



Wes-Kaapse Provinsiale Parlement Western Cape Provincial Parliament IPalamente yePhondo IeNtshona Koloni

Ref Number: WCPP 11/4/2

DRAFT REPORT OF THE STANDING COMMITTEE ON FINANCE, ECONOMIC OPPORTUNITIES AND TOURISM ON THE ANNUAL REPORTS OF THE DEPARTMENT OF ECONOMIC DEVELOPMENT AND TOURISM AND ITS ENTITIES; WESTERN CAPE TOURISM, TRADE AND INVESTMENT PROMOTION AGENCY (WESGRO), SALDANHA BAY INDUSTRIAL DEVELOPMENT ZONE LICENCING COMPANY (SOC) LTD AND ATLANTIS SPECIAL ECONOMIC ZONE FOR THE YEAR ENDED 31 MARCH 2021, DATED XXX

1. Introduction

The Annual Report programme for the 2022/23 financial year was advertised in newspapers, inviting stakeholders and members of the public to attend and participate in the discussions.

Members of the Standing Committee on Finance, Economic Opportunities and Tourism deliberated on Part A: General Information, Part B: Performance Information and Part D: Human Resource Management of the Annual Reports of the Department of Economic Development and Tourism and its Entities: Western Cape Tourism, Trade and Investment Promotion Agency, Freeport Saldanha Industrial Development Zone and Atlantis Special Economic Zone, on 27 October 2023.

Members of the public were also given an opportunity to pose questions and make oral submissions.

2. Overview

The Committee considered the Annual Reports of the Department of Economic Development and Tourism (the Department) and its Entities; Western Cape Tourism, Trade and Investment Promotion Agency (Wesgro), Freeport Saldanha Industrial Development Zone (FSIDZ) and Atlantis Special Economic Zone (ASEZ).

Before proceeding to the consideration of the Annual Reports, the Minister, the Head of Department, the respective Chief Executive Officers and Chairpersons of the Entities' Boards were given an opportunity to make opening remarks.

In the year under review, the Department, FSIDZ and ASEZ received clean audits, while Wesgro received an unqualified audit opinion.

At the end of each Annual Report deliberation, the Chairperson afforded members of the public the opportunity to address the Department and Entities.

3. Deliberations on the 2022/23 Annual Reports

3.1 Department of Economic Development and Tourism: Observations and Findings/Concerns

- 3.1.1 During the year under review, the Department of Economic Development and Tourism (the Department) reached a significant milestone, which was the completion of the Jobs for Growth (G4J) strategy that aimed to lift the provincial growth rate and the economic growth rate. The 2022/23 financial year saw the recovery of the tourism and event sectors; however, the year also saw unprecedented loadshedding and a crippling strike at the Port of Cape Town.
- 3.1.2 The Department spent 98,6% of its appropriated funding and did not have any unauthorised fruitless and wasteful expenditure. There were approximately 3 000 jobs generated by the Department and its Entities.
- 3.1.3 The Small, Medium and Micro Enterprises (SMME) Booster Fund was a fund based on market demand, where proposals were made to the Department, which would be considered and assessed. Once the project was approved, the Department would partner-fund with the SMME. The Department then further assesses the project for further possible expansion. In this way, the Department was also able to leverage funding from the private sector.
- 3.1.4 The Department noted that the previous approach to skills development entailed identifying occupations in high demand and providing the individual with the necessary skilling and training. However, the Department realised that skills development was complex, and the reason individuals were not being employed was because they did not have on-the-job experience. The Department subsequently changed its approach. The new approach entailed developing an experiential learning programme that provided qualifications, accreditation, on-the-job training, and a behavioural component that dealt with on-the-job skilling. This resulted in an 80% absorption of learners after completion of the programme. A study conducted by the Department with the National Treasury, the Provincial Treasury and the Government Technical Advisory Centre showed that this skills programme was one of the most inexpensive programmes in the country that would result in employment. The cost of a job stemming from the Department's skills programme was R15 333, while one job from the Extended Public Works Programme cost R60 000.
- 3.1.5 The Business Confidence Index (BCI) measured how businesses felt about the economy, and business prospects going forward. The province's BCI experienced a decline of 13 points, from 52 to 39. This was discouraging for the provincial recovery trajectory and investment prospects. If businesses are not confident about the economy, then it may result in contraction in certain sectors, and/or growth in the unemployment rate. Loadshedding impacted greatly on the BCI as companies could not operate and trade effectively. This was why the Department prioritised the energy component of the G4J strategy.
- 3.1.6 There was a concern that the G4J strategy did not target certain impoverished geographic locations such as the Cape Flats and townships, where a response was needed to address structural inequality and unemployment. The Department indicated that one of the key principles of the G4J strategy was to advocate for employability and entrepreneurship, and the role of government was to create an environment for everyone who wanted to succeed. The Department also understood that its role was to provide the necessary information and skills for people and businesses to thrive. The G4J strategy had a specific spatial lens and filter across all of the priority focus areas. One of the priority focus areas within the G4J strategy

