



# the dti Annual Report 2018/19

Presentation to the Select Committee on  
Trade and Industry, Economic Development, Small Business Development,  
Tourism, Employment and Labour:

29 October 2019

# PRESENTATION OUTLINE

- ❑ Purpose**
- ❑ Introduction**
- ❑ Economic Overview**
- ❑ Summary of Departmental Performance**
- ❑ Financial Performance 2018/19**

# PURPOSE

To request the Select Committee on Trade and Industry, Economic Development, Small Business Development, Tourism, Employment and Labour to:

- Note and discuss the 2018/19 Annual Report of **the dti**.

# INTRODUCTION

- ❑ Section 40(1)(d) of the Public Finance Management Act, 1999 (Act No. 1 of 1999 as amended) requires the accounting officer for a department to submit within five (5) months of the end of a financial year to the relevant treasury and to the executive authority responsible for that department or trading entity –
  - an annual report on the activities of that department, trading entity or constitutional institution during that financial year;
  - the financial statements for that financial year after those statements have been audited; and
  - the Auditor-General's report on those statements.
- ❑ Annual Report Guidelines remain the same as last year- as confirmed by National Treasury.

# STRATEGIC IMPERATIVES

## Objectives

Grow the manufacturing sector to promote industrial development, job creation, investment and exports.

Improved conditions for consumers, artists and opening up of markets for new patents players.

Strengthened capacity to deliver on **the dti** mandate.

## Goals

1. To facilitate transformation of the economy to promote industrial development, investment, competitiveness and employment creation.

2. Build mutually beneficial regional and global relations to advance South Africa's trade, industrial policy and economic development objectives.

3. Facilitate broad-based economic participation through targeted interventions to achieve more inclusive growth.

4. Create a fair regulatory environment that enables investment, trade and enterprise development in an equitable and socially responsible manner.

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

## 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.

# ECONOMIC OVERVIEW

# ECONOMIC OVERVIEW

Global growth remains subdued & the forecast in July 2019 is revised 0.1 percentage point lower than it was in April 2019.

**Risks to the forecast are mainly to the downside which include:**

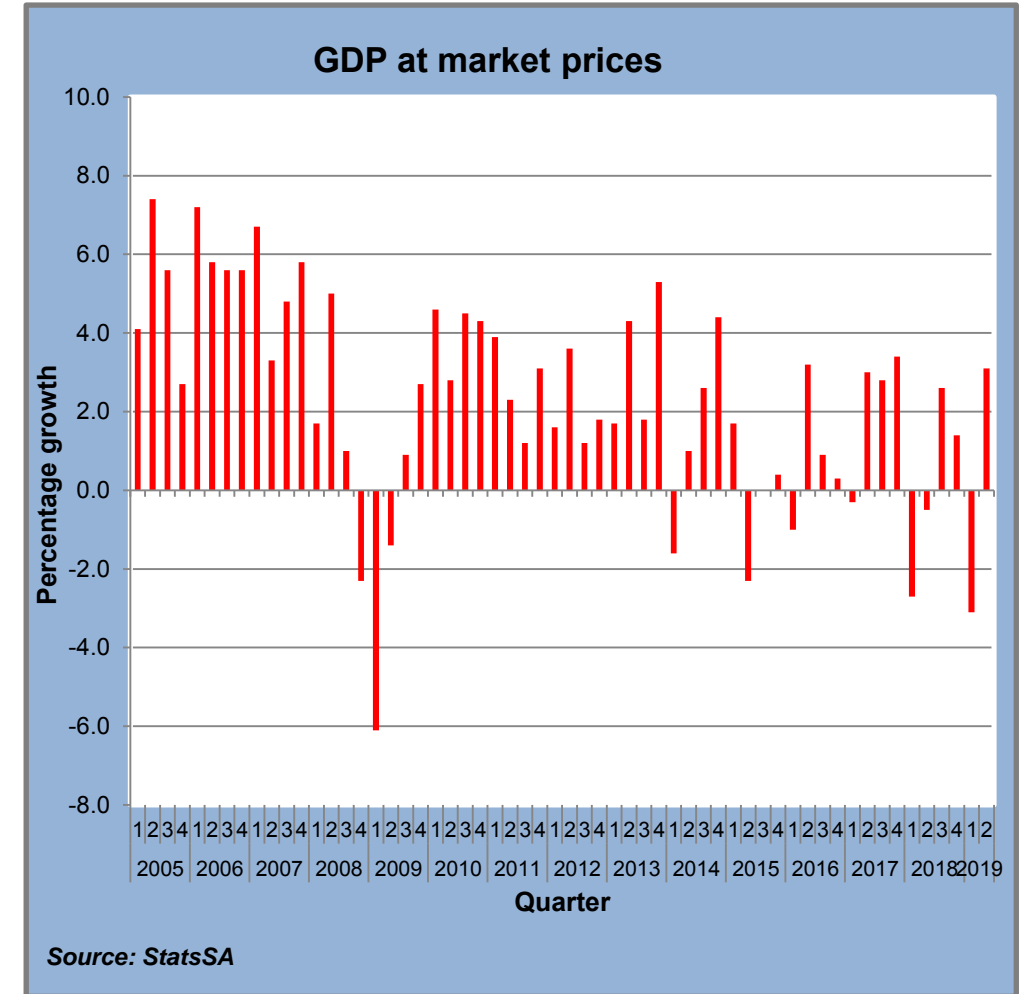
- 1) Further increased tariffs on certain Chinese imports by US;
- 2) Threat to global technology supply chains by the prospect of US sanctions;
- 3) Rising geopolitical tensions roiled energy prices;
- 4) Brexit uncertainty weighing on EU growth; and
- 5) Erosion of business and consumer confidence are all contributing to the downside risk.

% y-o-y	2018	July 2019 Forecast	
		2019	2020
Global GDP	3.6	3.3	3.6
Advanced economies	2.2	1.9	1.7
Emerging economies	4.5	4.1	4.7
Sub-Saharan Africa	3.0	3.4	3.6
United States	2.9	2.6	1.9
Euro Area	1.8	1.3	1.6
Japan	0.8	0.9	0.4
China	6.6	6.2	6.0
South Africa	0.8	0.6	1.5

