
- **Coordinated Investment promotion** and marketing was lacking. Investment promotion was done independently by each of the IDZs without coordination from **the dti** as the national government institution vested with this responsibility.
- **Inadequate coordination** across Government and its agencies thwarted the implementation of the programme, since the effective operation of the IDZs was dependent on the provision of services from various government departments and agencies.

4.2. The role of the Advisory Board

The SEZ Advisory Board is established in terms of Chapter 3 of the SEZ Act to provide advisory services on SEZ strategy, policy and designation matters to the Minister of Trade and Industry. In addition to providing strategic direction in aligning the policy and strategy of the SEZs with those of government authorities and agencies involved in the programme, the Board's role is to facilitate a high level of coordination and integration of government functions to support the designation and operational requirements of the SEZs. This is critical to the success of the SEZ programme. The Board started its work in earnest after the legislation came into effect in February 2016.

The role of the Board as articulated in the legislation is to:

- Advise the Minister on policy and strategy to promote, develop, operate and manage SEZs;
- Monitor the implementation of the SEZ policy and strategy and report to the Minister on an annual basis on the implementation of such;
- Consider applications for designation as a SEZ and recommend to the Minister;
- Consider applications for an operator permit;
- Consider applications for the transfer of an operator permit;

- Liaise with a SEZ Board and operator on the implementation of the SEZ strategic plans;
- Report to the Minister on progress relating to the development of the SEZs;
- Advise the Minister on SEZ marketing;
- Assess and review performance of the SEZs; and
- Perform such other functions consistent with the objectives of the SEZ Act.

4.3. The rationale behind the SEZ Advisory Board annual/baseline report

According to the SEZ Act, Chapter 3 section 11(b), the Advisory Board should monitor the implementation of the SEZ policy and strategy, and report to the Minister on an annual basis. The Board was appointed in 2015 and so this report will include baseline information since inception of the IDZ programme. The report addresses all operations related to the mandate of the Advisory Board as articulated in the legislation, including its oversight role of the implementation of the SEZ programme.

In light of the challenges faced by the IDZ programme, which has been expanded into the SEZ programme, the Advisory Board has adopted the action-oriented oversight model to ensure that the SEZ programme is implemented in an efficient and effective manner. The IDZ Programme was established in September 2000 to augment the country's manufacturing sector through driving investment in export-oriented manufacturing industries, with emphasis on beneficiation and import substitution.

This report reflects on the performance of the designated IDZs/SEZs over the past few years (since the IDZs are expected to transition into SEZs) so as to provide appropriate background and proper analysis in terms of trends. This analysis, however, is done with the understanding that these IDZs have not yet accessed the legislated SEZ value proposition.

4.4. The role of SEZs in the industrial development agenda

SEZs have been used in many countries to support economic and industrial development. Countries and regions that have successfully implemented SEZ programmes have been able to attract targeted foreign and domestic investment, industrialise at a rapid pace, grow and diversify value-added exports, increase foreign earnings and create much-needed jobs. In China, for example, the Shenzhen SEZ was established in 1980 and within 20 years had transformed a poor fishing village into a modern, developed city with a population of 10 million. Other Asian Tigers and Ireland have also experienced great success through SEZ programmes. The successful performances of SEZs, however, are a function of many factors, including high-level support from all relevant stakeholders, strong leadership and coordination, and conducive economic and political environments. Countries that did not experience success with SEZs have ascribed this to factors related to design, incentives and management of the programmes.

The significance of the SEZ programme in South Africa's industrial development is its ability to attract both domestic and foreign direct investment to promote economic and industrial agglomeration and cluster development. These processes will help bring about industrial upgrades and strong local production capabilities with sophisticated value chains in targeted manufacturing activities. The programme is intended to promote industrial decentralisation to avoid overburdening the developed regions.

The South African economy has continued to show resilience despite challenging domestic and global economic conditions, however, the weak performance of the manufacturing sector over the years has had serious ramifications on the economy.

Proper implementation of SEZs, together with dedicated financial and non-financial support from government and state-owned enterprises (SOEs), will help the country to unlock its economic fortunes in the medium to long term. The programme has the potential to increase the flow of domestic and foreign direct investment; develop, strengthen and deepen key domestic value chains, including suppliers; and increase the volume and diversity of exports. Furthermore, SEZs should play an increasingly important role in the development of additional industrial hubs, bringing about much-needed regional diversification of the country's industrial base.

Over the past few years, work on this *programme* has been largely focused on the development of a regulatory framework for the effective design, planning, development and management of zones. This included the introduction of a package of incentives for qualifying investments located within designated zones and the undertaking of feasibility studies to determine the long-term economic viability of proposed new zones.



5. SEZ programme description

The programme description is based on foundational principles of the SEZ policy, strategy and implementation plan.

5.1. Goals and objectives of SEZs in South Africa

The SEZ programme aims to attract both local and foreign investment. SEZs are areas designated by Government within which industry can enjoy lower tax rates and other developmental advantages. The new SEZ policy provides a clear framework for the development, operations and management of the SEZ, and addresses the challenges faced by the IDZ programme and incorporates global best practice.

At a macro scale, the purpose of the SEZ programme is to:

- expand the strategic industrialisation focus to cover diverse regional development needs and context;
- provide a clear, predictable and systematic planning framework for the development of a wider array of SEZs to support industrial policy objectives, the IPAP and NGP;
- clarify and strengthen governance arrangements to expand the range and quality of support measures beyond simply the provision of infrastructure; and
- provide a framework for predictable financing to enable long-term planning.

At a micro scale, the SEZ programme is responsible for:

- the development of targeted industrial capabilities and attraction of foreign direct investment within the IPAP priorities;
- the creation of new Industrial hubs through value chain, technology and skills development;
- the development of world-class infrastructure (hard and soft) in line with targeted industries in each region;
- the promotion of beneficiation of the country's minerals and other resources; and
- contributing to the acceleration of economic growth, job creation and value of exports.

5.2. Elements of the SEZ programme

The SEZ programme has specific elements that serve as pillars for the successful implementation of the SEZ programme as stated below.

5.2.1. Targeted industries/sectors

In line with the National Industrial Policy Framework (NIPF), the SEZ programme is intended to support the expansion of the manufacturing sector and other critical support services.

5.2.2. Targeted regions

The promotion of a regionally balanced industrial economy is an important goal of industrial policy. Accordingly, SEZs will be developed in both leading and lagging regions, with strategies customised to the diverse regional contexts.

5.2.3. Incentives

A competitive incentives package is vital for the success of SEZs. South Africa will use a combination of tax and financial and non-financial incentives, including the 15% corporate tax rate for qualifying investments in designated SEZs.

5.3. Distinct institutional arrangements

The SEZ Institutions Model is critical for ensuring the success of the programme and to avert the numerous challenges experienced by the IDZ programme, as a result of the lack of a properly constituted governing structure to ensure effective accountability for project delivery.

Government, by means of the Act, policy and strategy provides strategic direction and intent for the SEZ programme. The licensee is 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.

In addition, the SEZ Act creates four distinct governance structures of the SEZ, namely the licensee, the SEZ entity with its board, the SEZ operator and businesses located in SEZs, and the SEZ Advisory Board. 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 its duties as follows:

- **the dti** is responsible for policy and regulation, overall planning and strategy development, monitoring and evaluation, operations provided for in the Act.
- The SEZ Advisory Board is responsible for advising the Minister of Trade and Industry on policy, strategy, designations, recommendations and all other elements of SEZs. In performing its fiduciary functions, the Advisory Board has established two subcommittees:
 - the policy and governance subcommittee reviews and interrogates all SEZ policies, strategies and governance issues;
 - the technical subcommittee is responsible for dealing with financial, technological and infrastructural matters.

These subcommittees do not have any executive powers, but have a responsibility to review and discuss related issues and make recommendations to the full SEZ Advisory Board for approval.

- Provincial SEZ Boards are licensed to plan and develop SEZs and oversight of operations.

- Operator Permit Entities are given permits to operate and manage SEZs, including infrastructure development, investment promotion, marketing and investor support.

5.4. Members of the SEZ Advisory Board

The Board comprises public and private sector representatives with expertise in various fields of business.

Table 1: Members of the SEZ Advisory Board

Surname and Name	Position within the Board	Designation	Institution
Bavuma, Siphon Edward	Board member	Government representative	SARS
Buseti, Claire	Board member	Independent	Private
Difeto, Phyllis	Board member	Government representative	Transnet National Ports Authority (TNPA)
Kriel, Andre Thomas	Board member	Nedlac	Labour
Mabitjie-Thompson, Malebo	Board member	Government rep	Deputy Director-General (the dti)
Madyibi, Ntombizine Velma	Board member	Independent	Private
Maleka, Mandla	Board member	Government representative	Eskom
Manci, Mlungisi Clive	Board member	Nedlac	Business
Mogajane, Dondo	Board member	Government representative	National Treasury (Public Finance)
Molisane, Jacky	Board member	Government representative	Department of Public Enterprises
Morolo, Khumo	Board member	Government representative	Industrial Development Corporation (IDC)
Naidoo, Julian (Dr)	Board member – chairperson independent	Independent	Private
Ndhlovu, David Themba	Board member	Nedlac	Civil society
Toni-Penxa, Vuyelwa (Dr)	Board member	Independent	Private
Rasethaba, Masho Sello	Board member	Independent	Private

Table 2: Alternate members of the SEZ Advisory Board

Surname and Name	Position within the Board	Designation	Institution
Dweba, Nompumelelo June	Alternate member	Government representative	Transnet National Ports Authority(TNPA)
Malinga, Abel	Alternate member	Government representative	IDC
Mathe, Titus	Alternate member	Government representative	Eskom
Mbono, Nontsikelelo Rose	Alternate member	Government representative	Department of Public Enterprises
Mesatywa, Nomonde	Alternate member	Government representative	the dti
Mthlane, Dumisani	Alternate member	Nedlac	Nedlac
Nicolaou, Stavros	Alternate member		Nedlac
Ratsoma, Mondale	Alternate member	Government representative	National Treasury

The Board members constitute the Technical Sub-Committee and Policy and Governance Sub-Committee as mentioned above, which recommend to the main Board for approval. The members of the respective sub-committees are as follows:

Table 3: Members of the Sub-Committees

Policy and Governance	Technical
Chair: Rasethaba, Sello Masho	Chair: Difeto, Phyllis (Advocate)
Ndhlovu, David Themba	Buseti, Claire
Buseti, Claire	Naidoo, Julian (Dr)
Madyibi, Ntombizine Velma	Manci, Mlungisi Clive
Bavuma, Siphos Edward	Mogajane, Dondo
Molisane, Jacky	
Penxa, Toni Vuyelwa (Dr)	



Back row (left to right): Mr Sipho Zikode, Mr D Mthlane, Mr Mlungisi Manci, Ms Claire Busetti, Ms Malebo Mabitjje-Thompson, Mr Sipho Bavuma SE, Mr Tapiwe Dube

Front row (left to right): Ms NV Madyibi, Adv. Phillis Difetto, Dr Julian Naidoo, Dr Vuyelwa Penxa-Toni, Ms Jacky Molisane, Mr Masho Rasethaba

5.5. SEZ Advisory Board Secretariat

The SEZ Advisory Board is supported by the Secretariat, which comprises a team of experts on governance, policy, economic and funding-related matters. The Secretariat is located within the SEZ and Economic Transformation (SEZ&ET) as well as the Incentive Development and Administration Division (IDAD) of **the dti**.