was on townships and communities. There were explicit interventions that were targeted at townships. The approach was twofold. One approach was structural, looking at the systemic challenges of the communities who lived far from economic activities. The second approach was to look at action-based plans and coordinating government activities in communities so that programmes were more coordinated across departments.

- 3.1.7 Data availability which spoke to SMME performance in the Western Cape and across South Africa was found to be lacking. However, the Department has initiated a Memorandum of Understanding with the Department of Small Business Development, which will look at capturing data that will speak to SMME successes. The Department will also be appealing to relevant heads of departments to make statistics available in respect of funding coming to the Western Cape-based SMMEs, through incentives and loan funding. The Department will also be disaggregating the entrepreneurship rates so it can see what the rate is for the Western Cape. This would allow the Department to see the number of new businesses that were being initiated and the number of existing businesses that were succeeding and failing.
- 3.1.8 The development of the green hydrogen industry has created quite an interest; however, it was a highly energy-intensive industry, which could be problematic. The Department indicated that the green hydrogen programme would assist with the energy crisis through green hydrogen investments. Firstly, green hydrogen investments will start to make other more direct energy projects more viable because it adds scale to them. For example, any upgrades to transmission lines would be buffered and strengthened because of the additional requirement for hydrogen. Secondly, in terms of green energy, green hydrogen would provide excess energy so it would contribute to the province's energy needs. The green hydrogen programme would also contribute to the province achieving its climate change goals and would effectively support job creation and the growth of industries, particularly for export markets that have introduced carbon border adjustment mechanisms.
- 3.1.9 The Department noted that there were challenges affecting the informal sector such as crime, permitting, lack of infrastructure, access to finance, and access to support services. The Department worked with the Department of Small Business Development to encourage the uptake of incentives by the informal sector. The Department also formed a relationship with the South African Informal Traders Association, who reported red tape issues, especially around municipalities.
- 3.1.10 There was a concern about the dominance of foreigners owning spaza shops in the townships. The Department noted that these businesses had an intricate system of ordering and running their businesses, as well as an extensive network of buying. This was a difficult issue to navigate. The Department planned to partner with Technical Vocational Education and Training (TVET) colleges in townships and areas such as Khayelitsha, the Garden Route, Atlantis and the West Coast, where hubs would be used for entrepreneurship development for local students and community members who would like to be upskilled.

3.2 **Western Cape Tourism, Trade and Investment Promotion Agency: Observations and Findings/Concerns**

- 3.2.1 Wesgro received an unqualified audit outcome for the year under review, which was an improvement from the qualified audit outcome that they received for the 2021/22 financial year. It was noted that this was a great turnaround, which required the team effort of the

Minister, the Department of Economic Development and Tourism, the Provincial Treasury, Wesgro and other government stakeholders.