Source: IMF-WEO July 2019 &  
The SA GDP forecast by SARB

# SA GROWTH MOMENTUM REMAINS WEAK

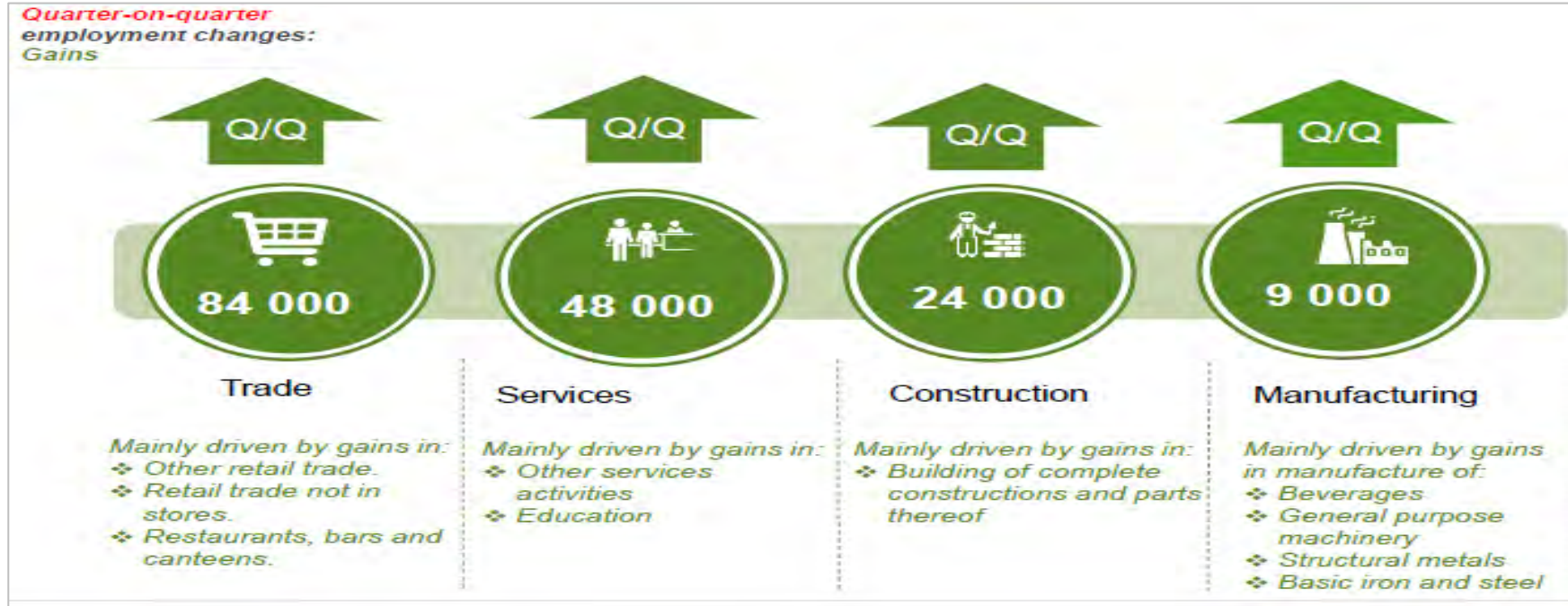
- ❑ The weakness of the South African economy in the opening quarter of the year was much worse than anticipated.
- ❑ The sharp 3.2% (revised to 3.1%) contraction in real GDP, on a quarter-on-quarter (q-o-q), seasonally adjusted and annualised (saar) basis was the worst quarterly performance since the 2009 recession.
- ❑ However, that was reversed when the economy avoided a recession and grew by 3.1% in the second quarter.
- ❑ The major drivers behind the rebound in growth include the Mining sector (14.4%); Finance (4.1%); Trade (3.9%) and Manufacturing (2.1%).
- ❑ Sectors that recorded declines include Agriculture (-4.2%); Construction (-1.6%) and Transport (-0.3%).





# The unemployment rate worsens in Q2

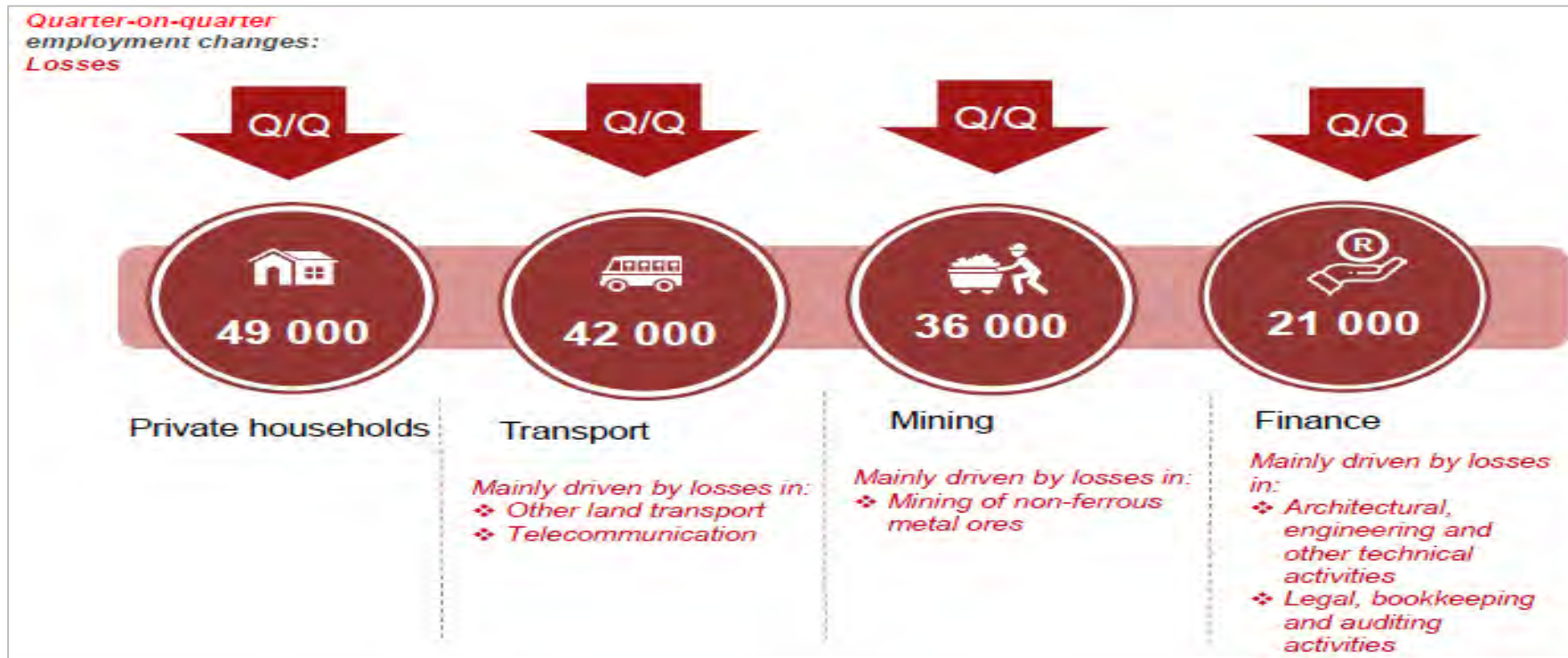
- The number of employed persons in South Africa increased by 21 000, from 16.29 to 16.31 million (q-on-q) in 2019Q2 but the rate of unemployment worsens to reach 29%.
- The increase in the number of jobs was mainly driven by four sectors:



Source: Stats SA

# However, some sectors suffered job losses

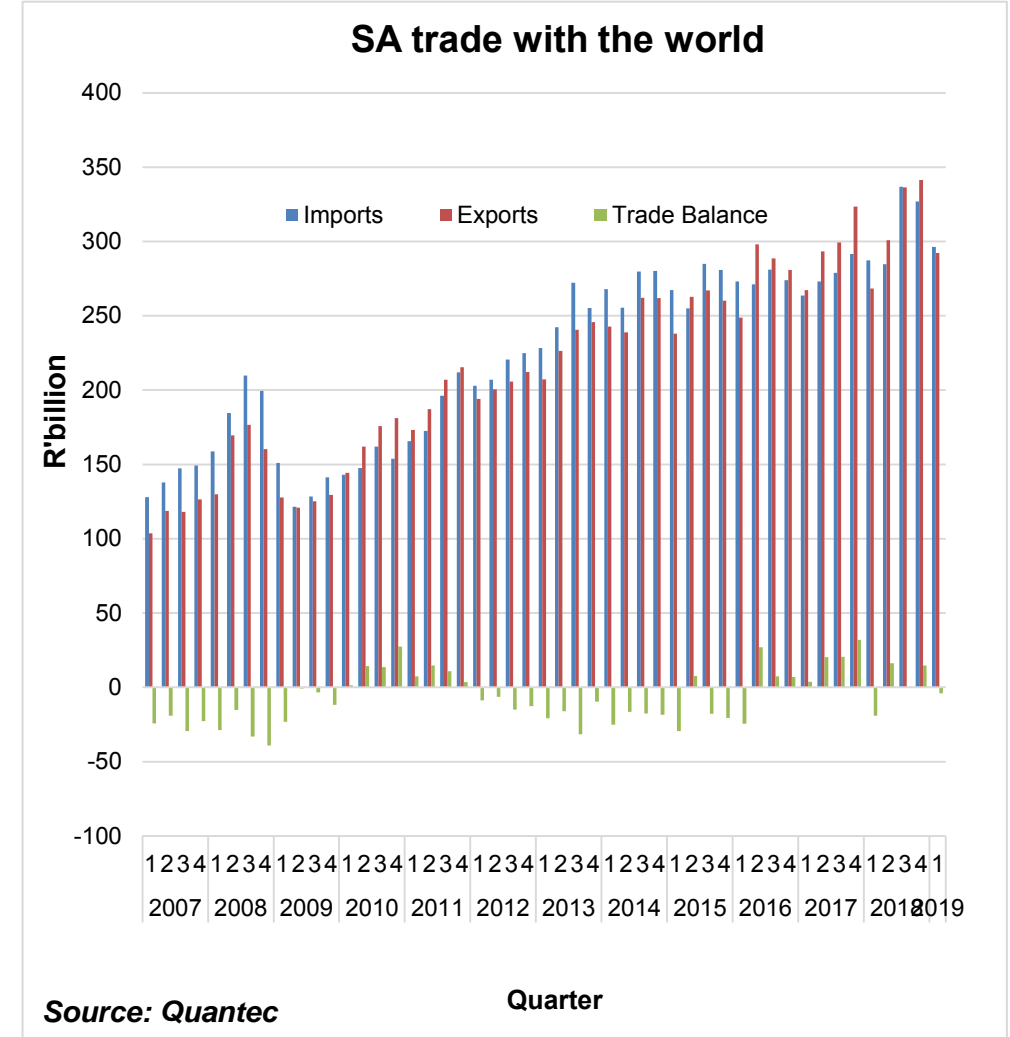
- Despite the number of jobs created in 2019Q2, four sectors lost employment.
- Private household (-49 000); Transport (-42 000); Mining (-36 000) and Finance (-21 000).



Source: Stats SA

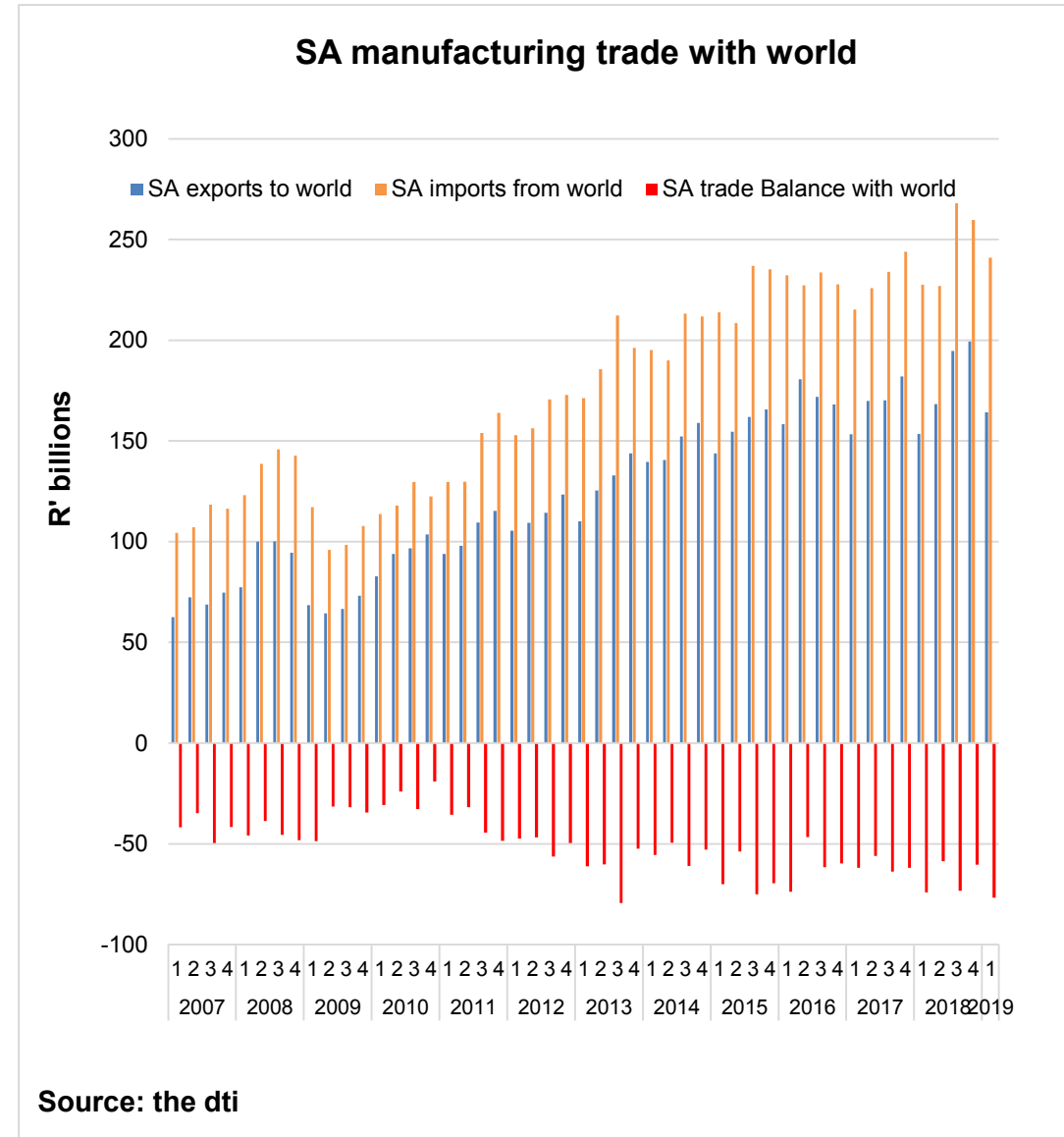
# SA TRADE RECORDED DEFICIT WITH THE WORLD

- ❑ SA recorded trade deficit with the rest of the world in Q1 of 2019 - moving from R14.6 billion surplus recorded in Q4 of 2018 to –R4 billion deficit recorded in Q1 of 2019.
- ❑ Negative trade balance was as a result of contraction in exports across the key sectors of the economy:
  - Mining exports contracted driven by decline in exports volumes of precious metals & base metals;
  - Volume of manufacturing exports decline as vehicles & transport equipment contracted; and
  - Agriculture exports also decline as export volumes of vegetables receded.
- ❑ Real imports of goods & services contracted in Q1 of 2019 due to weak domestic demand in particular of mineral products & adverse contraction of chemical products, food & beverages in the manufacturing sector.
- ❑ The overall trading environment remain challenging & the expected slowdown in global growth momentum will weigh heavily on SA's trade volumes in the near future.



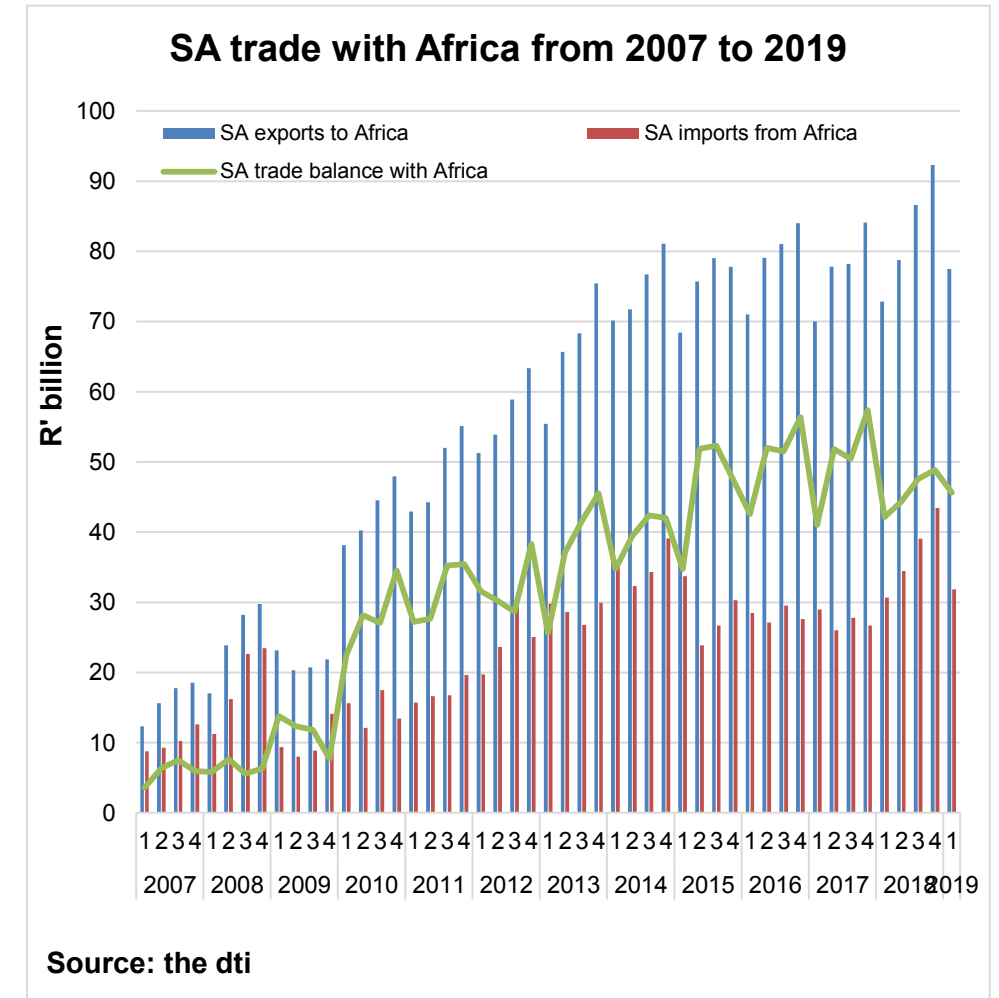
# MANUFACTURING TRADE DEFICIT WIDEN SHARPLY

- ❑ The conditions in the manufacturing sector remain largely unfavourable as businesses experienced difficult conditions in the past years.
- ❑ Several manufacturing sub-sectors are operating well below production capacity largely due to insufficient demand (particularly in the domestic market), and strong competition from foreign producers both in local and export markets.
- ❑ These factors have an impact on the competitiveness of the sector in particular manufacturing exports.
- ❑ In Q1 of 2019 manufacturing exports contracted leading to widening in the trade deficit. Contraction in the export volumes of vehicles & transport equipment, machinery & equipment, prepared foodstuff & beverages were amongst the manufacturing sub-sectors which contributed to widening of trade deficit in Q1 of 2019.



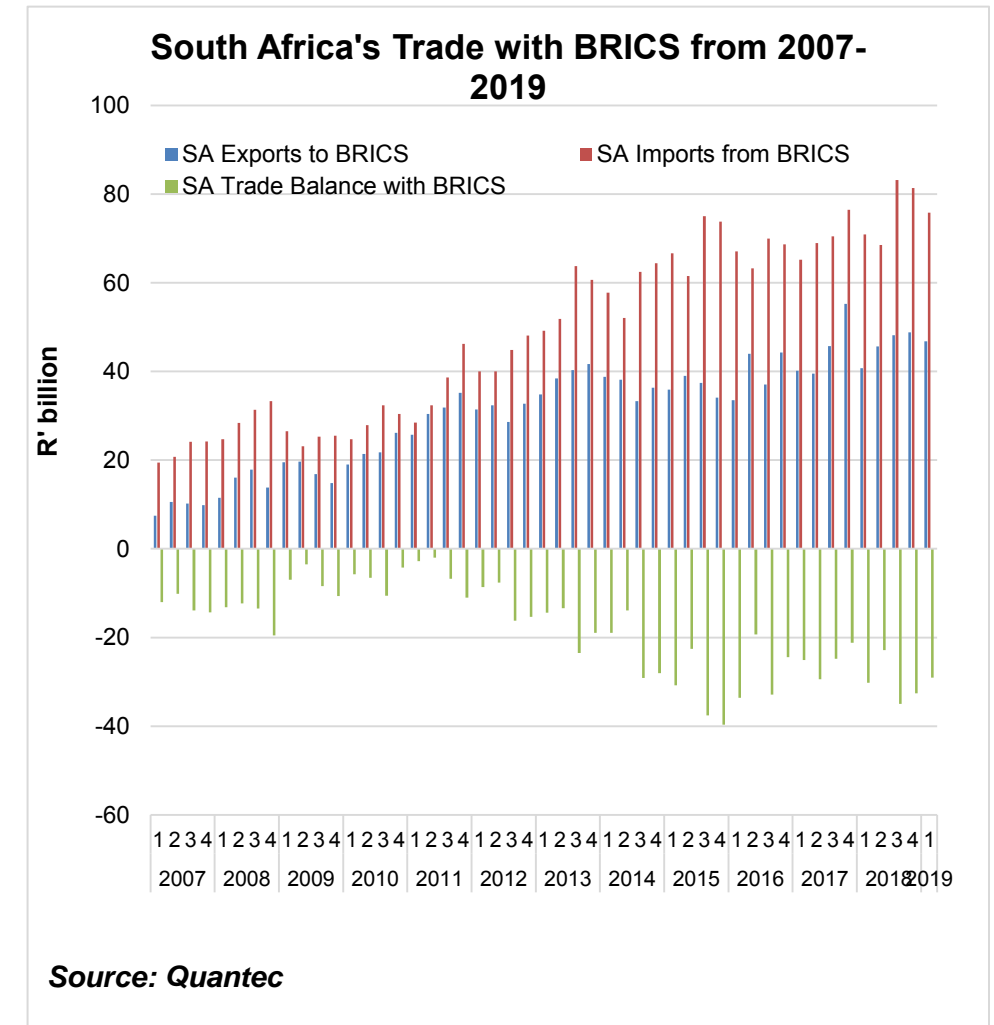
# SA TRADE SURPLUS WITH AFRICA NARROWS

- ❑ Exports to Africa decreased by R15 billion to reach R77 billion in Q1 of 2019 from R92 billion in Q4 of 2018.
- ❑ Despite the decline in export, trade balance with the rest of Africa remains positive at R45 billion in Q1 of 2019.
- ❑ However, South African exports to the continent are largely destined for the SADC region, principally other SACU member states.
- ❑ With opening of markets in Africa through Continental Free Trade Area export penetration to other sub Saharan African economies is anticipated.
- ❑ Despite the favourable trade balance with Africa, our approach to regional integration is to prioritised developmental trade with investment-led industrial and infrastructure development as key levers to unlock the potential of African countries. This will rebalance trade with fellow African countries & ensure that the benefits of integration are spread across the continent.



# SA TRADE DEFICIT WITH BRICS NARROWED

- ❑ South Africa's trade response has been remarkable since joining the group.
- ❑ At the country level within BRICS, SA has recorded huge trade deficit with China ( -R26 billion), followed by Brazil (-R1.9 billion) & Russia ( -R500 million). The only trade surplus with BRIC is recorded with India at R649 million.
- ❑ The increase in imports particularly manufactured products from BRIC remains three times greater than that of the exports on average. This disparity is reflected in the country's trade balance, which has been consistently negative.
- ❑ However, the on-going engagements at BRICS Business Council will address some of the inequalities in trade by developing programmes that support industrialisation amongst member states.



# SUMMARY OF DEPARTMENTAL PERFORMANCE

# INDUSTRIAL DEVELOPMENT

## SG 1: Facilitate transformation of the economy to promote industrial development, investment, competitiveness and employment creation

### Automotive Sector

**110 000**

Direct jobs in manufacturing

Exports grew from **1% to 10%** of total goods exports (R165bn in 2017) .

**3,6%** p.a in real terms (1994 – 2017)

Fastest growing manufacturing industry since 1994

**R41.3bn**

Total investment by the sector between 2015 to 2018

SA has become Africa's auto assembler

Median employee earnings in 2016 was **R5633** a month, compared to R4000 in the rest of manufacturing & R3300 in other sectors



## SG 1: Facilitate transformation of the economy to promote industrial development, investment, competitiveness and employment creation

### Automotive Sector

- ❑ Ford Motor Company of Southern Africa (FMCSA) expanded its Struandale engine plant in Port Elizabeth, Eastern Cape, as part of a R3-billion investment in its South African operations.
- ❑ Mercedes Benz invested R10 billion into an expansion of its East London plant. The upgrade extended the production space of the existing plant by up to two-thirds to produce the next generation of the C-Class and also manufacture the GLC SUV.



### SG 1: Facilitate transformation of the economy to promote industrial development, investment, competitiveness and employment creation

#### Plastics, Pharmaceuticals, Chemicals and Cosmetics



- ❑ Launched Aspen's R1-billion high containment facility, which will create more than 500 jobs, in Port Elizabeth. The facility was established as a result of a partnership between **the dti** and Aspen.
- ❑ Exports of approximately R16m were achieved in the last financial year.

### SG 1: Facilitate transformation of the economy to promote industrial development, investment, competitiveness and employment creation

#### Mineral Beneficiation

- ❑ The Cape Town Iron and Steel works (Cisco) plant was officially opened in Kuils River near Cape Town. The plant created 300 direct and 120 indirect jobs.
- ❑ SA's steel sector remains under significant pressure due to the global steel glut and weak local infrastructure demand.



### SG 1: Facilitate transformation of the economy to promote industrial development, investment, competitiveness and employment creation

#### Sugar

- ❑ Gazetted the sugar regulation transitional arrangements which recognises SA Farmers Development Association (representing small, Black farmers) into the industry association.
- ❑ In August 2018, Minister endorsed ITAC recommendations to increase the Dollar Reference Price (sugar tariff) to \$680.

#### Masterplan for Sugar

- Changing consumer demand due to health levy on sugar as well as insufficient investment in the past.
- New opportunities identified:
  - Industrial diversification (bio-plastics and bio-fuels)
  - Agricultural diversification (crop rotation/nuts, hemp, cannabis)
  - New markets (EU/UK and AfCFTA)
- Key challenge will be the transition costs to shift the industry, particularly for small-scale farmers.

## SG 1: Facilitate transformation of the economy to promote industrial development, investment, competitiveness and employment creation

### Poultry

❑ Government has intervened to save the sector:

- These include implementation of anti-dumping measures.
- Safeguard measures have been implemented where import surges have occurred.
- Duties on imports on 'whole birds' have been increased to 82% which is the maximum duty allowable under WTO commitments.
- Current duty on 'bone-in' portions is 37%.
- Market development for exports is taking place focusing on Gulf and EU member states.

### Masterplan for Poultry

Process involves established and emerging players, domestic producers, importers and labour

- Address changing structure of global industry: premium cuts (breast) and discount cuts (bone-in/leg); brining practices
- Combine supply-side measures (investment, training, new entrants) with demand-side (tariffs and export opportunities) and economic transformation



## SG 1: Facilitate transformation of the economy to promote industrial development, investment, competitiveness and employment creation

### Business Process Services (BPS)

- ❑ Launched the Global Business Services (GBS) Incentive at SA House in London, UK.
- ❑ The sector has grown significantly over the last decade with domestic market growth averaging 10.7% per annum.

### Film & Video Sector

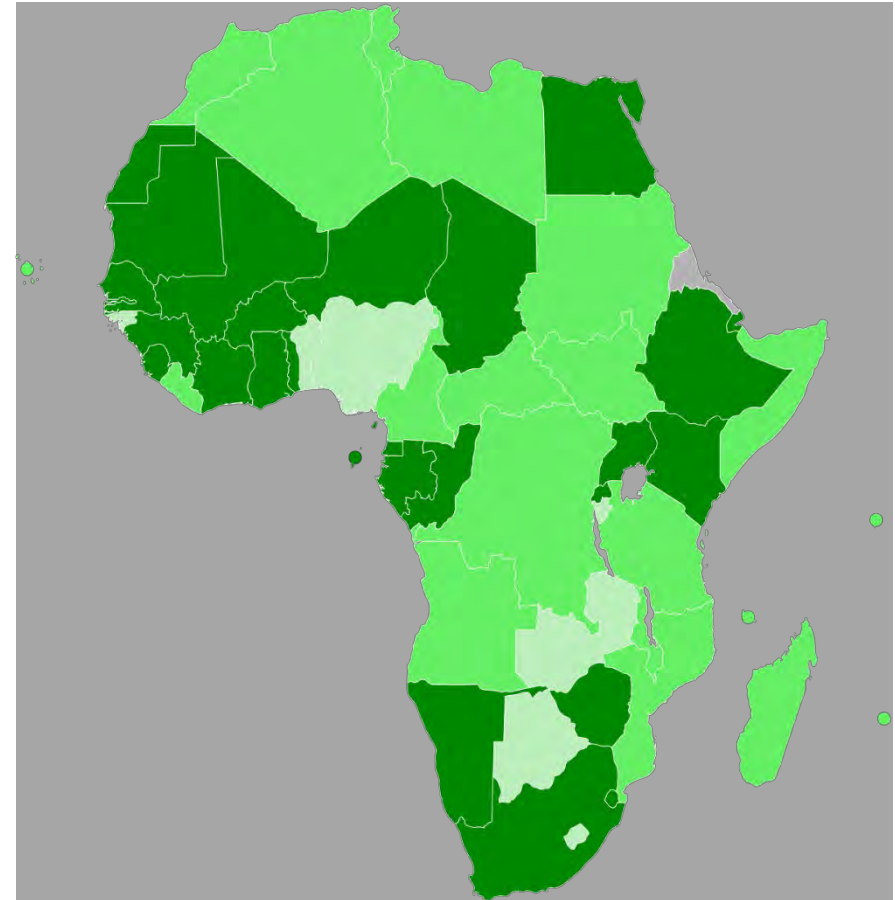
- ❑ The SA film & video sector has become an important source of growth. For every Rand spent by the sector, economic value of R2.89 is created.



### SG1: Facilitate transformation of the economy to promote industrial development, investment, competitiveness and employment creation

#### Regional Integration

- ❑ South Africa has signed the African Continental Free Trade Area Agreement (CFTA) with the African Union (AU).
- ❑ The African Export-Import Bank (Afreximbank) and the Export Credit Insurance Corporation of South Africa (ECIC) signed a Memorandum of Understanding (MoU) for a \$1-billion financing programme to promote and expand trade and investments between South Africa and the rest of Africa.







## **Diversifying the Economy through Special Economic Zones**



# INDUSTRIAL DEVELOPMENT

- **10 SEZs** are in place.
- New model is being developed, with partnership with national agencies and private sector to attract investors and support SEZs.
- Building on existing strengths: developing Auto-Supplier parks through zone expansions.
- Scaling-up: Durban aerotropolis - Dube Trade Port SEZ as a base.

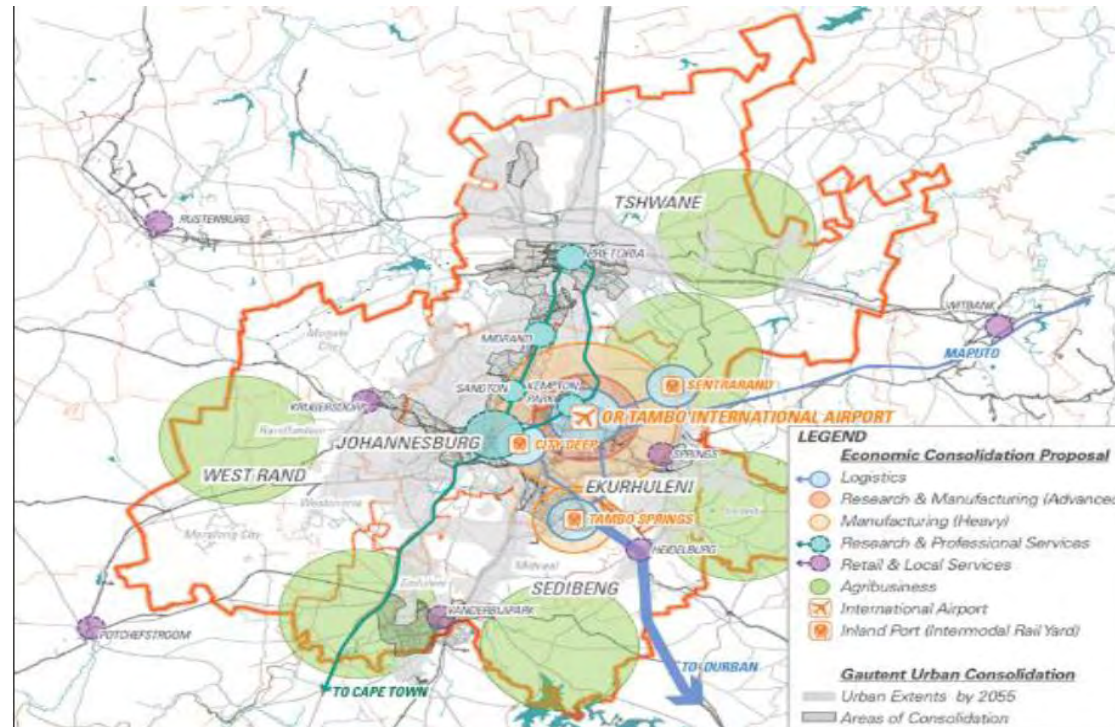
Top **3** SEZs: Coega, East London & Dube Trade Port

**R15.23bn**  
Investment

**14,619**  
Current employment

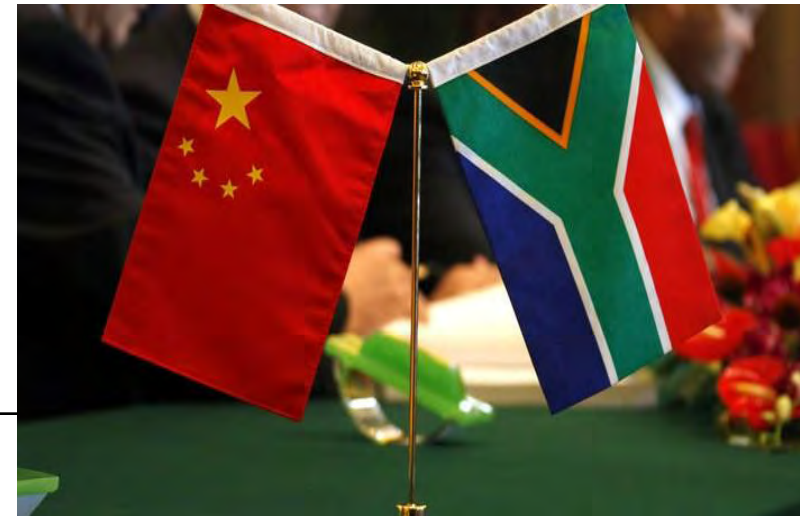
**116**  
Number of investors

**R15,37bn**  
Secured but not  
operational investment



### SG 1: Facilitate transformation of the economy to promote industrial development, investment, competitiveness and employment creation

- ❑ **the dti** facilitated and witnessed the signing of a MoU between Musina-Makhado SEZ and 10 potential investors from China, with a value of \$10 billion.
- ❑ **the dti** in partnership with the Chinese Government trained 50 South African government officials on Special Economic Zone (SEZ) planning and development. The training took place in Tianjing, China, in May 2018.



# INDUSTRIAL DEVELOPMENT

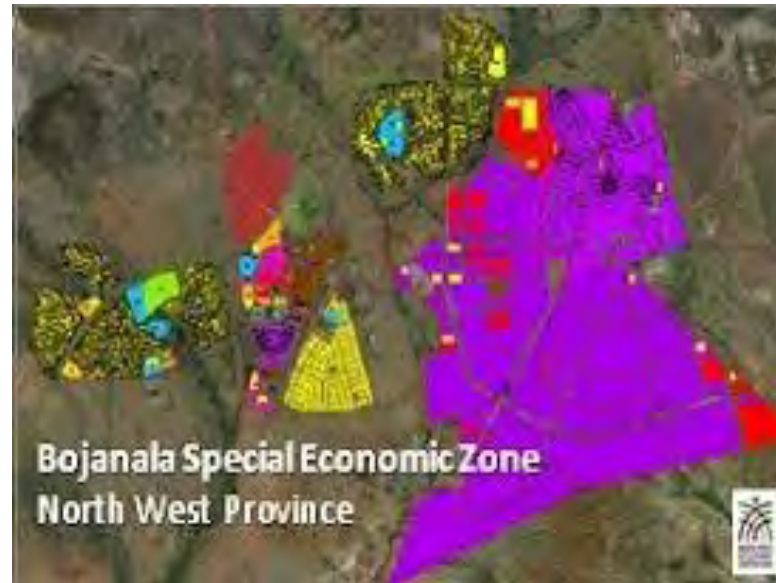
## SG 1: Facilitate transformation of the economy to promote industrial development, investment, competitiveness and employment creation

- ❑ The SEZ Advisory Board recommended the approval of the Gauteng Industrial Development Zone (IDZ) application on land expansion.
- ❑ The Atlantis SEZ was designated in May 2018 and launched in December 2018.



### SG 1: Facilitate transformation of the economy to promote industrial development, investment, competitiveness and employment creation

- ☐ The Nkomazi SEZ was designated in December 2018.
- ☐ Application for the designation of the Bojanala SEZ was recommended by the SEZ Advisory Board on 29 March 2019 for approval by the Minister. In consultation with major stakeholders.



### **SG 1: Facilitate transformation of the economy to promote industrial development, investment, competitiveness and employment creation**

#### **Rural and Township Industrial Economy (RTIE) programme**

- ❑ A Rural and Township Economy Summit was convened in East London in July 2018.
- ❑ The resolutions from the Summit included Government and all stakeholders acknowledging the need for a major infrastructure response across Departments and spheres of government to unlock the township economy's potential. Discussions are ongoing to establish a township infrastructure fund.

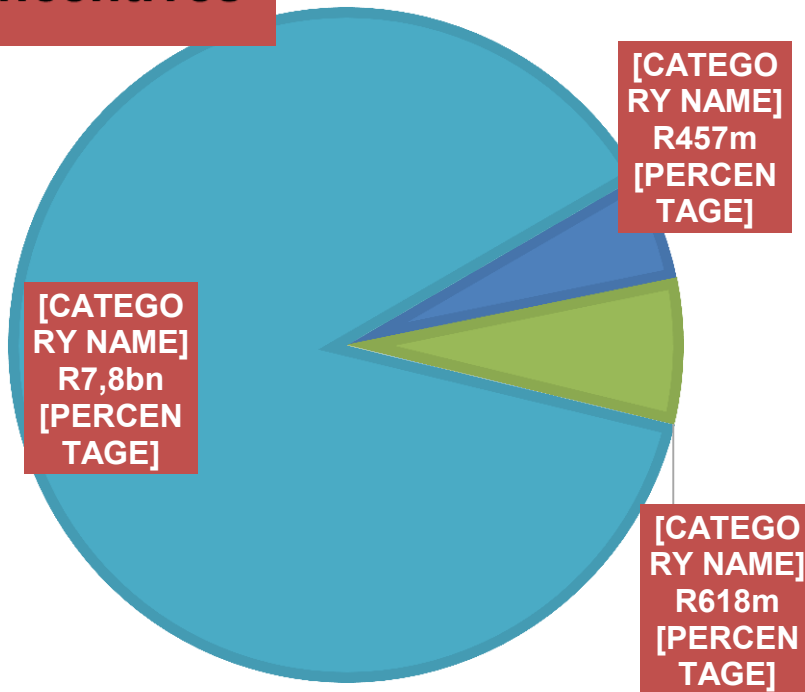
#### **Revitalisation of Industrial Parks**

- ❑ The Phuthaditjaba Industrial Park was launched on 30 October 2018.
- ❑ Siyabuswa, Kabokweni, Madadeni and Ezakheni were added to the Industrial Park Revitalisation Programme (IPRP), bringing to 16 the total number of Industrial Parks revitalised.



# INDUSTRIAL DEVELOPMENT

## Incentives



**R5,1 billion** disbursed

**793**  
projects

**R8 billion**  
of approvals

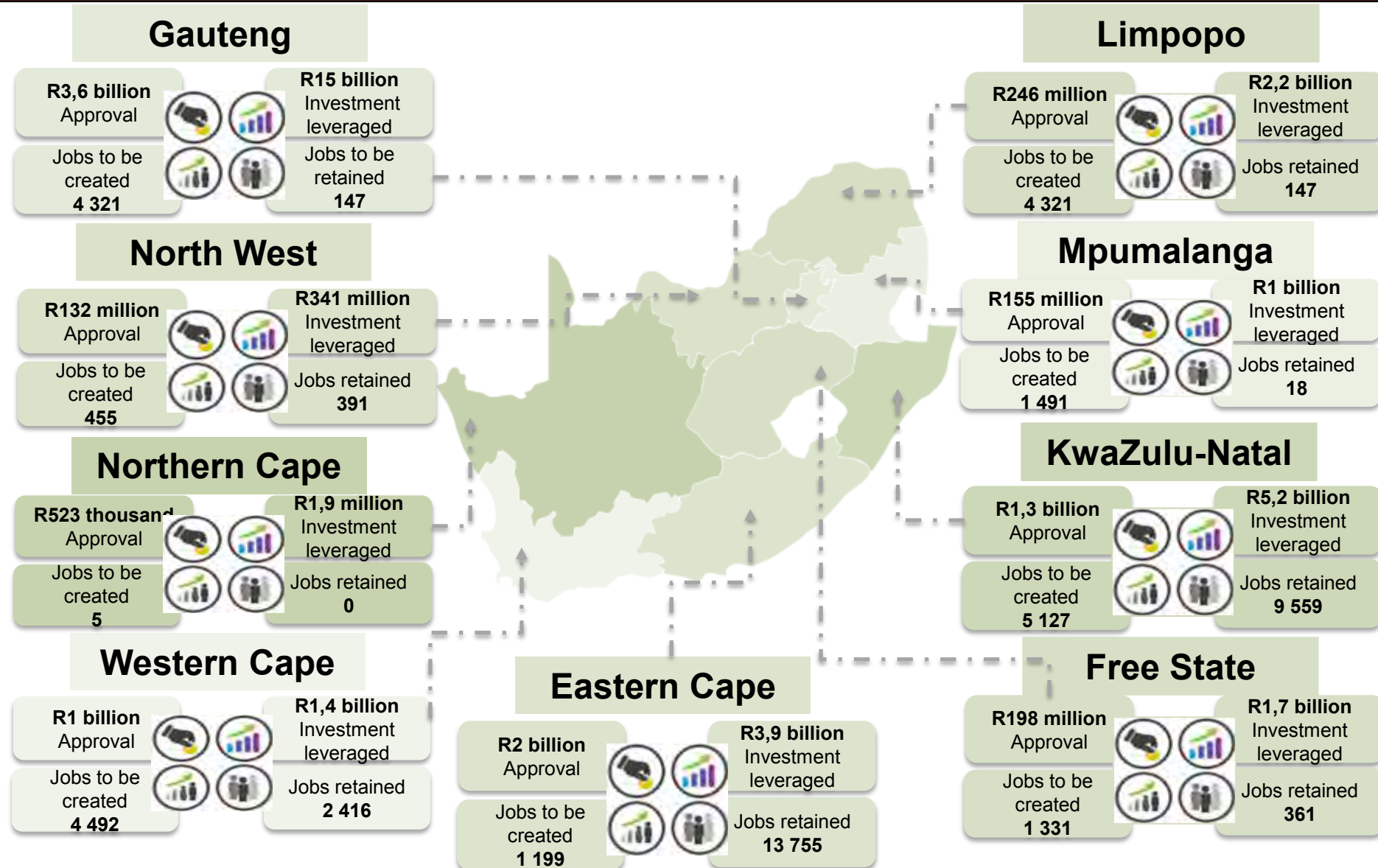
**38 366**  
jobs retained  
**29 735**  
new jobs to  
created

**R31,3 billion**  
investment  
leveraged

Over **82%**  
projects are B-  
BEE level 1-4  
compliant

**277** black-  
owned,  
**193** female-  
owned and  
**22** youth-owned  
projects  
supported

## Provincial performance incentives



### SG 2: Build mutually beneficial regional & global relations to advance South Africa's trade, industrial policy & economic development objective

- ❑ The department continues to engage within Southern African Development Community (SADC) through bilateral engagements on outstanding commitments in the implementation of the Free-Trade Agreement (FTA).
- ❑ In relation to trade in services, negotiations were concluded on four(4) sectors, namely: Communication, Tourism, Transport and Financial Services. Negotiations continue in the area of energy-related services and construction.





### SG 2: Build mutually beneficial regional & global relations to advance South Africa's trade, industrial policy & economic development objective

- ❑ Significant progress was made beyond the adoption of the legal framework to operationalise the FTA.
- ❑ Tariff negotiations commenced between the parties, with the key bilateral negotiations for South Africa being the Southern African Customs Union – East African Community (SACU-EAC) tariff negotiations, as well as with Egypt.
- ❑ Significant progress achieved in the SACU-EAC negotiations, with a few remaining issues in relation to tariffs and rules of origin.
- ❑ The Annex on Movement of Business People was also finalised. The Annex seeks to facilitate the movement of business persons between the TFTA countries and commits to the issuing of long-term visas in line with domestic legislation.



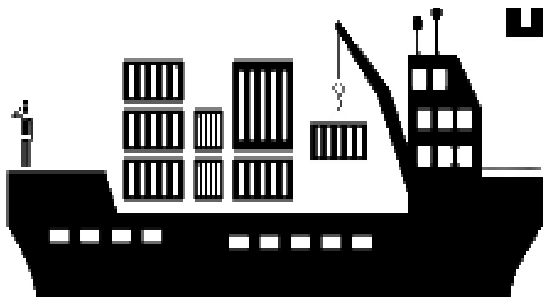
### SG 2: Build mutually beneficial regional & global relations to advance South Africa's trade, industrial policy & economic development objective

- ❑ South Africa became the fourth(4<sup>th</sup>) country to ratify the TFTA Agreement and deposited its instrument of ratification in December 2018. The Agreement requires 14 ratifications to enter into force.
- ❑ The envisaged African Continental Free Trade Area (AfCFTA) is expected to build an integrated market in Africa that will culminate in a market of more than one-billion people and a GDP of approximately US\$3.3 trillion.



## TRADE, INVESTMENT AND EXPORT

### SG 2: Build mutually beneficial regional & global relations to advance South Africa's trade, industrial policy & economic development objective



■ Export sales of **R4.425 billion** recorded against a target of **R4 billion**.

- ❑ A total of **1 023 companies** assisted into **international markets**.
- ❑ Achieved investment pipeline of **R 249.656 billion**.

# TRADE, INVESTMENT AND EXPORT

## SG 2: Build mutually beneficial regional & global relations to advance South Africa's trade, industrial policy & economic development objective

- ❑ **49 export awareness-raising** and capacity-building initiatives were undertaken in all nine provinces of the country.
- ❑ **610 companies** benefitted under the Global Exporters Passport Programme **(GEPP)** intervention.
- ❑ **644 clients** were assisted with export information through Export Help Desk services.
- ❑ **729 trade leads** were disseminated to exporters for supply of goods to global markets.
- ❑ **the dti-Export Council** quarterly engagement was held in August 2018.

# SPECIAL ECONOMIC ZONES & ECONOMIC TRANSFORMATION

## SG3: Facilitate broad-based economic participation through targeted interventions to achieve more inclusive growth

- ☐ A MoU between **the dti** and the CIPC was extended to allow the CIPC to issue B-BBEE Certificates for Exempted Micro Enterprises through self-service terminals.
- ☐ In February 2019, the Online CIPC Platform was expanded to ensure that the statistics for black unemployed ownership, black youth ownership, black people living in rural areas ownership, black disabled ownership and black military veterans ownership was captured.
- ☐ The National B-BBEE Rural and Township Economy Summit was held in July 2018.
- ☐ The Defence Sector Code Gazette No. 42021 aligned to the B-BBEE Act No. 53 of 2003 as amended was published in November 2018.
- ☐ In March 2019, the department submitted the final amendments to B-BBEE Statements 000, 300, 400 and Schedule 1 to the Minister for approval and gazetting.

## SG3: Facilitate broad-based economic participation through targeted interventions to achieve more inclusive growth

- ❑ On 28 August 2018, the Youth Employment Service (YES) initiative was gazetted for implementation through Section 9(1) of the B-BBEE Act.
- ❑ The YES initiative committed activation of R522 million in personal income to youth previously unemployed and unable to contribute to the South African economy.
- ❑ Since November 2018 15 715 jobs have been created under the initiative.



**the dti** signed strategic partnerships (MoUs) with the Central Energy Fund Group and the Mpumalanga Provincial Department of Economic Development and Tourism under the Black Industrialist Programme.

## LEGISLATION AND REGULATION

### SG 4: Create a fair regulatory environment that enables investment, trade and enterprise development in an equitable and socially responsible manner

- ❑ **32** education and awareness workshops were convened in all nine (9) Provinces with the aim of educating members of the communities on departmental legislation and gathering potential policy issues to be considered by **the dti**.
- ❑ **the dti** concluded three (3) research studies in the areas of consumer protection and credit.
- ❑ The department introduced an online application system to improve the registration of liquor licenses.
- ❑ The National Liquor Authority facilitated the signing of the Guidelines for good practice to encourage companies to align their involvement and practices with the South African governments integration and development objectives on the continent and build mutual confidence.

## ADMINISTRATION AND CO-ORDINATION

### SG 5: Promote a professional, ethical, dynamic and competitive and customer–focused working environment that ensures effective and efficient services delivery

- ❑ All eligible creditor payments processed well within 30 days.

#### Female SMS



Women in SMS at **54%** against annual target of **50%**.

- ❑ The number of people with **disabilities employed** was at **3.8%** against annual target of **3.6%**.



#### People with Disabilities

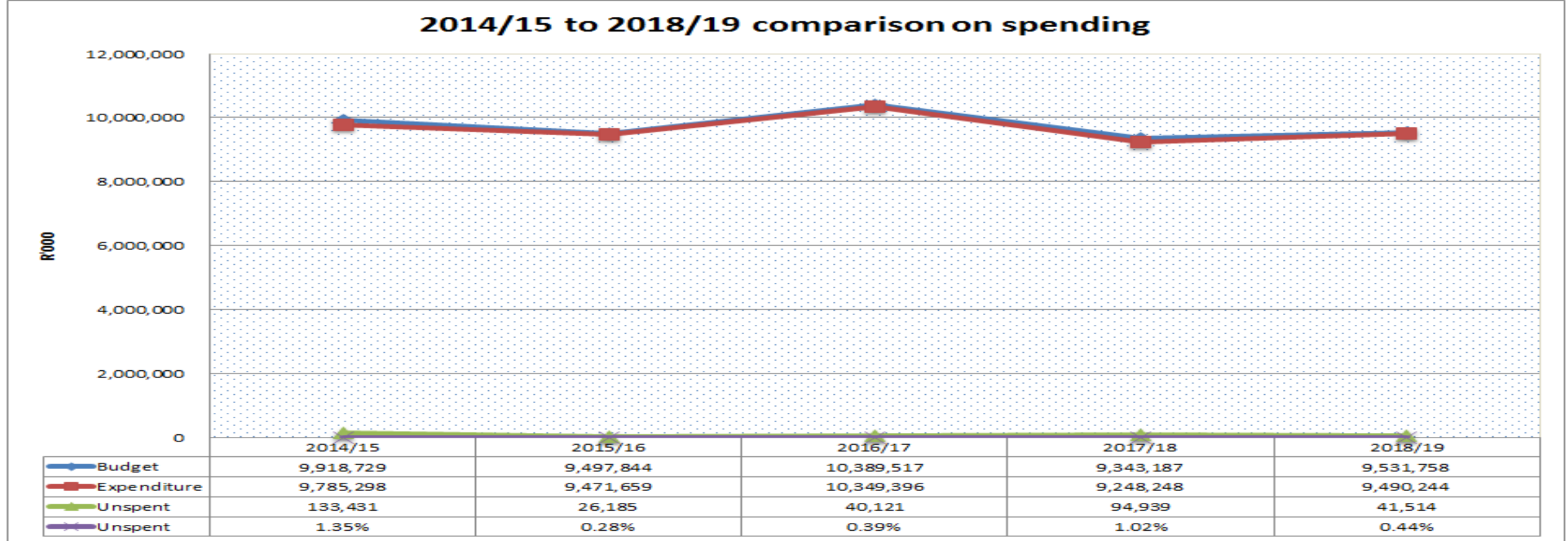


# FINANCIAL PERFORMANCE

# FINANCIAL PERFORMANCE

- ❑ The department spent **99.6%** of its allocated budget of R9.5 billion.
- ❑ This spending pattern should be considered in the context of the Departmental cost drivers, comprising of:
  - 66.55% or R6.3 billion transferred to beneficiaries across the various incentive scheme programmes;
  - 15.41% or R1.5 billion to other transfer payments – comprising of departmental agencies, foreign governments and international organisations, and others;
  - The remaining 17.85% was utilised for operational expenditure.

# FINANCIAL PERFORMANCE.....Cont



As depicted in the graph above, there has been consistency in the spending pattern of the department against its budgetary allocation over the past five years, where the under-spending has been below 2% of the allocated budget for each specific year.

# FINANCIAL PERFORMANCE.....Cont

Programme	Final Appropriation	Actual Expenditure	Variance	Expenditure as % of final appropriation
	R'000	R'000	R'000	%
1. Administration	819 163	813 518	5 645	99.3%
2. International Trade and Economic Development	122 093	122 075	18	99.9%
3. Special Economic Zones and Economic Transformation	136 100	121 963	14 137	89.6%
4. Industrial Development	2 018 645	2 018 625	20	99.9%
5. Consumer and Corporate Regulation	324 443	323 846	597	99.8%
6. Incentive Development and Administration	5 571 701	5 560 651	11 050	99.9%
7. Trade and Investment South Africa	460 818	460 194	624	99.9%
8. Investment South Africa	78 795	69 372	9 423	88.0%
<b>Total</b>	<b>9 531 758</b>	<b>9 490 244</b>	<b>41 514</b>	<b>99.6%</b>

# Audit Report

the dti achieved a financially **unqualified opinion with no findings**, commonly known as a “**clean audit**” opinion. This means that the Department's 2018/2019 financial statements were free from material misstatements and there were no material findings reported on performance objectives or non-compliance with legislation.



THANK YOU

NGIYATHOKOZA

KE A LEBOHA

KE A LEBOGA

SIYABONGA

INKOMU

NDOLIVHUWA

ENKOSI

NGIYABONGA

DANKIE