

Policy On The Development of Special Economic Zones In South Africa (2012)



the dti

Department:
Trade and Industry
REPUBLIC OF SOUTH AFRICA

POLICY ON THE DEVELOPMENT OF SPECIAL ECONOMIC ZONES IN SOUTH AFRICA
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Acronyms

AIS:	Automotive Investment Scheme
ASGISA:	Accelerated Shared Growth Initiative of South Africa
CIP:	Critical Infrastructure Programme
DFIs:	Development Finance Institutions
EMIA:	Export Marketing and Investment Assistance
EPZs:	Export Processing Zones
FTZs:	Free Trade Zones
GEAR:	Growth, Employment and Redistribution
IDZ:	Industrial Development Zone
IMS:	Integrated Manufacturing Strategy
IPAP:	Industrial Policy Action Plan
ISRDP:	Integrated Sustainable Rural Development Programme
MERS:	Microeconomic Reform Strategy
NES:	National Export Strategy
NGP:	National Growth Path
NIF:	National Investment Framework
NIPF:	National Industrial Policy Framework
NSDP:	National Spatial Development Perspective
SEZs:	Special Economic Zones
SSAS:	Sector Specific Assistance Scheme
URP:	Urban Renewal Programme

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Foreword by the Minister of Trade and Industry


In line with the National Development Plan, Industrial Policy Action Plan and the New Growth Path, the Department of Trade and Industry (**the dti**) aims to continue fostering its efforts to create employment and economic growth by establishing a strong industrial base in South Africa.

The Special Economic Zones (SEZs) programme is one of the most critical instruments that can be used to advance government's strategic objectives of industrialisation, regional development, export promotion and job creation. Moreover, the programme can assist in improving the attractiveness of South Africa as a destination for foreign direct investment.

With the introduction of a much broader SEZ programme, more areas of strategic economic potential can be leveraged to attract foreign direct investment. The most pertinent outcome envisaged by the SEZ programme is the expansion of the manufacturing sector and the creation of additional industrial hubs to regionally diversify the national industrial base.

We are confident that the new SEZ Policy will be of benefit to industrialisation and significant to government for achieving its programmes' goals of economic growth, development and employment creation.

I wish to thank all those, whose hard work has contributed to the challenging task of ensuring and securing the progress registered over time particularly for the development of the SEZ policy. Most importantly, I encourage all concerned to redouble their efforts and continue to work together until the realisation of the country's industrial development agenda.



Dr Rob Davies, MP
Minister: Trade and Industry

Executive Summary

A Special Economic Zone (SEZ) is defined as “a geographically designated area of a country set aside for specifically targeted economic activities, which are then supported through special arrangements (which may include laws) and support systems to promote industrial development”. The SEZ programme is a tool that is used by many economies to promote trade, economic growth and industrialisation.

In an effort to reposition itself in the world economy, the South African government established the Industrial Development Zone Programme (IDZ) in 2000. The programme's main focus was to attract foreign direct investment and export of value-added commodities. The main limitation of the programme was that the IDZs could only be designated adjacent to a sea port or international airport, and that excluded other regions in the country which had industrial potential but did not meet the IDZ criteria. This limitation has provided the rationale for a more inclusive industrial facilitation model in the form of the Special Economic Zone programme which will utilise a wider range of instruments.

Rationale for the Review of the Industrial Development Zone Programme

The review of the IDZ programme, that began in 2007, was brought about by the developments in national economic policies and strategies such as the Industrial Policy Framework and the New Growth Path; as well as developments in the global economic environment such as the formation of BRICS. The achievements of the existing IDZs are acknowledged, however, the government has felt that more could be achieved if the challenges identified within the existing IDZs could effectively be addressed. Challenges such as, lack of coordinated planning arrangements; insufficient guidance related to governance arrangements; dependence on government funding; lack of targeted investment promotion measures; insufficient marketing and inadequate coordination across government agencies have been identified as the key constraints to the success of the programme.

Importance of Special Economic Zones in South Africa

The SEZ Policy is being introduced to provide a clear policy framework with respect to the development, operations and management of SEZs including addressing challenges of the current IDZ programme. The purpose of the SEZ programme therefore is to:

- expand the strategic focus to cover diverse regional development needs and contexts, and address the design deficiencies of the IDZ Programme
- provide a clear, predictable and systemic planning framework for the development of a wider array of SEZs to support industrial policy objectives, National Development Plan (NDP) and the New Growth Path (NGP)
- clarify and strengthen governance arrangements; expand the range and quality of support measures beyond provision of infrastructure ; and
- provide for predictable financing arrangements that enable long-term planning.

Implementation of the SEZ Programme

The implementation of the SEZ programme will be carried out in conjunction with other relevant departments and agencies. The SEZ programme aims to provide comprehensive and coherent marketing, capacity development and skills development strategies, sustainable infrastructure development, integrated logistics systems, technology, research and developmental measures that promote sustainable technological innovation and improved quality and productive programmes.

SEZs are therefore strategic and effective instruments for the achievement of national and regional industrial development policy objectives. As such they will require coherent and coordinated cooperation from various stakeholders.