- 3.2.2 Wesgro attributed the improvement of the audit outcome to the complete refresh of their finance team, the appointment of a new Chief Financial Officer, the appointment of a chartered accountant in the supply chain team, and appointments of chartered accountants across the Entity where it was needed. The supply chain management was also reorganised.
- 3.2.3 Boat building and boat maintenance has become a fast-growing industry for the Western Cape. The Western Cape was the production hub of the South African boat-building industry and accounted for 70% of the country's marine manufacturing capability. 70% of the yachts and boats built in the province were exported to the United States. Almost 80% of leisure boats and 40% of commercial boats manufactured in the Western Cape was produced for export. South Africa was also a major global producer of catamarans, ranking only second to France.
- 3.2.4 There was a hub in Stellenbosch called Wine Arc that supported 13 black-owned wine labels. Some of these black-owned wine brands were taken to an expo in New York as there was a growing interest in the sector, especially in the United States. However, there was a concern about whether these black-owned wine owners benefited from the expos, and whether the exposure translated to sales/orders.
- 3.2.5 There were 11 resignations from Wesgro during the year under review. Wesgro attributed this to staff movements and the dismissal of two officials because of the qualified audit report that the Entity received for the 2021/22 financial year. Resignations may have occurred due to the change in management; however, Wesgro still retained a full executive team, senior management team, and management team. Wesgro staff were also poached by the private sector, and the Entity was unable to compete with the salaries offered by the private sector.

3.3 **Freeport Saldanha Industrial Development Zone: Observations and Findings/Concerns**

- 3.3.1 Freeport Saldanha IDZ (FSIDZ) indicated that the year under review had been a challenging one; as the shortened sustainability of the Freeport was a concern; however, the Entity has started to align its corporate plan with the green hydrogen programme as it had the potential to play a major role in the green hydrogen corridor. The FSIDZ has also tasked its management team with investigating all avenues to address its sustainability, including raising capital from the private sector.
- 3.3.2 The FSIDZ's focus in the 2022/23 financial year was the conversion of its investor pipeline, which was seriously hampered by its lease agreement with the Transnet National Ports Authority (TNPA). The FSIDZ focused on resolving this issue and developing a working relationship with the TNPA. The FSIDZ had high hopes to grow the industrial zone into a large investment opportunity for the Western Cape.
- 3.3.3 It was noted that the FSIDZ's plan to become financially self-sustainable was a challenge, as the pace of investment and tenancing into the Zone was delayed due to the COVID-19 pandemic, loadshedding, the economic downturn, lack of port infrastructure and policy inconsistency.
- 3.3.4 The ArcelorMittal and Sasol opportunity was good news for Saldanha Bay, considering that there was a discussion about ArcelorMittal's closure a few years ago, which resulted in job losses. The FSIDZ saw the practicalities of this opportunity - green hydrogen was a molecule

that had to be used in industrial processes as it was zero carbon, thereby removing the carbon emissions from products. Exports were taxed according to the Carbon Border Adjustment Mechanism, which was a tool used to attach a price to the carbon emitted from the production of carbon-intensive goods entering the European Union. Using green hydrogen in the production of green cement, green fertiliser, green steel, green fuels used in ships, cars, trucks, trains and busses etc., would drastically lower the country's carbon footprint, making the Western Cape and the products it produces more resilient and competitive on a global scale through export markets and lower taxes. Sasol would produce the green hydrogen, which would be provided to ArcelorMittal, who will produce a product called Green Directly Reduced Iron. Mainstream Renewable Power, an Independent Power Producer, will supply Sasol and ArcelorMittal with green electrons. The project is in the pre-feasibility study phase, with plans to be operational in 2027. All the detailed information regarding the green hydrogen needs and opportunities was contained in a document drafted by the FSIDZ, Wesgro, the Department of Economic Development and Tourism and Atlantis SEZ called the Green Hydrogen Concept Note.