The SEZ Secretariat is tasked with administering the day-to-day regulatory activities of the SEZ programme and providing information to the SEZ Advisory Board. All applications for designation to the Advisory Board and the Minister will go through the Advisory Board Secretariat.

The SEZ Secretariat has a critical role to play towards the success and effective implementation of the SEZ programme. The SEZ Advisory Board's sound decision-making is largely dependent on the capacity of the Secretariat to process and analyse the information and provide support to the Board.

5.6. Priorities for the Advisory Board for the Current Financial Year

5.6.1. Designations

5.6.1.1. Re-gazetting of the existing IDZ regulations

the dti is re-issuing SEZ designation notices for all designated IDZs in line with the National Treasury's Income Tax Act and the SEZ Act, which requires clarity on the SEZ boundaries and land descriptions for it to be able to benefit from tax incentives.

5.6.1.2. Applications received for designation

Table 4: Applications have been received for designation and at various stages of development

Name	Focus and Progress	Challenges	Approved
Atlantis SEZ, Western Cape	Green energy cluster application reviewed by the department; not yet presented to Advisory Board	Related to land ownership and control; Western Cape government currently addressing the issue	Not yet
Bojanala SEZ, North West	Support and facilitate platinum beneficiation	Referred back for further information	Not yet
Nkomazi, Mpumalanga	General logistics	Referred back for further information	Not yet
Gauteng Science and Technology hub in partnership with the Department of Science and Technology and Government of the People's Republic of China	Development of a high-tech industrial zone (Science Park)	Discussions ongoing between the dti and Department of Science and Technology staff	At early stages

5.6.2. Legislation, Policy and Regulations

A number of implementation challenges have been experienced since enactment of the legislation and there has been a need to review the SEZ policy with National Treasury. A joint task team has been established to work on the review, as per agreement of the Ministers of Trade and Industry and National Treasury through specific terms of reference. The specific role and responsibilities of the joint task team include:

- review of the legislation, policy approach and funding model, and that of the tax incentive model for implementation of the SEZ programme; and
- the specific role of the private sector in development of the SEZs.

5.6.2.1. SEZ regulations and guidelines

the dti is developing regulations for governance and management of SEZs at the request of the Trade and Industry Parliamentary Portfolio committee. Draft Planning Guidelines have been developed and focus on the processes and procedures for the planning and development of SEZs.

5.6.2.2. SEZ strategy

the dti has completed the consultation process on the draft SEZ Strategy as mandated by the Advisory Board. Consultation sessions were held with provinces, IDZs and national departments. Finalisation of these documents will be done with the Advisory Board.

5.6.3. Capacity Building Programme

the dti has concluded two Memoranda of Agreements with the Chinese Government: one with the National Development and Reform Commission (NDRC) to focus on training regarding industrial infrastructure, and sector and skills development; and another with the Ministry of Commerce to focus on the planning and development of SEZs.

5.6.3.1. Capacity Building for SEZs

A delegation consisting of 20 officials from SEZs and **the dti** was trained in China between April and May 2016. The training programme focused on the planning, development, management and operation of SEZs. This is a part of the five-year agreement between South African and Chinese government to train at least 150 South African government officials on SEZs. For 2017, a proposal was made to the Chinese Government to offer this training to the Advisory Board members, who are expected to provide an oversight role.



5.7. Milestones and Achievements: SEZ Advisory Board in conjunction with Secretariat

5.7.1. Achievements of the dti/Secretariat in Terms of the Policy and Legislative Framework

After the SEZ Act was put into operation in February 2016, **the dti** had to finalise the secondary legislative frameworks, critical for effective implementation of the SEZ programme in conjunction with the Advisory Board, National Treasury and the South African Revenue Services (SARS).

The following functions have been performed by **the dti** in the past few years to lay the foundation for the implementation of the legislation and create a conducive environment in which the Advisory Board can function:

- SEZ regulations approved and gazetted in February 2016;
- SEZ strategy consultation process concluded and the strategy is currently undergoing approval processes;
- SEZ Fund guidelines developed and approved – the fund covers infrastructure development, start-up costs for feasibility studies, business improvement etc.;
- SEZ Monitoring and Evaluation Framework developed and approved by the Minister; and
- SEZ incentive package developed and approved – package includes reduced corporate tax, VAT free and duty free for companies in the customs-controlled area, employment tax incentives and accelerated depreciation building allowance.

5.7.2. SEZ Advisory Board Meetings

Section 14(1) of the SEZ Act provides for the Advisory Board to hold ordinary meetings at least four times a year. Four meetings have been held since establishment of the Advisory Board.

5.8. Designations

It is worth noting that the Minister of Trade and Industry's performance agreement with the President of the Republic includes the designation of three additional zones over the MTSF. From 2014 to 2016, **the dti** designated three zones, namely Maluti A Phofung, Saldanah and Dube Trade Port.

The Musina/Makhado SEZ was also designated after processing and recommendation of the Board.

Table

SEZ Name	Progress Report
Musina/Makhado SEZ designated by the Minister	<p>The realisation of these investments depends on the speed at which the relevant stakeholders move to creating an enabling environment.</p> <p>The application was reviewed in detail and approved for recommendation to the Minister to designate the Musina SEZ.</p> <p>The Minister published in the <i>Government Gazette</i> the notice for designating Musina as a SEZ. This process allowed for public comment for a period of 30 days from the date of publication. Various stakeholders, interested and affected parties were identified and informed through various media and information outlets of the public hearing on the Minister's intention to designate Musina SEZ.</p> <p>All inputs from stakeholders were considered and consolidated and the application was sent to the Minister for consideration for the designation of the Musina SEZ.</p> <p>Arrangements are under way to operationalise the SEZ.</p>

5.9. Coordination and Marketing

Systems are in place to provide coordinated support for marketing and investment promotion of the SEZs, implementation of the SEZ One Stop Shop (OSS) model, and to assist in unlocking emerging opportunities for SEZ markets.

Coordinated systems are necessary to integrate SMEs into the key value chain activities of the firms located in the zones. Furthermore, strong institutional arrangements and monitoring and evaluation systems are important to track progress on implementation.

5.9.1. SEZ Monitoring and Evaluation (M&E) Framework

The M&E Framework was tabled to the Board for inputs and recommendations and approved by the Minister in September 2016

5.9.2. Public Sector Expenditure: Technical Support for Project Management Units (PMUs)

The Secretariat continues to provide technical and administrative support to the various proposed SEZs, including the Project Management Units (PMUs) established by **the dti** in collaboration with the provincial Economic Development Departments to assist with pre-designation preparatory work.

This support has been in the form of human and financial resources. **the dti** disbursed a total of R197,8 million between 2013/14 and 2015/16 to build necessary capacity for the Project Management Units (PMUs): R45,4 million in 2013/14; R79,6 million in 2014/15; and R72,8 million in 2015/16. This allowed the provinces to conclude feasibility studies and compile applications for designations of targeted areas as SEZs in line with the SEZ legislation. Figure 1 shows the proportion of funds disbursed to each province year-on-year between 2013/14 and 2015/16.

Figure 1: the dti disbursements' proportions to the PMUs: 2013/14 - 2015/16



Source: Secretariat Database

6. Designated SEZs in South Africa since inception of the IDZ programme

To date, the Government has designated seven SEZs, five of which were existing IDZs and the other two being Maluti-A-Phufong and Dube Trade Port, which were designated in 2014 and 2015 respectively.

6.1. Designated IDZs

Table 6 shows the designated SEZs according to province, sectoral focus and year of designation.

Table 6 : List of designated IDZs and sectoral focus

Province	IDZ	Designation Year	Focus
Eastern Cape	Coega	2001	Automotive; Agro-processing; Chemicals; General Manufacturing; Business Process Outsourcing; and Energy.
	East London	2002	Automotive, renewable energy, ICT, and Agro-processing sectors
KwaZulu-Natal	Richards Bay	2002	Aluminum, Titanium, dry dock (ship & repair), and furniture
	Dube Trade Port	2014	Value niche aquaculture and horticulture, automotive, electronics and fashion garments
Gauteng	OR Tambo	2002	Specialized jewelry manufacturing
Western Cape	Saldanha Bay	2013	Oil & Gas services complex
Free State	Maluti –A-Phufong	2015	Automotive logistics, agro - processing , pharmaceutical

6.2. Proposed SEZs

Table 7: List of proposed SEZs and sectoral focus

Province	Region	Focus
Eastern Cape	Mthatha	Agric - processing
Gauteng	JHB	ICT and Electronics
Limpopo	Tloetshe	PGMs
	Musina	Logistics, Petrochemicals, and trade
Mpumalanga	Nkomazi	General Logistics
Northern Cape	Upington	Solar Corridor
North West	Atlantia	PGMs
Western Cape		Renewable energy



7. Overall performance: IDZs performance analysis 2002-2015

7.1. Investments: Gaining momentum

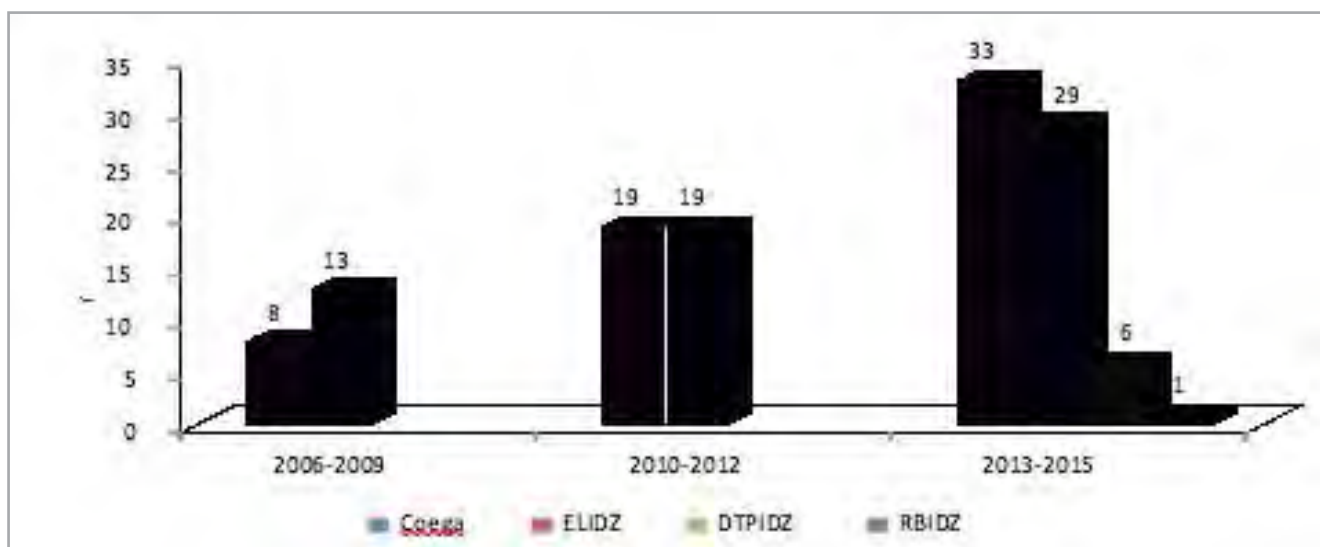
Despite the current economic challenges, the IDZs have continued to thrive and make a meaningful contribution to the economy of South Africa as well as the regions in which they are located. Investment into the designated zones is gaining momentum.

Since the SEZ legislative regime was promulgated into law in 2014, there has been a huge shift in investor appetite towards the zones. While the SEZ Act was only recently put into operation in February 2016, the interest of investors to locate in the designated zones has increased. Moreover, the quality of the potential investors attracted is starting to align with the objectives of the programme.

7.2. Operational investors in the IDZs

Figure 4 shows investors on site and operating in the designated zones and from which the respective zones collect rent. Rent collection is an important source of revenue generation for the zones. While **the dti** continues to provide funding for infrastructure development and other non-financial support mechanisms towards the development of the zones, the designated zones are expected to reach critical mass and be self-sufficient to cover at least all operational costs and infrastructure developmental needs.

Figure 2: Number of operational investors since inception of programme as at 31 March 2015/16



Source: IDZ quarterly reports

Between 2006/07 and 2009/10, eight investors located in Coega and 13 in ELIDZ.

From 2010/11 to 2012/13, the number of operational investors in both Coega and ELIDZ increased to 19. The financial years 2013/14 and 2015/16 recorded growth to 34 investors operating in Coega, 29 in ELIDZ, six in Dube Trade Port and one in Richard's Bay. In 2015/16, a total of 69 investors with an estimated investment value of R8.9 billion were operating in the zones. The investment value of investors located in the designated zones increased steadily by 480%, from less than R1.5 billion between 2005/6 and 2009/10 to more than R8.7 billion between 2013/14 and 2015/16.

Figure 3 shows that during the period under review Coega attracted investors with an investment value worth more than R6.4 billion, ELIDZ worth R1.8 billion and Dube Trade Port R372 million. However, current levels of private sector capital investment are far below public sector capital investment in the zones.

Figure 3: Private investment value of operational investors as at 31 March 2015/16

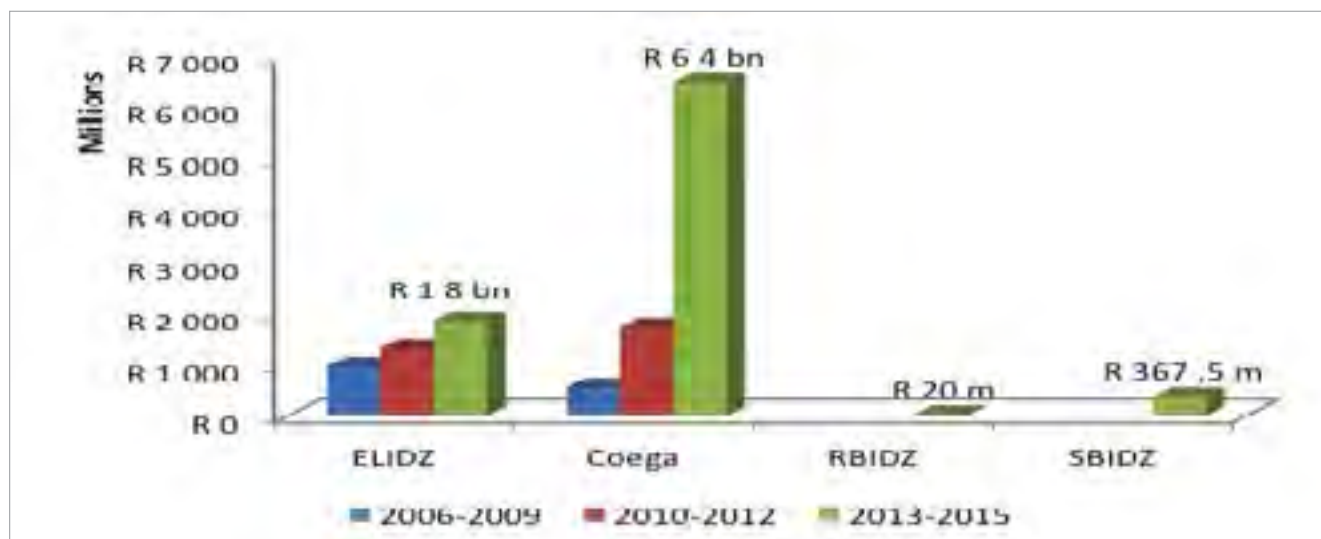
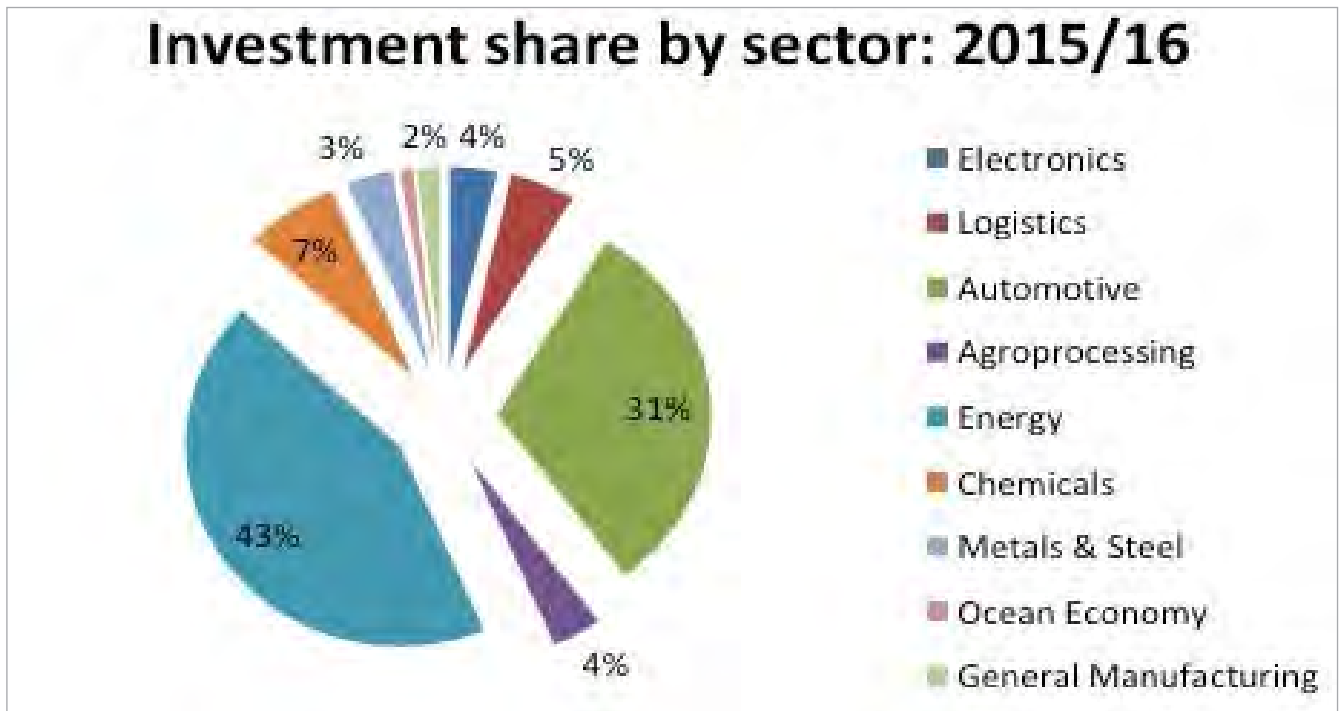


Figure 4: Investment share by sector: 2015/16



Source: IDZs quarterly reports

Figure 4 shows the share of firms by sector that have injected private investment into the zones. Sectors with the larger investment shares include energy (43%) followed by automotive (31%), chemicals (7%) and logistics (5%), while the lowest contributing sector is oceans economy (aquaculture and horticulture) with an investment share of 2% during the period under review.

Table 8: Investment share by sector

Sector	Percentage
Energy	43%
Automotive	31%
Chemicals	7%
Logistics	5%
Electronics	4%
Metals and Steel	3%
Oceans Economy	2%

Source: IDZ quarterly reports

While the rate of investor attraction into our zones is low when compared to that of other developing countries, it has nevertheless been gaining momentum since 2010/11.

7.3. Secured, but not yet operational investors

Figures 5 and 6 show the number and estimated investment value of secured investors not yet operational.

As at March 2015/16, a total of 58 investors had contracted commitments to locate in the zones, with an estimated investment value of more than R46 billion. Of the 58 secured investors, 25 from various sectors (ranging from energy, chemicals and steel to agriculture, food and cement plants) are intending to locate in the Coega IDZ, with an investment value of more than R28.9 billion.

Four investors, with an estimated investment value of R830 million, have made commitments to locate in the ELIDZ in sectors such as renewable energy, aquaculture, recycling and logistics.

Five investors, with an estimated investment value of R170 million, have made commitments to locate in Dube Trade Port in steel fabrication, electronics manufacturing, bearings and seal plant sectors.

Nine investors, with an estimated investment value of R10.2 billion have made commitments to locate in Richard's Bay in sectors ranging from plastics, piping, paint and energy to chemicals, steel, titanium and pulp manufacturing sectors.

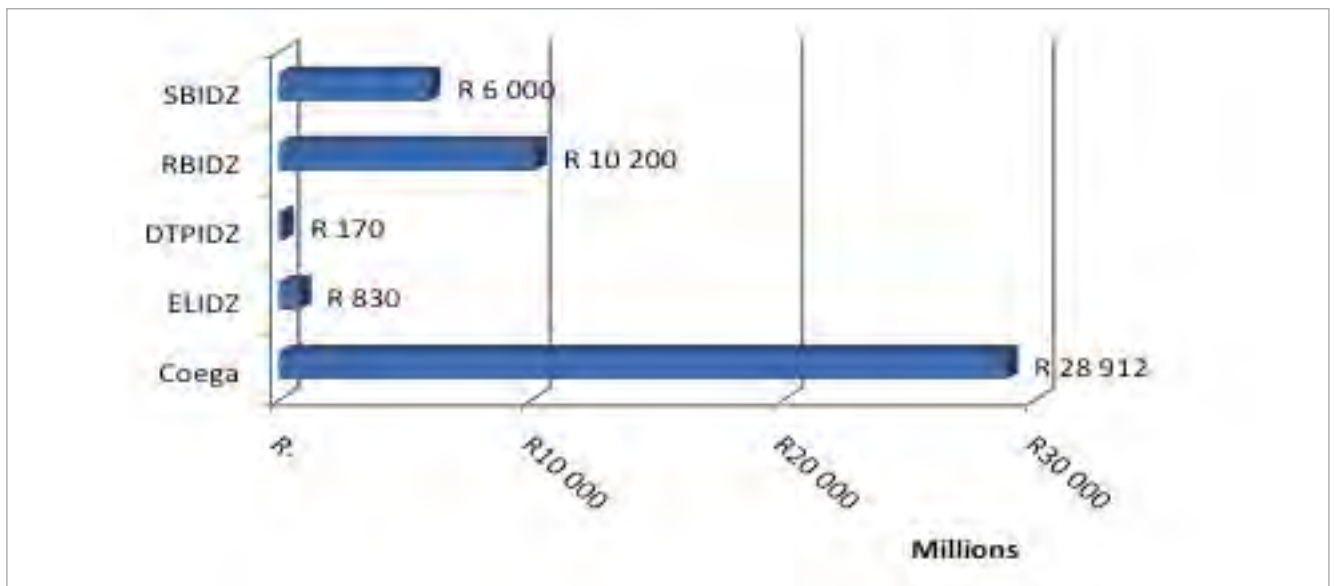
Fourteen investors, with an estimated investment value of R6 billion, have made commitments to locate in Saldanha Bay (SBIDZ) in oil and gas fabrication-related sectors.

Figure 5: Committed investors in various SEZs, but not yet operational as at March 2015/16



Source: IDZ quarterly reports

Figure 6: Estimated investment value for secured investors in various SEZs as at March 2015/16



Source: IDZs quarterly reports

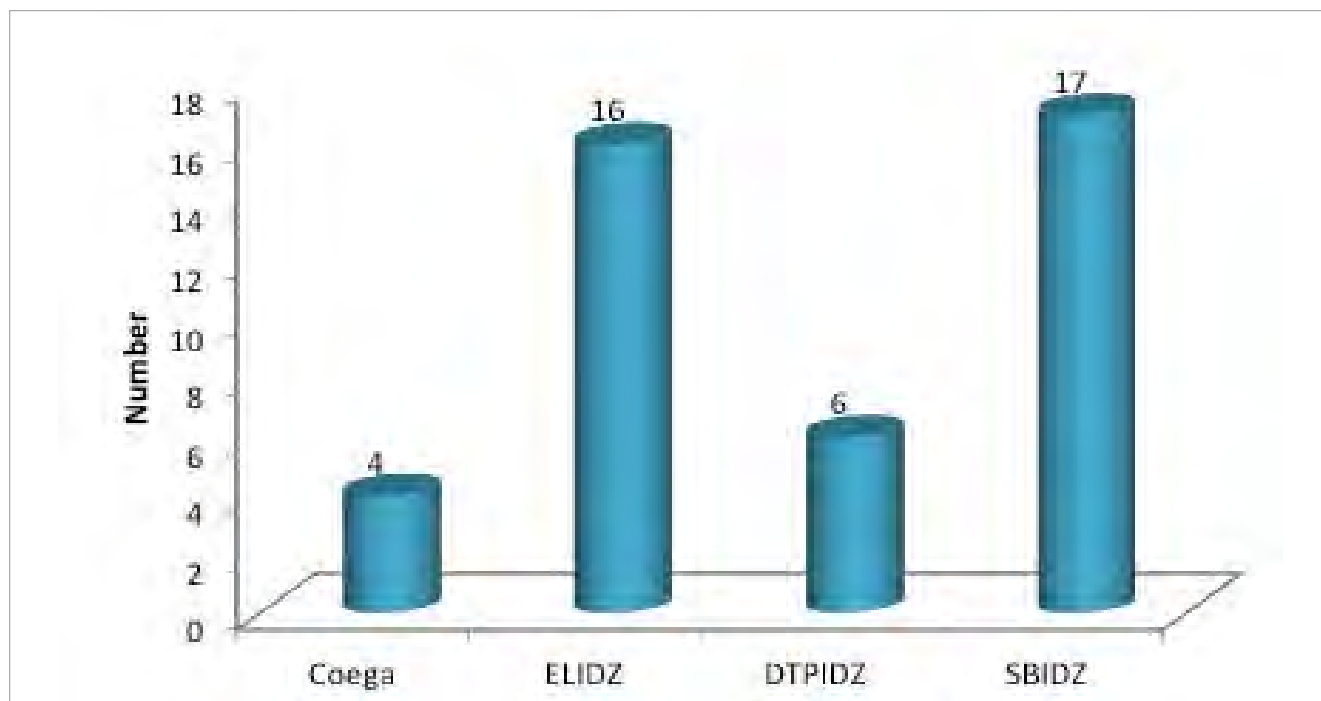
A coordinated effort by all relevant stakeholders, including the three spheres of government, state-owned enterprises and development financial institutions, is essential to ensure realisation of potential investments. Common reported delays in the realisation of investments in zones and proposed zones include lack of sufficient electricity supply and water shortages, particularly in areas such as Nkomazi, as well as bureaucratic processes around decision-making, and economic conditions.

7.4. Pipeline investors

Figure 7 shows the number of investors in the pipeline for the four designated zones. Pipeline investors refer to those that have been targeted and are at different stages of negotiations, but where no commitment has yet been made to locate in the zones.

There are 43 investors in the pipeline for the identified designated zones. Not all pipeline investors have disclosed the value of their investment intentions, however, the estimated pipeline investment value for ELIDZ is R13.7 billion, while that of Coega is R46.3 billion. Main investment projects in the pipeline for Coega include the CCGT Power Station (R38 billion), Kalagadi (R5.3 billion) and Phyto-Amandla (R3 billion). The estimated pipeline investment value figure for Coega excludes the PetroSA project worth R76 billion.

Figure 8: Direct jobs created by companies operating in Coega and ELIDZ: 2006/07 - 2015/16



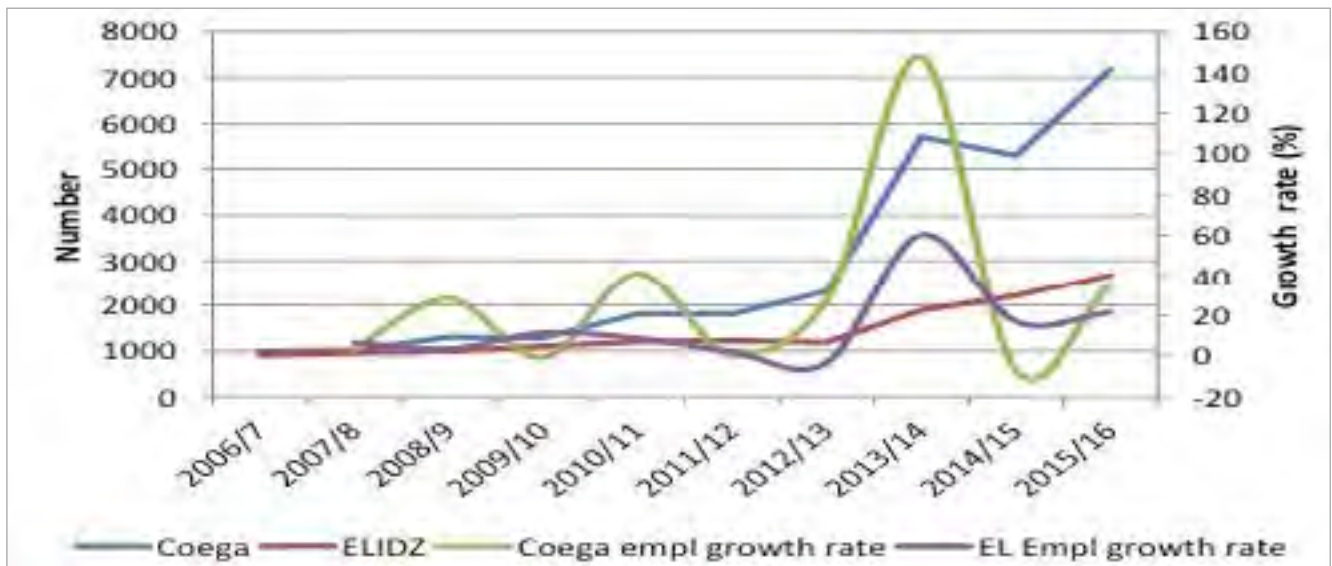
Source: IDZs quarterly reports

7.5. Employment in the zones

Since inception of the IDZs, companies operating in the zones have created a total of 71 966 job opportunities, of which 9 755 (14%) were direct and 62 211 (86%) indirect (construction and services).

Figure 8 shows the cumulative number of direct jobs created by companies located in Coega and the ELIDZ between 2006/07 and 2015/16. In 2006/07, 500 direct jobs were created and less than 1 000 created at Coega. In 2015/16, Coega and ELIDZ together created a total of 9 483 direct jobs – 2 309 at ELIDZ and 7 174 at Coega.

Figure 8: Direct jobs created by companies operating in Coega and ELIDZ: 2006/07 - 2015/16



Source: IDZs quarterly reports

The Dube Trade Port IDZ has created a total of more than 229 direct jobs and 3 272 construction employment opportunities.



Aerial view of the main gate to the zone as well as the cooperative office of the ELIDZ

8. Sectoral profile of investments by zones

The IDZs, through various projects focusing on infrastructure development within the designated zones, have made a noticeable impact and touched the lives of more than 72 000 people through direct and indirect job opportunities.

This means that the IDZs are becoming a beacon of hope for many South Africans, particularly those residing in the Eastern Cape and KwaZulu-Natal.

8.1. ELIDZ

The ELIDZ boasts 430ha of serviced industrial land and quality industrial buildings. It is located on the south-eastern seaboard of the country, close to the East London port and airport, making it a strategic zone for logistical operations. With this rail, road and air access to all major cities in South Africa as well as the rest of Africa, the ELIDZ provides a great platform for investors that want to grow their African footprint.

The zone has experienced some success in attracting global and local players ranging from Mercedes-Benz South Africa and automotive equipment supplier Johnson Controls to dairy-processing company Sunningdale Dairy.

The ELIDZ boasts 430ha of serviced industrial land and quality industrial buildings. It is located on the south-eastern seaboard of the country, close to the East London port and airport, making it a strategic zone for logistical operations. With this rail, road and air access to all major cities in South Africa as well as the rest of Africa, the ELIDZ provides a great platform for investors that want to grow their African footprint.

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Mercedes Benz vehicles ready for export to various markets



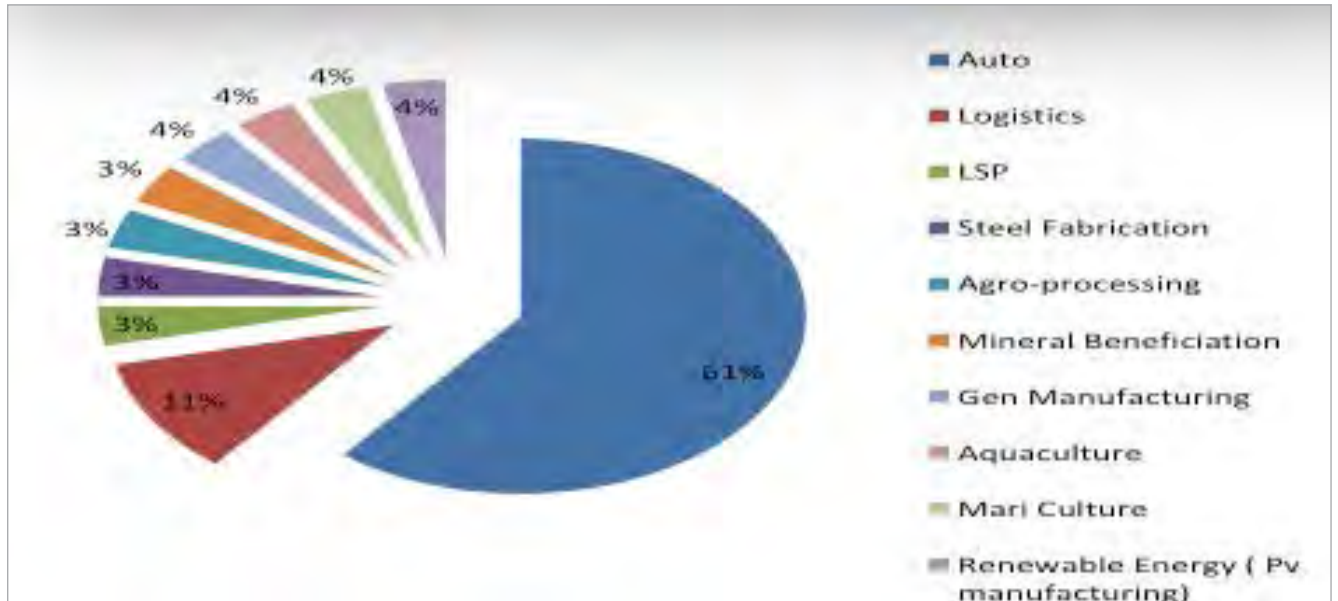
Mercedes Benz vehicles ready for export to various markets



Various factories at ELIDZ

Figure 9 shows the sectoral breakdown of investors located in ELIDZ as at 2015/16. Seventeen automotive companies were on site in ELIDZ during the period under review. This represents more than 60% of the sectoral breakdown. The automotive cluster was initially the anchor cluster, but the zone has subsequently built on investment in the agro-processing, renewable energy, aquaculture and ICT clusters.

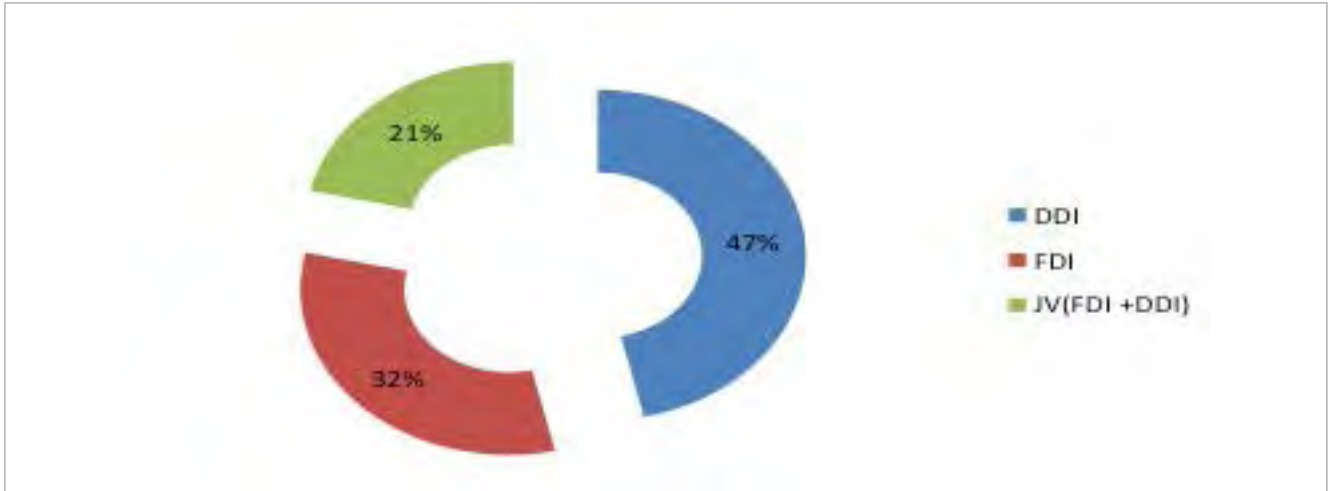
Figure 9: ELIDZ investment split by sector: 2002 - 2015



Source: IDZ quarterly reports

Of the 29 investors located at ELIDZ, 47% are domestic direct investments (DDIs), 32% foreign direct investments (FDIs) and 21% joint ventures (JVs) between FDIs and DDIs, as shown in figure 12 below.

Figure 10: ELIDZ investment profiles: 2002-2015



Source: IDZ quarterly reports

8.2. Coega IDZ

Coega is part of the Nelson Mandela Metro (comprising Port Elizabeth, Uitenhage and Despatch), which is home to one of the most diverse automotive clusters in the world. Coega is located in 11 500ha of land, which is structured according to 14 clusters and linked to the Port of Ngqura.

The SEZ and Port of Ngqura act as catalysts for investment and local development, locating related industries and their supply chains in close proximity to one another to maximise efficiency and minimise turnaround times. It includes original equipment manufacturers (OEMs), General Motors and Volkswagen, as well as more than 150 suppliers, including Goodyear, Bridgestone, Corning, Visteon, Hella, Faurecia, LUK and Johnson Controls. Coega is focusing on these investment sectors.

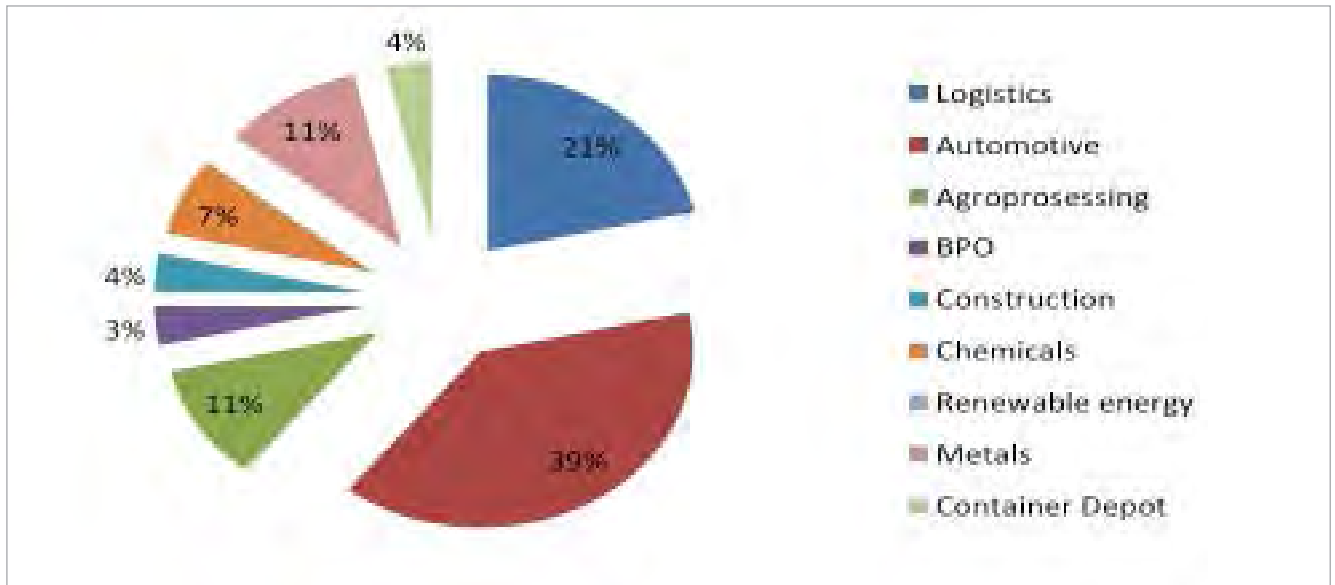


Coega Business Centre, Zone 1

Figure 11 shows the sectoral breakdown of investors located in Coega as at the financial year of 2015/16. There are currently 11 automotive companies based in the Coega representing more than 39% of the sectoral breakdown.

- Automotive
- Logistics
- Agro-processing
- Chemicals
- General Manufacturing
- Business Process Outsourcing
- Renewable energy

Figure 11: Coega investment split by sector: 2002-2015



Source: IDZ quarterly reports

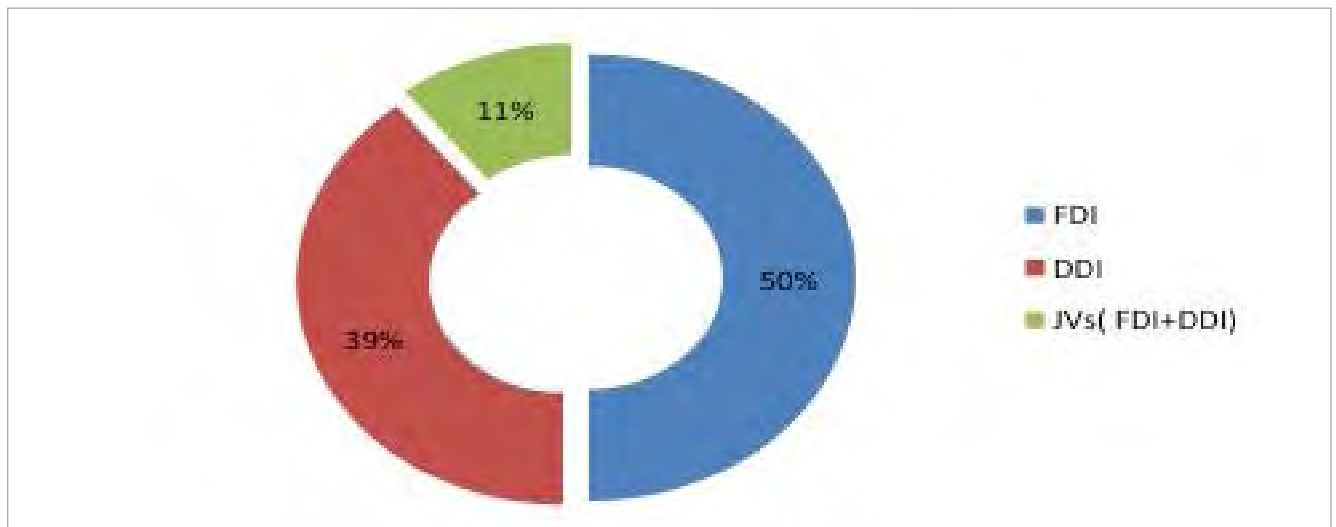


Coega SEZ shows construction activity, with the Port of Ngqura in the background

The Coega SEZ aims to offer total solutions for construction, spatial and SMME development. This approach enables investors to conveniently establish their plants without major challenges regarding the installation of major services.

Thirty-four investors are located at Coega SEZ, with 50% being FDIs, 39% DDIs and 11% JVs between FDIs and DDIs (Figure 12). DDIs and FDIs are critical in building a competitive economy. DDIs tend to create deeper linkages with the local economy, while FDIs are able to finance projects with large capital requirements and bring crucial skills and technology transfers.

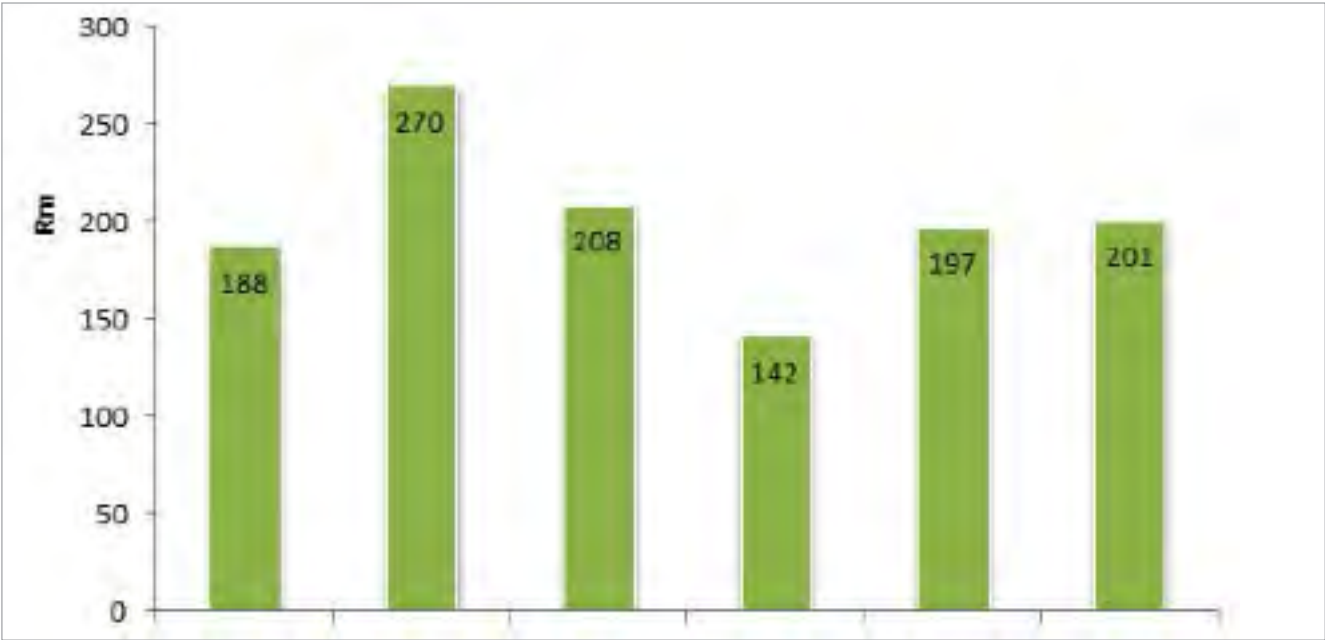
Figure 12: Coega investment profile: 2002-2015



Source: IDZ quarterly reports

Companies located in Coega export an annual average of 575 000 containers. Figure 13 shows that the cumulative export value from 2008/09 to 2014/15 stands at R1.2 billion. In 2015/16, a total of R201 million was exported from the zone, representing 0,4% of the total provincial exports for 2015/16 (Quantec database).

Figure 13: Value of exports from Coega IDZ (Rm) as at 2014/15



Source: IDZ quarterly reports

8.3. Dube Trade Port IDZ

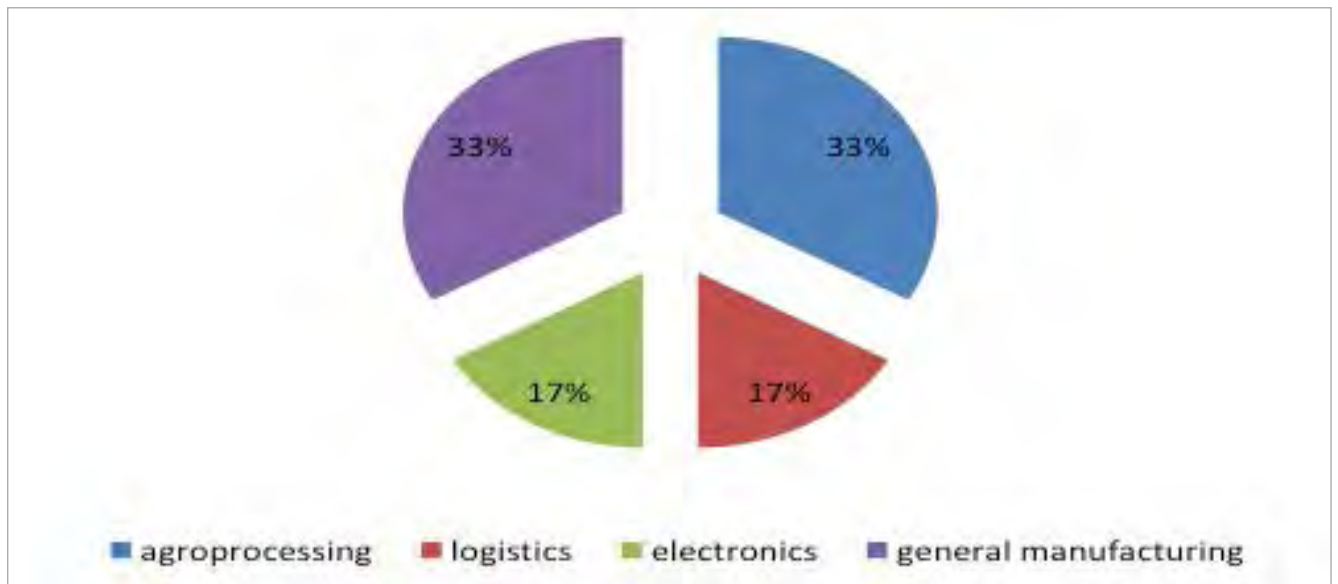


Pictorial view of the Dube Trade House

The Dube Trade Port IDZ is located 30km north of the important coastal city of Durban in KwaZulu-Natal, on the eastern seaboard. It covers the 3 000ha development close to the King Shaka International Airport and is ideally positioned 30 minutes from Africa's busiest cargo port, Durban Harbour, and 90 minutes from Richards Bay Harbour.

Dube Trade Port takes advantage of its prime location as the only facility in Africa that combines an international airport, dedicated cargo terminal, warehousing, offices, retail, hotels and agriculture. It has shown good progress since its designation in 2014. Six companies are operational in sectors ranging from agro-processing and general manufacturing to electronics and logistics. Agro-processing and general manufacturing represented 33%, while 34% was split between electronics and logistics (see figure 16).

Figure 14: DTPIDZ investment split by sector: 2012-2015



Source: SEZ quarterly reports





A sea view of the Saldanha Bay IDZ

9. Designated zones at preparatory phase of development

9.1. Saldanha Bay SEZ

The Saldanha Bay IDZ (SBIDZ) was designated in 2013. The SBIDZ focuses on the development of upstream oil and gas services, and marine repair and engineering sectors.

Infrastructure development is taking place in the zone to establish a state-of-the-art facility that allows for wet and dry work on mobile drilling units such as semi-submersible oil rigs and other vessels, as well as the fabrication of key industry-related products, such as subsea manifolds, onshore modules and jack-up rigs.

In 2015/16, 31 investors with an estimated private investment value of R14,8 billion, consisting of both DDIs and FDIs had shown interest to locate in the zone. These companies participate in the upstream oil and gas services as well as marine repair and fabrication industries sector. Their typical business activities include equipment and vessel servicing and repair; vessel fabrication; subsea fabrication; specialist upstream oil and gas, logistics and inventory management services; and offshore support services. In addition, Transnet and TNPA have committed R450 million to the development of water-side infrastructure in the port for these industries as part of their commitment to Operation Phakisa.

The levers that unlock the 31 investments are (in order of priority): the conclusion of the TNPA/Transnet land transaction; the successful allocation of funding from the SEZ Fund for the enabling infrastructure in the port; and the establishment of the ease-of-doing-business model with SARS and Customs in particular.



9.2. Gauteng IDZ (OR Tambo international Airport)

The Gauteng IDZ DEVCO's investment promotion activities are aimed at contributing to the transformation, development and growth of post-minerals extraction processing and beneficiation industry sectors as well as the creation of an export-orientated growth centre that will take advantage of ORTIA as the primary air transportation hub in South Africa.

Approximately 10 000m² to 15 000m² of industry-specific facilities for gold, diamond, precious and semi-precious metals beneficiation will be located in a gated and highly secured customs-controlled area (CCA) where jewellery manufacturing and beneficiation will take place. The CCA will be effectively managed in line with SARS.

Specific to the period under review, the following has been undertaken in respect of bulk infrastructure development in the zone. The bulk infrastructure development process is under way; a plan has also been developed to enhance promotion of the Gauteng IDZ, with a view to ensuring top structure investment and development. There has been some registered infrastructural progress as far as the Gauteng SEZ is concerned.



9.3. Maluti-A-Phofung SEZ

The Maluti-A-Phofung IDZ was designated in 2015 and aims to develop a 1 039ha piece of land near Harrismith at the foothills of the northern Drakensberg mountains (also known as the Maluti mountains). It will be built into a multi-sector and rail-based container terminal (as a multi-modal logistics hub) to service the automotives and clothing industries and to unlock pharmaceuticals manufacturing and agro-processing opportunities in the region. The multi-modal and cross-sector elements of the development will allow for the transfer of cargo between rail and road transportation and is dependent on the assistance of Transnet. The Front End Loading (FEL) process is being conducted jointly by the Free State Development Corporation (FDC) and Transnet Freight Rail TFR.





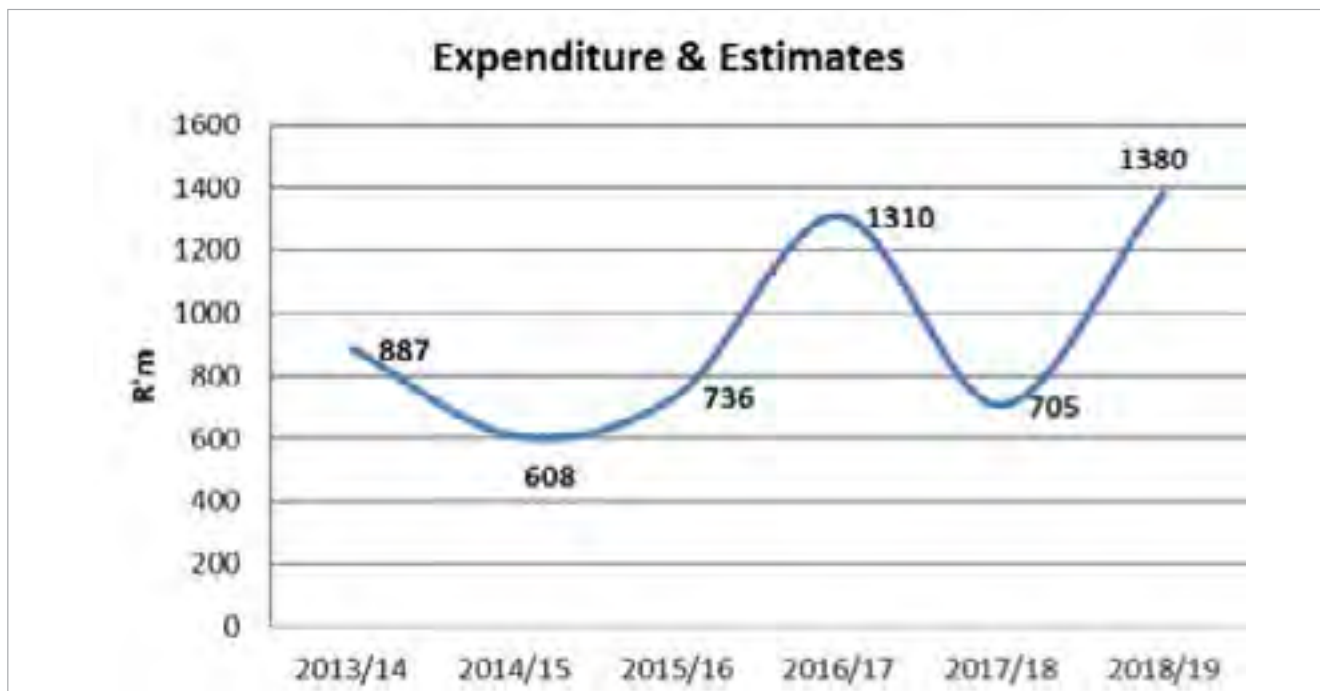
10. SEZ budget allocation, transfers and estimates: 2013/14-2018/19

the dti continues to provide financial support for the implementation of the SEZ programme to attract targeted investment in the existing IDZs and newly proposed SEZs. Currently, 46 funded capital projects are at various stages of development in these zones. Bulk infrastructure and top structures linked to specific investors are financed through SEZ allocation in the Infrastructure Investment Support sub-programme in the Incentive Development and Administration Division.

The SEZ Fund was established in 2013, the model of which is project based. The IDZ funding model preceded that of the SEZ Fund and was based on a budget vote allocation line item. The significance of the SEZ funding model is that it enables the SEZ authorities to fund relevant infrastructure projects linked to targeted investors. Since the inception of the IDZ Programme in 2002, the dti has to date expended more than R8.3 billion for infrastructure development in the zones.

Between 2013/14 and 2015/16, the dti expended R2.2 billion for infrastructure development in the zones. In 2015/16, the department disbursed R736 million to the zones. The 2016/17 MTEF allocation for SEZ is R3.4 billion. Figure 15 shows these disbursements and estimates.

Figure 15: SEZ expenditure trends and estimates (2013/14 - 2018/19)



Source: ENE

Figure 16 shows that the bigger share of the 2015/16 disbursement went to Coega IDZ (35%), followed by RBIDZ (21%), GIDZ (16%), M-A-P (12%), SBIDZ (7%), DTPIDZ (4%), ELIDZ (3%) and other special projects/feasibility studies (2%).

Figure 16: Share distribution of CAPEX by IDZs: 2015/16

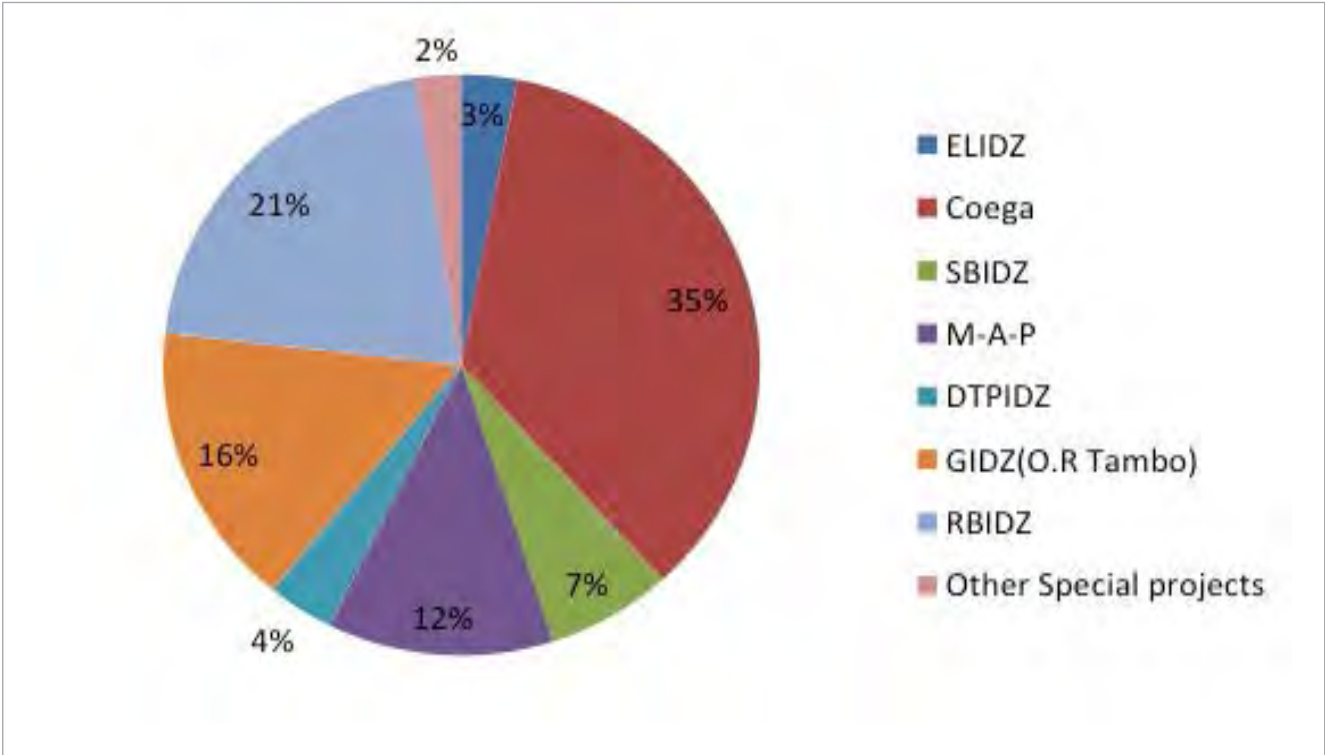
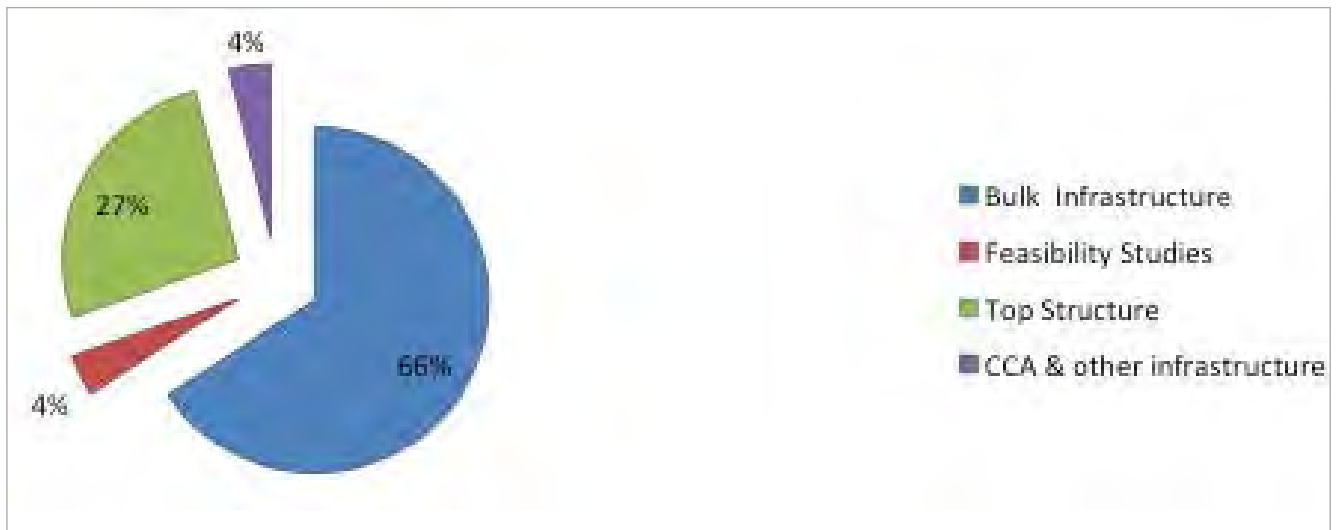