Section 1: Background and Context

1.1 Introduction

- 1.1.1 South Africa today is confronted with serious socio-economic challenges including subdued economic growth, high levels of unemployment, income inequality and abject poverty as well as spatial development challenges and regional disparities. This situation calls for urgent policy initiatives that will help propel the country into a higher growth trajectory and improve the livelihoods of ordinary citizens.
- 1.1.2 In response to these challenges, the South African government has brought forward policy proposals including the National Industrial Policy Framework (NIPF), the New Growth Path (NGP) and the National Development Plan (NDP) that advocate for an industrialisation path characterised by broad-based participation of the previously marginalised citizens and regions. The proposed creation of a regionally diverse industrial economy through the creation of new industrial hubs, in addition to the existing three major economic hubs of Gauteng, eThekweni-Pietermaritzburg and the Cape Peninsula; is an important component of the government's efforts to promote balanced Industrial development and to build on the full potential of all regions.
- 1.1.3 Development trends in Europe and Asia provide valuable lessons in terms of the long term benefits of industrialization and a strong manufacturing base. The lessons suggest strengthening and expanding the manufacturing industry as an anchor for long-term economic prosperity can lead to economic growth and development and create the much needed jobs – a path that South Africa must pursue to address its socio-economic challenges.
- 1.1.4 There is no single solution to all the country's economic problems.

Special Economic Zones, as proposed in this policy, are just one of many instruments at the country's disposal. The SEZs are, however, an important tool for industrial and economic development. If well used and managed they can contribute to accelerating industrial development through facilitating growth oriented South African companies, attracting foreign direct investment, enhancing strategic industrial capabilities and increasing the level of exports. This in turn will contribute to general economic growth, the creation of high quality and sustainable jobs, and balanced regional development.

1.2 Purpose

- 1.2.1 This paper sets out the policy of the Department of Trade and Industry on Special Economic Zones against the background of the progress of the existing Industrial Development Zones (IDZs), the challenges encountered and the rationale for the policy shift from IDZs to SEZs within the framework of the National Industrial Policy Framework, the National Development Plan and the New Growth Path. Furthermore the key policy proposals and related actions are discussed.

1.3 Situational Analysis

- 1.3.1 Due to the economic development challenges that emanated from the apartheid system, the new democratic government after 1994 was faced with the challenge of raising the levels of domestic and foreign direct investments in order to accelerate growth, employment and re-integration to the global economy. Towards this end, in 2000 the government introduced the concept of Industrial Development Zones (IDZ). Four IDZs were designated, namely Coega (2001), OR Tambo International Airport (2002), East London (2002) and Richards Bay (2002). Only three are operational and all are located along the eastern coastal belt.

- 1.3.2 From 2002 to 2012, a total of 42 investors are on site and operational in the IDZs with more than R3.0 billion investments generated and approximately 5169 direct jobs created. This is below expectations; however jobs created through backward and forward linkages which could be considerable were not estimated in this report.

Coega IDZ

- The Coega IDZ was designated in 2001, covers a land area of 11 500ha and is wholly owned by the Eastern Cape Province through the Eastern Cape Development Corporation (ECDC).
- The Coega IDZ is operated by the Coega Development Corporation (Pty) Ltd.
- The IDZ has cumulatively received R4.4 billion from **the dti** and R1.5 billion from the provincial government by the end of the 2012/13 financial year.
- Coega IDZ has 20 on site investors worth R1.13bn and has created 3778 direct jobs (excluding construction jobs).

East London IDZ

- The East London IDZ (ELIDZ) was designated in 2002 covering a land area of 420ha. It is operated by the East London IDZ (Pty) Ltd which is co-owned by the Eastern Cape Province (76% shareholding) through the Eastern Cape Development Corporation and the Buffalo City Municipality (24%).
- The ELIDZ has cumulatively received R1.4 billion from **the dti** and R1.3 billion from the Eastern Cape Province up to the end of the 2012/13 financial year.
- The achievements of the ELIDZ include 21 on-site investors with investments estimated at R1.1 billion and an

estimated total of 1179 direct jobs (excluding construction jobs) created.

- The automotive sector is the most developed in the IDZ and constitute about 90% of all economic activities.

Richards Bay IDZ

- The Richards Bay IDZ was designated in 2002. It covers a land area of 350ha and is operated by the Richards Bay IDZ (Pty) Ltd.
- It is 100% owned by the KwaZulu-Natal Provincial Government. The Richards Bay IDZ has cumulatively received R331.14 million from **the dti** and R393.2 million from the province as at the end of the 2012/13 financial year.
- Prioritised industrial sectors in the IDZ include aluminium, furniture, titanium, dry dock (ship repair), and the synthetic wood cluster.
- There is currently one investor on site with an investment value of R800m and approximately 180 direct jobs have been created.

Section 2: Problem Statement On The Industrial Development Zones Programme

2.1 The modest performance of the IDZ programme can be attributed to a number of factors:

2.1.1 The lack of IDZ specific incentives (with the exception of Customs Controlled Areas that are yet to be rolled out and higher 12i Tax Allowance) made the IDZs less attractive as investment destinations, particularly for foreign direct investment.