- 3.3.5 One of the challenges in respect of the green hydrogen project was that it was a large-scale project, which required a large amount of land that the FSIDZ did not have. The FSIDZ needed to expand the Special Economic Zone (SEZ), which required the assistance and support of the Department of Trade, Industry and Competition, specifically also in respect of Sasol's application to be a part of the SEZ.
- 3.3.6 In terms of skills development, the Chemical SETA was an important partner for the FSIDZ, assisting with the opening of the Smart Skills Centre (the Centre) within the freeport on 17 October 2022. The Centre focused on augmenting the artisan training that was being provided by the FSIDZ, providing digital skills and open access for the people of Saldanha Bay. The Centre was targeted at unemployed youth. The FSIDZ provided the facility, while the Chemical SETA provided funding on a programme basis. The Chemical SETA has also been tasked by Minister Blade Nzimande, Minister of Higher Education, Science and Technology, to study the hydrogen skills needs. This report was being used to indicate which skills programmes were needed for green hydrogen. The Centre would serve as a conduit to facilitate programmes and skills for the hydrogen economy. The FSIDZ has also worked with the Department of Education to implement programmes at high schools that will benefit the Saldanha Bay community.

3.4 **Atlantis Special Economic Zone: Observations and Findings/Concerns**

- 3.4.1 The Atlantis Special Economic Zone (ASEZ) achieved a clean audit outcome for the 2022/23 financial year, despite being a new entity. The ASEZ has made the transition into its implementation phase and was well underway in respect of getting its first zone ready for the building of factories.
- 3.4.2 The special dispensation around tax incentives was a challenge. The ASEZ has written to the Director-General of the National Treasury to request that they promulgate the tax incentives for the Special Economic Zone (SEZ), which was standard procedure. To date, the ASEZ has not received a response from National Treasury. The ASEZ then wrote to the Minister of Trade, Industry and Competition and the Minister of Finance regarding this matter, but they have not responded either. In 2020, the previous Minister of Finance indicated that the National Treasury would no longer promulgate tax incentives for the SEZs. The ASEZ then

commissioned a legal opinion, which indicated that the Minister of Finance did not have discretion about whether to award the promulgation if requested by an SEZ. This was communicated to the Director-General of the National Treasury, the Minister of Finance and the Minister of Trade, Industry and Competition. These incentives were required because the playing field was not level. The SEZ who applied for the promulgation of tax incentives prior to 2020 received the benefit, while those who applied following the Minister's announcement in 2020 could not benefit from the promulgation. This impacted on investor interest in the ASEZ.

- 3.4.3 The rates offered on land was also dependent on the ASEZ receiving funding from the Department of Trade, Industry and Competition (DTIC) to put in civil infrastructure and to put up the top structures on the SEZ. If the ASEZ received this funding to build the factories, they could offer very competitive rates to investors. However, it seemed that the DTIC was running out of money for the ASEZ programme. It was becoming more difficult for the DTIC to cater to all the SEZs because their budget was not growing. The ASEZ has looked at alternative financing and funding mechanisms. The ASEZ was confident that it would be able to get the investors it needed; however, at this stage, the ASEZ was dependent on the DTIC's grant funding.
- 3.4.4 The ASEZ indicated that there was a need to relook at the SEZ programme and how the incentive regime was structured. There were ways to improve the incentive regime and to tailor the programme so each SEZ could focus on a speciality. The ASEZ was targeting the renewables cluster and the agricultural processing cluster, so it would be ideal to have a package that helped the ASEZ target those investors and industries. Currently, the SEZ programme had one tax incentive across the board.
- 3.4.5 In terms of the revival of railway line for goods between Atlantis and Cape Town, the ASEZ felt that it was not able to take advantage of the freight rail link in its current circumstance. The railway line was not operational. The ASEZ commissioned a feasibility study to see if the current investors in the SEZ would be interested in utilising the freight rail link once it was operational and the general sentiment was that they were not interested in using the service because they felt that they could not rely on Transnet to deliver their goods. However, if the freight rail was operational, it could provide all sorts of opportunities for the SEZ to become a freight village, and to assist with some of the congestion that exists in the Port of Cape Town.
- 3.4.6 During the year under review, four officials received written warnings. This was because the ASEZ had a zero-tolerance rule for non-compliance, particularly around irregular expenditure.
- 3.4.7 Resolux disinvested from the ASEZ due to the uncertainty in the procurement on the Renewable Energy Independent Power Producer Programme (REIPPP). Resolux was a small international company that manufactured internals for wind turbine components; however, they had not received any orders for a period of four years, which meant they were a manufacturing facility that was producing a good that had no destination to be sold to. Resolux then disinvested but left the building behind, which was acquired by another real estate business.