Table 9 shows funds expended by the dti to SEZs per infrastructure categories, while figure 19 shows a share of the funding by project type. Bulk infrastructure had the largest share (66%), followed by top structure (27%), while CCA, fencing infrastructure and utility infrastructure received 4% each.

Table 9: Classification of funded SEZ projects in 2015/16

Project	2015/16	% Share to the total
Bulk Infrastructure	R 483 786 824	66%
Feasibility Studies	R 27 931 347	4%
Top Structure	R 195 136 022	27%
CCA & other infrastructure	R 28 745 807	4%
Total	R 735 600 000	100%

Figure 17: Share of the funded infrastructure by project type in 2015/16



Source: IDAD SEZ Fund database

<i>Applicant</i>	<i>Project Name</i>	<i>Project Type</i>	<i>Total Paid</i>
<i>East London IDZ</i>	<i>VM Automotive</i>	<i>Top structure</i>	<i>R 16 530 677</i>
	<i>MC Syncra Expansion</i>	<i>Top structure</i>	<i>R 2 436 750</i>
	<i>JCI Expansion</i>	<i>Top structure</i>	<i>R 3 090 000</i>
<i>Total</i>			<i>R 22 057 427</i>
<i>Coega IDZ</i>	<i>Customs Controlled Area in Zone 2</i>	<i>CCA</i>	<i>R 28 745 807</i>
	<i>Fibre Optic Backbone</i>	<i>Bulk infrastructure</i>	<i>R 14 000 000</i>
	<i>Electrical Connections to Zone 3</i>	<i>Bulk infrastructure</i>	<i>R 25 664 934</i>
	<i>Multi-User Facility in Zone 3</i>	<i>Top structure</i>	<i>R 38 759 307</i>
	<i>Fire Ring in Zone 1</i>	<i>Bulk Infrastructure</i>	<i>R 6 287 576</i>
	<i>MM Engineering</i>	<i>Top structure</i>	<i>R 50 000 000</i>
	<i>ID Logistics Top Structure</i>	<i>Top structure</i>	<i>R 21 046 793</i>
	<i>CCA in Zone 1</i>	<i>Top structure</i>	<i>R 20 000 000</i>
	<i>Coega Dairy Expansion</i>	<i>Top structure</i>	<i>R 29 088 281</i>
	<i>Spiral Wrap Top Structure</i>	<i>Top Structure</i>	<i>R 14 184 214</i>
	<i>Fire Ring in Zone 3</i>	<i>Bulk Infrastructure</i>	<i>R 9 611 441</i>
	<i>Dedisa Water & Sewer connection</i>	<i>Bulk Infrastructure</i>	<i>R 246 461</i>
<i>Aqua-culture Feasibility Study</i>	<i>Feasibility Study</i>	<i>R 1 395 000</i>	
<i>Total</i>			<i>R 259 029 814</i>

<i>Eco Industrial Solutions (Pty) Ltd: Special Project</i>	<i>Methanol Plant Feasibility study</i>	<i>Feasibility Study</i>	<i>R 6 611 250</i>
	<i>GTL Feasibility Study</i>	<i>Feasibility Study</i>	<i>R 7 473 750</i>
<i>Total</i>			<i>R 14 085 000</i>
<i>Maluti-A-Phofung IDZ</i>	<i>Perimeter Fencing and Gate Houses</i>	<i>Bulk infrastructure</i>	<i>R 29 351 561</i>
		<i>Bulk infrastructure</i>	<i>R 61 086 781</i>
<i>Total</i>			<i>R 90 438 342</i>
<i>Isando Precious Metals (Pty) Ltd: Special Project</i>	<i>Fuel Cell Plant</i>	<i>Feasibility Study</i>	<i>R 3 901 347</i>
<i>Total</i>			<i>R 3 901 347</i>
<i>Dube Trade Port IDZ</i>	<i>Bulk infrastructure</i>	<i>Bulk infrastructure</i>	<i>R 26 656 001</i>
<i>Total</i>			<i>R 26 656 001</i>
<i>Gauteng IDZ</i>	<i>Bulk and security Infrastructure development</i>	<i>Bulk and security Infrastructure development</i>	<i>R 116 402 128</i>
<i>Total</i>			<i>R 116 402 128</i>
<i>Richards Bay IDZ</i>	<i>F - Engineering Infrastructure Project</i>	<i>Bulk Infrastructure</i>	<i>R 144 479 941</i>
	<i>Nyanza Light Metals (Pty) Ltd</i>	<i>Feasibility Study</i>	<i>R 8 550 000</i>
<i>Total</i>			<i>R 153 029 941</i>
<i>Grand Total</i>			<i>R 735 600 000</i>

11. Challenges

The SEZ programme is based on a foundational legislative mandate, however, its implementation faces a number of challenges. It is worthwhile to identify these challenges upfront to allow for the development of applicable corrective measures.

11.1. Global

The SEZ programme is vulnerable to a number of external shocks driven by global economic policy and geopolitical changes of large economies that drive the world economy, as well as similar changes in our major trading partners, which eventually affect domestic macroeconomic factors. These may be in the form of currency fluctuations leading to exchange rate depreciation, political and foreign policy changes, and economic statements. In most cases, a domestic programme such as the SEZ may not have much option to avoid the above, however, strong domestic macroeconomic policies as well as less dependence on global economic situations might offer the programme some cushioning.

11.2. Domestic

Challenges arising from policy-related matters include the structure of incentives, which tends to be skewed and favours developed areas or regions. Alignment of national priorities is another factor that challenges the implementation of the SEZ programme, as is the fact that the implementation mechanism is heavily reliant on provinces, which have rather weak institutional mechanisms. Limited participation from the private sector in the implementation mechanism of the SEZ programme presents a further challenge.

11.3. Local

Challenges at local level include the acquisition of land for the development of SEZs. According to a recent land audit carried out by the Department of Rural Development, 79% of the country's land is in the hands of private individuals. This fact, together with the laborious processes required to acquire and register the land, makes it difficult for government to acquire land with the speed and promptness required for investors to undertake commercial activities.

Local government level has a range of capacity constraints that render them less able to implement the SEZ programme or to participate at expected and desired levels. Implementation is further thwarted by the political uncertainty and instability at the local level, with interference and a lack of eagerness making it difficult to mobilise and manage stakeholders around a common cause. Furthermore, coordination of the packaging of economic opportunities is weak.

In addition, relatively weak integration between the three spheres of government has a negative impact on joint planning and coordinated implementation. All these lead to less dedicated and effective efforts for SEZ marketing and effective and timely implementation.

12. Recommendations

Taking into account the abovementioned challenges, certain recommendations must be put forward for the effective implementation of the SEZ programme. These include:

- Stronger implementation mechanisms and alignment are required at the national level by responsible government departments and agencies (the **dti**, National Treasury, Department of Public Enterprises etc.);
- Review of the incentive packages is critical to be able to make an impact in historically disadvantaged regions. This will require differentiated tax incentives per region, i.e. even lower taxes coupled with higher infrastructure spend for poorer regions;
- Integration of the Industrial Parks in the SEZ programme is another issue to be considered;
- Strengthening the role of the private sector in the implementation of the SEZ programme; and
- Strengthening and alignment of working mechanisms between the different spheres of government.

13. Conclusion

This first baseline report of the SEZ Advisory Board shows that even though more work needs to be done, the SEZ systems and processes to manage and effectively govern the implementation of the SEZ policy and strategy are systematically being put in place.

The SEZ Advisory Board, in line with its mandate, will ensure that SEZs are implemented in line with the legislative regime. To this end, the Board calls upon all public and private sector institutions to rally behind implementation of the SEZ programme to contribute meaningfully towards the industrialisation agenda.

Despite concerns regarding the performance of the IDZs, the report shows that operational IDZs have contributed to employment creation and investment attraction. **the dti** is aware of the slow progress that was a result of poor stakeholder coordination, lack of tax incentives, lack of appropriate funding mechanisms, and weak governance and institutional arrangements. The SEZ legislation therefore creates an enabling environment for zone development and to address the challenges experien

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