2.1.2 Ad Hoc funding arrangements: The funding arrangements for IDZs made them rely on a single source of funding that is on-budget funding through the National Treasury. The current model does not provide flexibility to cover the cost of new unexpected projects establishing on the zones. This is aggravated by the fact that the zones are in many cases building both generic and customised top structures for new investors and renting them back to investors in an attempt to raise revenue. Furthermore, due to competing needs the government funding is always inadequate to satisfy the infrastructure development needs of the IDZs. The current funding arrangements make it impossible to plan for the long term. In addition, the current funding model does not provide a role for the Development Finance Institutions (DFIs) and private sector funding, thus making funding arrangements very inflexible and somewhat inadequate.

2.1.3 Lack of targeted investment promotion: The Marketing of IDZs was insufficient without clear roles designated for the national marketing agencies and the IDZs themselves which resulted in poor performance in attracting foreign direct investments – a core objective of the IDZ programme. Effective marketing requires a dedicated team or organisation that would identify and target investors and interact with them on a regular basis in their

home countries – a role more appropriate to national marketing organizations with international structures rather than zone operators.

2.1.4 Poor stakeholder coordination: There has been a lack of coordination of key national, provincial and local government to help provide the ecosystem in which the IDZs could thrive. The lack of coordination has invariably led to the IDZs not being prioritised when it comes to infrastructure and other support that is critical to their success.

2.1.5 Ad-hoc planning arrangements: The current regulatory framework is not sufficient to guide the long-term planning in IDZs to coordinate and harmonise their plans and facilitate integration into key national, provincial and regional strategies. The ad-hoc planning is further complicated by the ad hoc nature of funding.

2.1.6 Weak governance arrangements: The Manufacturing Development Act 1993 (Act no. 187 of 1993) does not provide sufficient guidance with regard to governance arrangements of an IDZ. The result is that there is often insufficient or timely oversight of the strategic plans and operations of IDZs. Thus, the current legislative framework under the MDA does not make it possible to clarify institutional arrangements and governance of the designated IDZs nor does it provide for coordination and integration mechanisms between stakeholders with clear roles and responsibilities of each. The current legislative framework does not sufficiently address the unique requirements of the programme as it is not based on dedicated legislation focusing explicitly on IDZ- specific requirements. It is therefore imperative to come up with a dedicated legislation that will address the identified weaknesses with the existing IDZs and create a good environment for the Special Economic Zones to thrive.

2.1.7 Design: The critical design weaknesses of the current IDZ Programme relates to the following areas:

- The programme focused exclusively on only one type of an SEZ, namely IDZs, thus the benefits of other forms of SEZs were neither explored nor harnessed.
- The programme was designed that only a few economic regions, those with access to an international airport or sea port, could qualify for support. Some regions, therefore, could not receive support under this programme irrespective of their economic development needs, opportunities or challenges. As an example, Gauteng could receive support, while Limpopo could not. On the other hand, East London could receive support, while the under-developed region of Mthatha could not receive any support.

2.1.8 Nature of support: International experience shows that successful SEZ programmes tend to focus on the provision of holistic and comprehensive packages of business development support which include infrastructure, skills development, technology, research and development, market support, finance, market access, logistics, and incubation programmes.

2.1.9 In the case of the IDZs in South Africa there was also too much focus on in-zone activities and enterprises, and insufficient attention paid to out-of-zone activities, even those critical for the success of in-zone enterprises and sustainability of the zone. IDZs were established to support the development of export oriented industries. Industrial development requires that not only the zone but the host region be able to support the long term development of those industries.

Section 3: Definition of Special Economic Zones

3.1 What are Special Economic Zones?

3.1.1 Definition

3.1.1.1 Special Economic Zones (SEZs) are geographically designated areas of a country set aside for specifically targeted economic activities, supported through special arrangements (which may include laws) and support systems that are often different from those that apply in the rest of the country. The definition suggests three important elements as follows: (a) designated area, (b) targeted industrial activities, that bring additionality to the economy, and (c) an appropriate support system that responds to the needs of the host region, targeted industries and investments, and other key role players.

3.1.1.2 Moreover, an SEZ is an economic development tool to promote rapid economic growth by using support measures to attract targeted foreign and domestic investments and technology.

3.1.1.3 The zones act as a magnet for investment and industrial capability development in desirable activities in specially designated areas by providing quality infrastructure complemented by an attractive incentives package, business support services, cluster development and minimal red tape. They promote industrial agglomeration and cluster development which is important for creating economies of scale. Secondly Special Economic Zones facilitate coordinated planning and implementation as the various agencies and systems that directly and indirectly support industrial development have to act together to achieve common objectives.

3.2 Types of Special Economic Zones:

3.2.1 SEZs may be either sector specific or multi product as follows:

- **A free port** means a duty free area adjacent to a port of entry where imported goods may be unloaded for value-adding activities within the Special Economic Zone for storage, repackaging or processing, subject to customs import procedures;
- **Free trade zones** means a duty free area offering storage and distribution facilities for value-adding activities within the Special Economic Zone for subsequent export;
- **Industrial development zone** means a purpose built industrial estate that leverages domestic and foreign fixed direct investment in value-added and export-oriented manufacturing industries and services;
- **Sector development/Specialised zones** means a zone focused on the development of a specific sector or industry through the facilitation of general or specific industrial infrastructure, incentives, technical and business services primarily for the export market;

3.2.2 The different categories are intended to complement one another and can be integrated into a single zone plan. For example, any Special Economic Zone would need various types of industrial activities and support measures such as, training facilities, business incubators, export distribution centres, etcetera.

3.3 Eligibility Criteria for SEZ Designation:

3.3.1 Access to Special Economic Zones will be confined to

- New businesses or the expansion of existing businesses for:
- Manufacturing activities
- The provision of designated internationally traded services
- Carrying out the activities of trading/warehousing.

Existing businesses already set up or functioning in an existing IDZ in South Africa before the commencement of the SEZ Act, however their eligibility to the SEZ incentive package will be contingent on them meeting the incentive criteria. Re-locations of existing businesses into SEZs will not be eligible. The Special Economic Zones will be reserved for companies whose SEZ originated sales will be primarily derived from export activities.

Eligible tradable services could be defined as follows:

- Computer software services, call centres, data processing, engineering and design services, insurance claim processing, medical transcription, legal databases, support services and web site services.
- Professional services.
- Other business services – namely audio visual services, construction related services, educational services, environmental services and research and development services.

SECTION 4: Rationale for the Policy Review

4.1 Rationale for SEZs in South Africa

Various factors have prompted the review of the IDZ policy and a subsequent policy shift to SEZ programme, namely:

4.1.1 Developments in national economic policies and strategies:

Some of the changes in key economic policies and strategies post the introduction of the IDZ programme include the introduction of the National Industrial Policy Framework (NIPF) which outlined key policy ambitions, the Accelerated and Shared Growth Initiative for South Africa, and the recently introduced New Growth Path (NGP) as well as the National Development Plan (NDP). The IDZs, as instruments of industrialisation could not address the broad policy objectives of the said national policies. It is imperative that broader policy instruments be introduced and be calibrated to the government's new strategic direction, as pronounced by the NIPF, NGP and NDP. The SEZ is such a tool and will be useful to support the implementation of the Industrial Policy Action Plan and the promotion of beneficiation and industrial development.

4.1.2 Special Economic Zones global trends

Special economic zones are widely used throughout the world as a tool for industrial and economic development. According to the World Bank (2008) there were over 3 000 special economic zones in over 135 countries in 2008. These zones accounted for over 68 million direct jobs and over US\$500 billion direct trade-related value added within these zones.

The following are some of the factors that underpinned the success of Special Economic Zones based on global experience:



- **Targeted industrial capabilities** were well defined and served as organising and planning reference point. These capabilities also served as anchors for the other industrial activities, and guided foreign direct investment promotion.
- **Focus on host regions rather than just designated areas** enabled integration of in-zone and out-of-zone activities, and prepared the entirety of the host regions to be a magnet for the desired foreign and domestic investment.
- **Foreign direct investment used as a platform to master desired industrial capabilities** rather than just satisfaction with outcomes such as jobs created and exports generated.
- **Very strong institutions:** to facilitate coordinate and steer the development of special economic zones towards the achievement of industrialisation goals. Effective institutional arrangements are critical for (a) ensuring a high level of policy and strategy coordination among all key agencies and across all tiers of government, and for (b) quick decision-making.
- **Effective planning arrangements:** characterised by high levels of coordination and comprehensiveness enough to take into account not only economic aspects but also the social, environmental, and others. In addition, planning tends to take a long-term in order to provide enough time for the mastery of the desired industrial capabilities.
- **Holistic support systems:** that go beyond the provision of world-class infrastructure and includes other key support measures such as skills development, logistics, business incubation, environmental protection, technology, research and development, and effective financial support.
- **Financing arrangements:** Adequate financial support to enable long-term planning and infrastructure development,

as well as good investment incentive packages are also important features of successful special economic zones development regimes. In successful regimes, one of the key roles of government is to finance infrastructure development which is critical to the success of any programme for special economic zones.

- **Strong business linkages:** between foreign and domestic firms and between large and small and medium firms. These linkages are key to the transfer of technology and know-how from the foreign investors to domestic enterprises and therefore important for the country to master the desired industrial capabilities. The integration of the small and medium enterprises in these value chains is also important as it increases the number of domestic players into the desired value chains and therefore strengthens the mastery of the desired industrial capabilities.

4.1.3

Developments in the global economic environment: Since the introduction of the IDZ programme, the global economy has experienced drastic changes including increased competition for foreign direct investment, a shift in global economic power balance from the west to the east, shifts in geo-political arrangements including the formation of BRICS and other groupings. These and other developments have resulted in, amongst others, emergence of new sources of foreign direct investment, new global economic power relations, and new markets. These have a fundamental impact on how countries compete for foreign direct investment and trade opportunities. In addition, there is a new trend where foreign direct investment is locked in certain international networks. Those within these networks are likely to reap the benefits of FDI while those outside those networks are not likely to benefit. Groupings such as BRICS can assist the country in attracting much desired investments and SEZs can be useful instruments in that regard.

The SEZs in South Africa can be used by foreign and domestic investors as locations for manufacturing, the provision of services and trade as well as mineral beneficiation hubs with a view to servicing African and wider international markets

4.1.4

Lessons learnt in the implementation of Industrial Development Zones and a Review of SEZ International Best Practice:

The implementation of the IDZ programme and a review of SEZ international SEZ best practise provided valuable experience and lessons for government which need to be factored into future efforts to attract foreign and domestic direct investment. The lessons learnt include the following:

- SEZs are the **key tools** used in all of the fastest growing economies including China, India, Brazil, and others to accelerate the development of targeted industries and attract desired foreign and domestic direct investment.
- **Leadership** and effective implementation may be more important than even a good policy or strategy.
- **Coordination** across all tiers of government and public entities is necessary to speed up implementation.
- An SEZ is a tool for economic development and **not an end in itself**. It is therefore important to focus on the goal of economic or industrial development rather than just the tool.
- The potential benefits of SEZs are not automatic but depend on whether the necessary conditions are created for their success. These conditions include **strong political and technical leadership**, commitment over the long-term and integrated development planning.
- SEZs tend to work where the **targeted** investment opportunities and desired industrial capabilities are clear.
- SEZs are not necessarily permanent but are used as a **development tool** until an area has achieved industrial

sustainability.

4.1.5

Modest performance of the IDZ programme: When compared with programmes in countries such as China, Korea, India, Malaysia and others, the performance of South Africa's IDZ programme, as highlighted in section 1.3 above, is fundamentally modest and falls short of the expectations of all stakeholders, and requires revamping.

4.1.6

Restricted design of IDZ Programme: The programme was designed that only a few economic areas, those with access to an international airport or sea port, could qualify for support.

4.1.7

The shift in economic power from the west to the east has resulted in new sources of foreign direct investment. This provides a window of opportunity for targeted foreign direct investment attraction from both old and new sources.

4.2.

The Case for Special Economic Zones in South Africa

4.2.1

the dti has identified the SEZs as instruments for advancing the country into a higher industrialisation path. This assertion is not only based on the success of SEZs elsewhere, but on the potential for SEZs in South Africa based on the endowment of South Africa with mineral and natural resources, including ample land availability, prudent economic policies and good regulatory environment, country's potential as a gateway to Africa, BRICS and other international markets as well as South Africa's relatively high international rankings in terms of ease of doing business and international competitiveness. These elements provide a sound foundation on which South African SEZs, properly planned, funded, developed, managed and marketed; can contribute to achieving national economic goals.

SECTION 5: The Aim and Objectives of the SEZ Policy

5.1 Aim of the policy

5.1.1 The Special Economic Zones policy aims to position special economic zones as an effective tool for industrial development, and is flexible and rigorous enough to be responsive to the development needs of all regions, as well as the needs of investors and other key role-players.

5.1.2 The purpose is to provide a clear policy framework with respect to the development, operations and management of SEZs addressing the following challenges of the current programme through:

- Expanding the strategic focus to cover diverse regional development needs and contexts, and improve the design deficiencies of the IDZs programme;
- Providing a clear, predictable and systematic planning framework for the development of a wide array of SEZs to support implementation of the Industrial Policy Action Plan, regional industrial development strategies, National Development Plan (NDP) and the New Growth Path (NGP);
- Clarifying and strengthening governance arrangements for the management of SEZs;
- Expanding the range and quality of support measures beyond the provision of infrastructure, including both in-zone and out-of-zone support measures;
- Developing and implementing a predictable financing framework to enable long-term planning;
- Developing and implementing a comprehensive programme to support the development of SEZs, including their marketing; and
- Addressing all the weaknesses of the Industrial

Development Zones Programme, and introducing best practices in the planning, development and management of special economic zones.

5.2 Objectives of Establishing SEZs in South Africa

5.2.1 To facilitate the creation of an industrial complex having a strategic economic advantage for targeted investments and industries in the manufacturing and tradable services sectors; within the framework of the IPAP, New Growth Path and the New Development Plan,

5.2.2 To promote beneficiation and value addition to the country's minerals and other natural resources,

5.2.3 To develop infrastructure required to support the development of the targeted industrial activities,

5.2.4 To attract relevant foreign and domestic direct investment and taking advantage of existing industrial and technological capacity, promoting integration with local industry and increasing value-added production,

5.2.5 To accelerate exports and economic growth and the creation of much needed jobs,

5.2.6 To contribute to balanced industrial development.

5.3 Special Economic Zones Model

5.3.1 There are diverse models of Special Economic Zones across the world. In general, Special Economic Zones can be categorised into those that function as extraterritorial enclaves within a country, and then those that operate within the borders of a country. In the former, general laws that operate in the rest of the country are

suspended; while in the latter all the rules of the country apply in the zones.

- 5.3.2 The model of Special Economic Zones being promoted is one in which the zones will not be independent enclaves, and therefore, will not require the suspension of the constitution or any other law of the country in any of the designated Special Economic Zones.
- 5.3.3 As part of broader efforts to accelerate industrial decentralisation, government will also promote multi-nodal or multi-site special economic zones; wherein a single Special Economic Zone may cover several hubs spread throughout a city or region; and with each hub focusing on specific industrial activities or mix thereof.

Section 6: Key Aspects of The Special Economic Zones Policy

6.1 Institutional Framework of the SEZs

6.1.1 In the South African context, the following will be the key institutions in the planning, development and management of special economic zones:

- **The Minister of Trade and Industry** will take overall responsibility for the development and implementation of policy, strategy and programmes for the effective development of special economic zones and regulation of the SEZs.
- **Special Economic Zones Advisory Board** will be established in terms of the SEZ Act to advise the Minister on policy, strategy and programmes for the development of special economic zones, as well as on any other relevant matter that the Minister may refer to the Advisory Board including assessing applications for special economic zones and making recommendations to the Minister whether such applications should be approved or not. The composition of the Advisory Board shall be such that the following are included:
 - All critical departments and agencies in the planning, development and management of zones,
 - Independent experts on the development of special economic zones,
 - Specialised skills such as the management of industrial estates, industrial financing, etc.
- **The Department of Trade and Industry** will be responsible for overall facilitation and coordination of the special economic zones programme and amongst others provide the following services:
 - Secretariat support for the Special Economic Zones

Advisory Board,

- Technical support to provinces, municipalities, other government departments, and zones with regard to the planning, development and management of zones,
- Cooperation, coordination and liaison with other agencies and departments with specialised support functions for the development of zones such as National Treasury, SARS, Transnet, Eskom, etc.

- Operating entities are responsible for the day to day management of the zones including the development and implementation of a long-term plan to ensure that the targeted industries are developed, the development of the infrastructure required in the zone, and marketing the zone locally and internationally, in conjunction with national marketing agencies, in order to attract desired investments. In order to ensure that the zones are developed as swiftly as possible, provision shall be made for the participation of the local and international private sector in the management and operations of zones. This shall be done either through public private partnerships or through the complete outsourcing of operating entities.
- The provision of private sector participation in the management and operations of zones is essentially informed by (a) the fact that the development of special economic zones is relatively new in the country and the relevant skills are not likely to be widespread in the public sector, and (b) foreign direct investment is increasingly locked in certain international networks, with access to these networks being an important factor in securing such foreign direct investment.

6.2

Governance Arrangements of the SEZs

6.2.1

Efficient governance arrangements are critical to the planning, development and management of special economic zones as such

arrangements will ensure:

- Effective guidance for the development and implementation of strategic and operational plans,
- Transparency and accountability in the use of public resources,
- Responsible execution of mandates at all levels and phases,
- Clarity with respect to the roles of the different role players,
- Promotion of coordination across all tiers of government, as well as cooperation among all critical agencies.

6.2.2 Poor governance arrangements have been identified as one of the major weaknesses of the current IDZ Programme which resulted in uncertainty with respect to which authority had responsibility for the strategic direction of an IDZ and who had accountability for the success and failure of these zones.

6.2.3 The following provisions are being made with respect to governance of special economic zones:

- **Ownership:** Provision is made for national government departments, provinces and municipalities, public entities, and private-public partnerships to apply for the establishment and development of SEZs, and thereby act as the owners of the relevant special economic zone.
- **Operator:** The owner (licence holder) of an SEZ can appoint any public or private entity, through an open transparent procurement process, as a developer of the SEZ for a specified period.
- **Oversight and accountability:** The relevant Minister, Provincial Member of the Executive Council responsible for economic development or the relevant Executive Mayor shall assume oversight and accountability for the

operations of the relevant SEZ in the case of government owned SEZs.

- **Coordination across the spheres:** Measures shall be taken to promote effective participation of all three tiers of government, including public entities in the development and operations of SEZs.

6.3 Special Economic Zones Strategy

6.3.1 In order to promote a clear, predictable and systematic planning framework for the development of a wider array of SEZs, the Minister shall, when necessary review the SEZ Policy and when necessary, review the SEZ Strategy to outline the desired approach to the development of Special Economic Zones for the following period.

6.3.2 The SEZ Strategy shall be a guide to both existing and planned SEZs on the national and regional priorities.

6.3.3 As far as possible, measures shall be taken to minimise negative competition and promote complementarity and cooperation among local SEZs.

6.3.4 Participation of all three tiers of government, other key departments and agencies such as National Treasury, Department of Science and Technology, Department of Home Affairs, South African Revenue Services, Department of Transport, Department of Higher Education, Department of Water Affairs and Environment, Eskom and Transnet in the planning and development of special economic zones will be critical.

6.4 Financing Special Economic Zones

6.4.1 Special Economic Zones are expensive to develop and require

significant resources. A predictable financing framework is required to facilitate long-term planning.

6.4.2 **Special Economic Zones Fund:** shall be established by the Minister of Trade and Industry in concurrence with the Minister of Finance. The fund shall be used to support the planning and development of special economic zones including the following elements: finance approved site servicing, bulk infrastructure provision and business development of the SEZs, such as feasibility studies, general research etcetera.

6.4.3 **Mix of financing options:** in order to encourage sound zone development and long term planning, there should be a mix of financing instruments provided by various financing institutions, including the Development Finance Institutions (DFIs).

6.4.4 The Rules and guidelines for the administration of the SEZ fund shall be developed.

6.5 Special Economic Zones Incentives

6.5.1 SEZ incentives shall apply to Greenfield investments locating in the SEZs as well as expansions to Brownfield investments within the SEZs. The use of incentive packages is a common international practice in attracting foreign or domestic direct investment. The following provisions are made with regard to the use of incentives within the framework of the SEZ Programme:

- The Minister of Trade and Industry may provide a package of incentives as a way of improving the investment attractiveness of all or individual SEZs in the country.
- Relevant provinces and municipalities may consider additional incentives for enterprises locating within their SEZs.

- Individual special economic zones may consider additional incentives for enterprises locating within those zones.

6.5.2. Measures shall be put in place to ensure the sharing of information and coordination across the spheres of government and across zones and also to avoid the race to the bottom and double dipping by investors.

6.6 Eligible Activities

6.6.1 SEZs are part of a broader industrial policy framework, as highlighted by the IPAP, NDP and NGP. The SEZs shall be developed mainly to attract industrial activities that are in line with the country's policy objectives.

6.6.2 It is critically important that only eligible activities are allowed to take place in the SEZs. Such eligible activities shall comprise manufacturing activities that will include processing, assembly, mixing and fabrication. The manufacturing activities shall be done in terms of the South African procurement regulations.

6.6.3 Internationally Traded Services Activities:

- Computer software services, call centres, data processing, engineering and design services, insurance claim processing, medical transcription, legal databases, support services and web site services.
- Logistics and warehousing activities such as shipping, handling, storage of goods, clearing and forwarding, distribution management, freight consolidation and reception.
- SEZ Development Activities: including construction and refurbishment of infrastructure and super structures that will be undertaken by a licensed operator.
- Other business services – namely audio visual services,

construction related services, educational services, environmental services and research and development services.

6.7 Support system

6.7.1 An effective and efficient support system is one of the important requirements for the successful development of Special Economic Zones.

6.7.2 The current system has focused almost exclusively on the provision of world-class infrastructure which, though necessary, was never sufficient for the successful development of Special Economic Zones.

6.7.3 Successful Special Economic Zones regimes are characterised by the provision of comprehensive support systems that go beyond the provision of world-class infrastructure and include all other key inputs to successful industrialisation such strategies for the development of human capital, logistics, technology, research and development, business incubation and other measures for the promotion of small and medium enterprises.

6.7.4 The new policy provides for a comprehensive support system for Special Economic Zones that includes but not limited to the following:

- Provision of world-class industrial and social infrastructure,
- Strategies to develop human capital,
- Technology, research and development to ensure on-going technological innovation,
- Distribution centres,
- Logistics support,
- Business incubation,
- Environmental management plans, and

- Standards, quality and productivity.

6.8 Planning of Special Economic Zones

6.8.1 Planning is the most important phase in the development of Special Economic Zones and it is the phase in which the following are, amongst others, defined: goals and objectives, targeted economic activities or industrial capabilities, support measures required, sequencing of interventions, performance targets and milestones, and critical stakeholders to be mobilized in the various phases.

6.8.2 The planning approaches of the successful models for Special Economic Zones development include the following aspects: (a) comprehensive and looking beyond the economic, (b) focusing on the host regions rather than the designated zone, (c) comprehensive and long-term, and (d) integrated and coordinated across and between all tiers of government and other critical players.

6.8.3 The following are the key features of the current planning arrangements and effectively the major planning weaknesses:

- Planning is largely ad-hoc and short-term; and does not extend beyond the MTEF period. These planning arrangements make it impossible to develop and master new industrial capabilities,
- There is effectively no participation of the host municipalities or regions and other critical partners at provincial and national levels. Consequently, there economic development plans of the host municipalities are not integrated with plans for the development of industrial development zones.
- Planning focuses only on the economic and overlooks the social, technological, environmental, and other key aspects that are necessary for the holistic development of the host region. Almost

all strategic plans of the current Industrial Development Zones are dominated by activities for the provision of industrial infrastructure and activities for investment promotion.

6.9 One-Stop-Shop facility

- 6.9.1 A One-Stop-Shop facility is one of the key services provided in a special economic zone, and is a mechanism intended to minimize red tape in handling investments by reducing the time it takes to register an investment and issue the necessary permits to enable the investor to start operations.
- 6.9.2 In South Africa, all the three tiers of government provide permits without which an investor cannot operate. Even within the same tier of government, various agencies provide various permits for investments. Given the variety of agencies that have to issue permits to investors, if the process is not well managed and coordinated; the country can lose vital direct investments to other competing countries especially given that competition for foreign direct investment is global and increasingly intensifying.
- 6.9.3 This policy proposes a development of a suitable One-Stop-Shop model that will make the South African SEZ model to be globally competitive. The One-Stop-Shop model shall be completed within six months of the approval of this policy.

Section 7: SEZ Implementation Framework

- 7.1 In order to ensure successful and effective implementation of the Special Economic Zones Policy, **the dti** shall, in conjunction with other relevant departments and agencies, develop and implement a comprehensive SEZ programme. The roles and responsibilities of several institutions need to be clarified and the Implementation Protocol need to be developed to formalise the agreements and to ensure that all the parties play their roles.
- 7.2 This SEZ policy which guides the designation, promotion, development, operation and management of the SEZs shall be reviewed by the Minister of Trade and Industry when necessary. The SEZ Advisory Board shall monitor the policy implementation.
- 7.3 **the dti** shall establish a legislative framework (the Act, regulations and guidelines) to regulation and guide development of the SEZs. The SEZ Advisory Board shall regulate the SEZ programme in terms of the SEZ legislation.
- 7.4 In order to ensure that newly designated SEZs are of the strategic nature and support industrialisation and economic growth strategies, **the dti** must develop the SEZ strategy and review it when necessary. The SEZ Advisory Board shall be responsible for the implementation of the strategy.
- 7.5 **Marketing:** A national marketing strategy is required to promote all the zones internationally and domestically in order to attract the desired investments. **the dti** shall develop an SEZ Marketing Strategy that will determine a marketing mechanism for the SEZs.
- 7.6 **SEZ Incentives:** **the dti** in agreement with National Treasury shall develop a suit of SEZ incentives that will be used to attract investors to the zones. The SEZ incentives package should be developed

and approved before the formal launch of the SEZ programme.

- 7.7 **Special Economic Zone Fund:** **the dti** in agreement with National Treasury shall establish an SEZ Fund that will support infrastructure (bulk, fencing and clearing) and business development of the SEZs. The initial Fund shall be capitalised by the government; must be available from the planning phase of the SEZs and shall be managed by **the dti** or any agency that will be appointed by the Minister of Trade and Industry. The Fund shall be administered in terms of the regulations and guidelines that **the dti** will develop prior to the launch of the Fund.
- 7.8 **Capacity development:** A capacity building programme is required to ensure that relevant government officials across the three tiers of government as well as senior executives of SEZs have the necessary skills and competencies. All the national, provincial and local government employees that will work on the SEZ programme should be provided with prior training to enhance their understanding and skills in the SEZ environment. **the dti** should organise such training and skills development.
- 7.9 **Skills strategies:** It is imperative for the SEZ to establish skill base in and around their host regions. This helps to attract investments and stimulate economic activities. Regional skills strategies have to be developed and implemented to support the short, medium and long-term skills needs of enterprises and industries within the zones and in the host regions. **the dti** must lead the development of Skills strategies to ensure alignment to the objectives of IPAP and NGP.
- 7.10 **Infrastructure:** The key requirement for SEZs is the provision of appropriate and world-class industrial infrastructure. **the dti** shall, through the use of the SEZ Fund, ensure that the SEZs are provided with the world class infrastructure

- 7.11 **Logistics:** Effective and efficient logistics are the life-blood of any trade and are key to industrial development. **the dti** should liaise with the relevant departments and agencies to ensure that constraints and bottlenecks pertaining to logistic costs are dealt with and the logistic costs are effectively lowered for SEZ businesses.
- 7.12 **Business incubation:** Incubation or supplier development programmes are critical for nurturing domestic entrepreneurs and enterprises and facilitate their integration into the key value chains in the zones and regions. **the dti** shall lead the development of supplier development programmes so that SMMEs are fully integrated into the main SEZ business activities.
- 7.13 **Environmental protection:** Sustainable industrial development requires that appropriate measures be taken to ensure that industrialisation takes place without the destruction of the environment. Thus **the dti** will work closely with the environmental authorities to ensure sustainable development.
- 7.14 **Technology, research and development:** Measures to facilitate on-going technological innovation and access to appropriate technologies for emerging enterprises. **the dti** together with the DST and institutions of higher learning, shall work together to achieve this goal.
- 7.15 **Quality and productivity:** Continuous quality and productivity improvement programmes are necessary to ensure that SEZ enterprises can compete globally.
- 7.16 The programme is intended to provide key government services that are necessary to sustain the targeted industries and also to support the enterprises and investors in the zone and surrounding region.
- 7.17 Government support to each SEZ shall be provided in accordance with a revised financing model being developed for SEZs.

Section 8: Monitoring And Evaluation

- 8.1 In order to ensure that the SEZ Programme achieves its intended objectives, measures shall be put in place to monitor and report on the performance of the Programme across the entire results chain including inputs, outputs, outcomes and impact. These will be useful in guiding policy direction. This will be done in terms of the Government Wide Monitoring and Evaluation system.
- 8.2 Monitoring and performance management is a shared responsibility between **the dti**, provinces, and municipalities as well as developers and operators and various elements will be monitored at different levels. Reporting on SEZ performance shall be submitted to the SEZ Advisory Board by the SEZ licence holders (owners). The SEZ Advisory Board shall be responsible for monitoring and evaluation of SEZs.
- 8.3 Measures will be put in place by **the dti** to ensure that an effective monitoring, reporting and evaluation system is in place, including the guidelines and regulations when necessary.
- 8.4 Government intends to report at least annually on the performance of the Special Economic Zones Programme.
- 8.5 The SEZ Advisory Board will coordinate monitoring and evaluation to ensure that the strategic plan and SEZ Master Plan targets are achieved.



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