4. Resolutions/Actions

- 4.1 The Committee RESOLVED to accept the Department of Economic Development and Tourism's invitation to attend the SMME Booster Fund event being held at RLabs in Mitchell's Plain.
- 4.2 The Committee REQUESTED that:
 - 4.2.1 The Department of Economic Development and Tourism provides a brief report on the measurement called the percentage in tourism safety perception which was discontinued during the COVID-19 pandemic, focusing specifically on (i) whether this measurement still existed, (ii) if the study was still being undertaken, and (iii) what the results of this study were;
 - 4.2.2 The Department of Economic Development and Tourism provides a report on one of their previous indicators, which was to enhance resource resilience in the economy by using water more effectively and assisting entities to save 20% on their water consumption. Page 4 of the 2022/23 Annual Report showed that the Department changed this target from four water intensive sectors to one water intensive sector. The report should focus on (i) which sector they are now assisting, (ii) the results of this programme, and (iii) the reasons for decreasing the target;
 - 4.2.3 The Department of Economic Development provide a report on the skills development change mentioned in point 3.1.4 in this report, focusing on (i) the R85 million which was leveraged and resulted in an additional R200 million external funding, (ii) where this money was leveraged from, and (iii) what the conditions were set for the R200 million external funding;
 - 4.2.4 The Department of Economic Development and Tourism provides a report explaining the Department's skills development cost in comparison to the EPWP cost mentioned in point 3.1.4 in this report;
 - 4.2.5 The Department of Economic Development and Tourism provides the Committee with the independent evaluation report on the impact of the SMME Booster Fund programme if and when completed;
 - 4.2.6 Wesgro provide the Committee with a report on the declarations and orders for the black-owned wine labels stemming from the trade exhibitions;
 - 4.2.7 Wesgro provides a report on how investment promotion is disaggregated across the different municipalities;
 - 4.2.8 Freeport Saldanha IDZ provides the Committee with updates on the Sasol-ArcelorMittal green hydrogen project as it unfolds;
 - 4.2.9 Freeport Saldanha IDZ provides the Committee with the Green Hydrogen Concept Note once it is finalised;
 - 4.2.10 Atlantis SEZ provides the Committee with its correspondence to the National Treasury, the Minister of Finance and the Minister of Trade, Industry and Competition on the promulgation of the tax incentives in order for the Committee to flag this matter with the responsible Ministers; and

4.2.11 Atlantis SEZ provides the Committee with a brief report on the funding they will receive from the Department of Trade, Industry and Competition, as well as the deliverables or targets that might be changed for SEZs, in order for the Committee to raise this issue with the Department as well.

5. Conclusion

The Chairperson congratulated the Department, Atlantis SEZ and Freeport Saldanha IDZ on their clean audit outcomes, and congratulated Wesgro in improving their audit outcome and receiving an unqualified audit result. The Chairperson thanked the Minister, the Department and its Entities for their preparation and responses to questions raised by the Committee Members.

.....
MS C MURRAY, MPP
CHAIRPERSON: STANDING COMMITTEE ON FINANCE, ECONOMIC OPPORTUNITIES AND TOURISM
DATE: