the dti
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sez
Special Economic Zone

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INDUSTRIAL DEVELOPMENT ZONE (IDZ) PERFORMANCE OVERVIEW

- Between 2002 and 2015, South Africa designated six IDZs, namely Coega, East-London (ELIDZ), Richards Bay (RBIDZ), OR Tambo (ORTIDZ), Saldanha Bay (SBIDZ) and Dube Trade Port (DTPIDZ).
- To date, **the dti** has transferred R7.2 billion to the designated IDZs for
- Fifty-nine investors, with an estimated private investment value of R5.2 billion, are on site in the operational zones.
- The total private investment value increased from R4.8 billion in 2013/14 to R5.2 billion in 2014/15.
- In 2014/15, 50 investors (including eight new expansions in Coega) with an investment value of more than R15.9 billion have signed agreements to locate in the designated zones and are expected to create more than 4 000 direct jobs.
- This means the zones attracted a total estimated investment value of more than R21.1 billion during the period 2005/06 to 2014/15.
- The IDZ policy review in 2009/10 translated into the quality of investors attracted into the zones being more in line with the objectives of the programme.
- These positive improvements can be attributed to the improved governance internal control mechanisms, including the pro-activeness of the IDZ/SEZ adjudication committee.
- To date, about 73 000 jobs have been created in the IDZs.
- About 8 500 (11,6%) were direct jobs and 64 500 (88,3%) construction and indirect jobs (indirect jobs are based on 2013/14 estimations).
- Ninety-one pipeline investors are at different stages of negotiation with the designated zones; 68% are at advanced-stage negotiation.
- The processing of the implementation of the SEZ legislation is at an advanced stage and cluster investors with an investment value of more than R100 billion have already made some commitments (non-binding) to locate in the proposed SEZs.

SPECIAL ECONOMIC ZONE (SEZ) KEY HIGHLIGHTS

There are eight proposed SEZs. Maluti-a-Phofung has been approved for designation as an Industrial Development Zone (IDZ) and Cabinet issued an operator permit to the Free State Development Corporation on 24 June 2015.

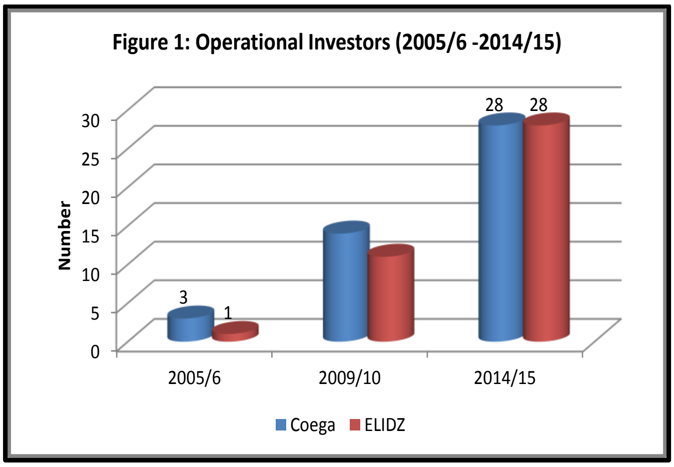
Maluti-a-Phofung will create an opportunity for the establishment of various downstream and upstream automotive, agriculture and food-processing (value-added) initiatives.

SEZ REGULATIONS

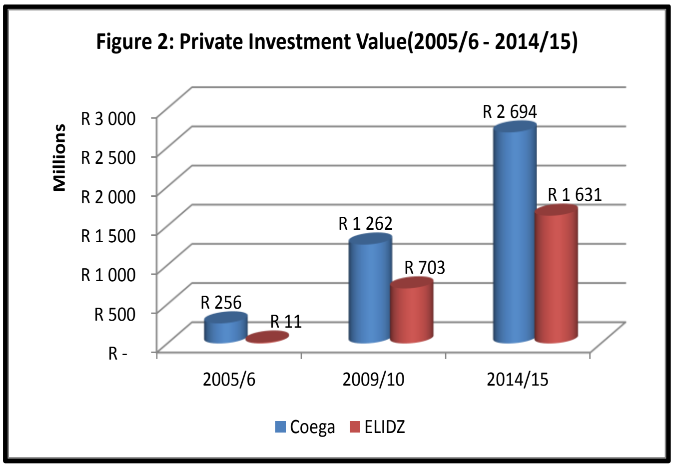
SEZ regulations have been gazetted and are currently at an advanced stage of approval for implementation.

IDZ INVESTMENT ATTRACTION: GAINING MOMENTUM

Figure 1 shows the cumulative number of operational investors in Coega and ELIDZ in 2014/15. In 2005/06, only three investors located in Coega and one in ELIDZ. Between 2005/06 and 2009/10, the number of operational investors increased to 25, with 14 in Coega and 11 in ELIDZ. The number of attracted investors increased 100% in Coega, from 14 in 2009/10 to 28 in 2014/15. At the time of writing this report, three additional investors were finalising the operationalisation of their plants at Coega. This will increase the number to 31 in the next quarter and boost private sector investment to R6.5 billion. Similarly, in ELIDZ the number of operational investors increased by 154%, from 11 to 28 over the same period.



While the rate of investor attraction into our zones remains low when compared to the rate of investor attraction to zones in other developing countries such as China, South Korea and Malaysia, it is worth noting that since 2010/11, the rate of investor attraction in our designated zones has gained momentum.



Similarly, the investment value of investors located in the designated zones increased steadily from less than R500 million in 2005/06 to more than R4 billion in 2014/15. Coega has attracted investors with an investment value of more than R2.6 billion, while ELIDZ attracted investors with an investment value of more than R1.6 billion during the period under review (figure 2). However, current levels of private sector capital investment are far below public sector capital investment in the zones (figure 11).

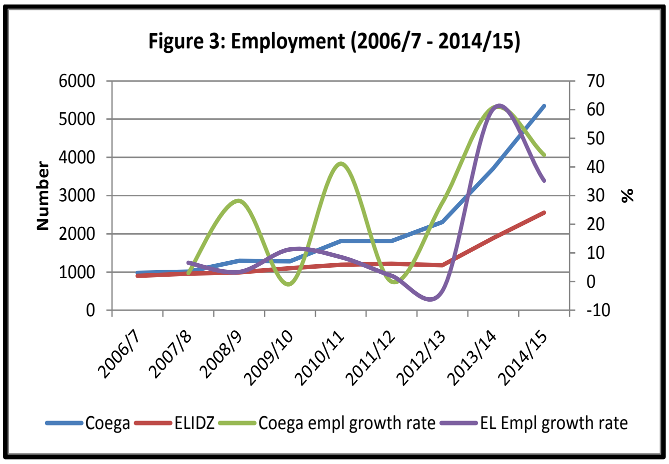


Figure 3 shows the cumulative number of direct jobs created by firms located in Coega and ELIDZ between 2005/06 and 2014/15. In 2006/07 only 500 direct jobs were created in ELIDZ and less than 1 000 at Coega. In 2014/15, however, about 8 000 jobs were created; 2 554 at ELIDZ and 5 515 at Coega. There is a clear upward trend in employment creation in the zones.

SECURED INVESTORS

Figure 4 shows the number of secured investors that are not yet operational in the zones. As at April 2014/15, 32 investors have made commitments to locate in the zones, with an estimated investment value of more than R14.7 billion (figure 5).

Coega has attracted 22 investors with an investment value of more than R8.1 billion in various sectors ranging from energy, chemicals and steel to agriculture and food, pyrolysis and cement plants. This excludes eight new expansions.

Five investors with an estimated investment value of about R141 million have made commitments to locate in ELIDZ in sectors such as renewable energy, aquaculture, and logistics and automotive.

Six investors with an estimated investment value of R7.8 billion have made commitments to locate in RBIDZ in sectors ranging from refinery, aluminium and titanium to cement and pulp manufacturing. Nine investors with an estimated investment value of R540 million have been approved by the DTP board to locate in the IDZ-designated area.

Figure 6 shows investors in the pipeline for the four identified designated zones. Pipeline investors are those who are targeted and at different stages of negotiation, but have not yet made a commitment to locate in the zones. There are 91 investors in the pipeline for the identified designated zones. While not all have disclosed the value of their investment intentions, the estimated pipeline investment value was R68.8 billion in 2014/15.

Figure 4: Secured Investors, but not yet operational in 2014/15 FY

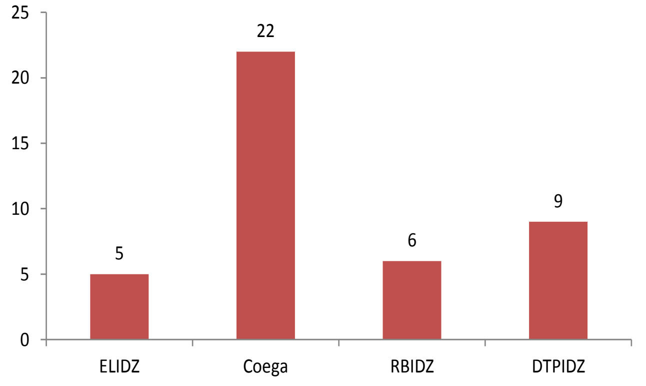


Figure 5: Est. Investment Value for the secured Investors as at 2014/15 FY

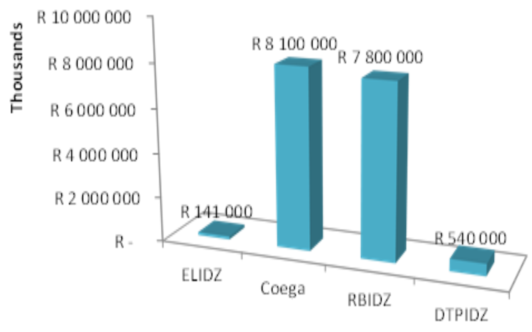
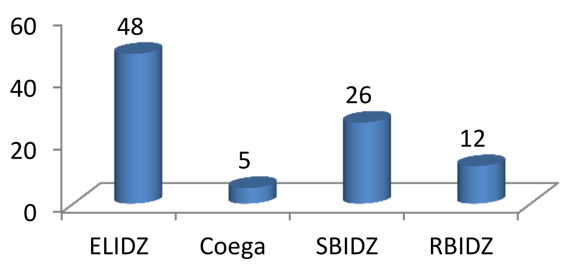


Figure 6: Investors in the pipeline



SECTORAL BREAKDOWN AND INVESTMENT PROFILE

ELIDZ

Figure 7 shows the sectoral breakdown of investors located in ELIDZ as at 2014/15. Seventeen automotive companies are onsite in ELIDZ. This represents more than 60% of the sectoral breakdown. The 430ha ELIDZ has also successfully developed other clusters beyond the automotive sector. The automotive cluster was initially the anchor cluster, but the zone has subsequently built on investment in the agro-processing, renewable energy, aquaculture and ICT clusters.

Of the 28 investors located at ELIDZ, 32% are foreign direct investments (FDIs), 47% domestic direct investments (DDIs) and 21% joint ventures (JVs) between FDIs and DDIs (Figure 8).

Figure 7: ELIDZ Sectoral breackdown(2005/6 - 2014/15)

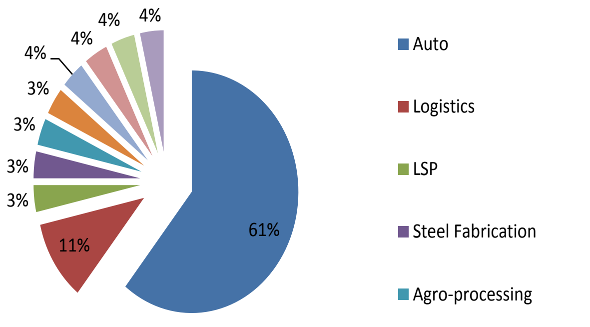
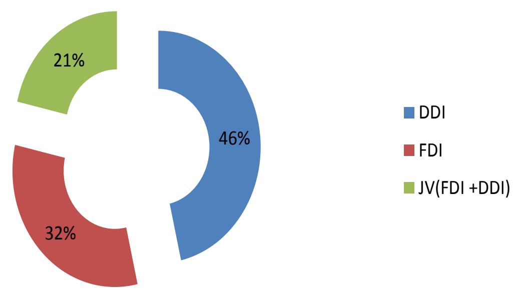


Figure 8: ELIDZ Investment Profile(2005/67 - 2014/15)



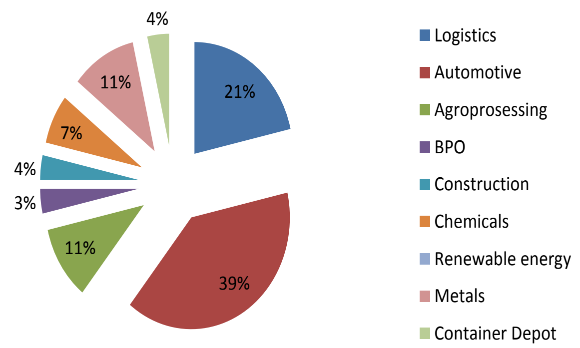
COEGA

Figure 9 shows the sectoral breakdown of investors located in Coega as at 2014/15. There are currently 11 automotive companies based in the Coega IDZ. This represents more than 39% of the sectoral breakdown. The 11,500ha Coega IDZ is home to one of the most diverse auto clusters in the world. It includes original equipment manufacturers (OEM) General Motors and Volkswagen, as well as more than 150 suppliers, including Goodyear, Bridgestone, Corning, Visteon, Hella, Faurecia, LUK and Johnson Controls.Coega IDZ is focusing on the following investment sectors:

- Automotive
- Agro-processing
- Chemicals
- General manufacturing;
- Business process outsourcing
- Renewable energy

Of the 28 investors located at Coega, 50% are FDIs, 39% DDIs and 11% JVs between FDIs and DDIs (figure 10).

Figure 9: Coega Sectoral breackdown



Domestic and foreign direct investments are both critical in building a competitive economy. On the one hand, domestic direct investments tend to create deeper linkages with the local economy, while on the other hand, foreign direct investments are able to finance projects with large capital requirements and bring crucial skills and technology transfers.

GROSS CAPITAL FORMATIONS

Private sector investment is needed to sustain overall economic growth, capacity building and employment creation. Current levels of private sector capital investment are far below public sector capital investment in the zones (figure 11).

However, Gross Capital Formations (GCFs) in the zones are steadily growing and making a meaningful contribution to the economy. The ELIDZ and Coega GCF as a percentage share of Eastern Cape Fixed Capital Formation (FCF) increased from 1,3% in 2005 to 28,3% in 2013. Similarly, the GCF as a percentage share of Gross Value Add (GVA) of the Eastern Cape has increased steadily from 0,2% in 2005 to 3,3% in 2013 (figure 12).

Total exports in the Eastern Cape zones remain a small proportion of the province's export value (0,4% in 2013). However, investors in the pipeline are more export-oriented, which is likely to increase exports from the zones in the near future. Increasing exports is key to tackling the growing trade deficit in the country.

Figure 10: Coega Investment Profile: 2000-2015

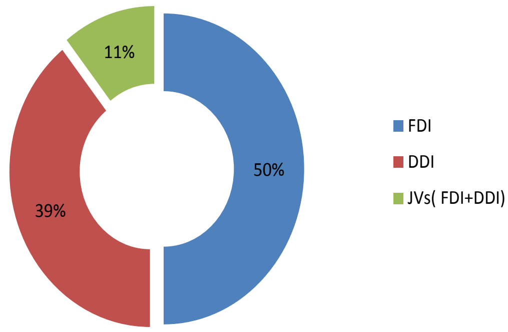


Figure 11: Government Investment Vs Private Investment in the zones (2000-2014/15)

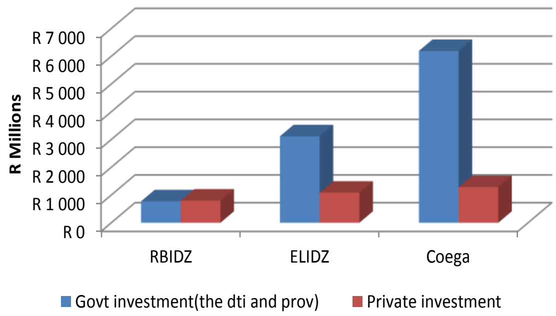
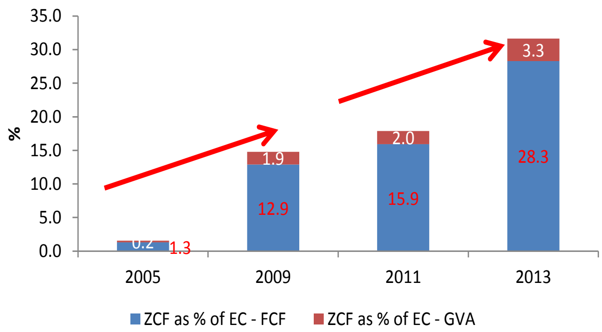


Figure 12: EC zones Gross Capital Formation as % share to EC-GVA & Fixed Capital Formation



EFFICIENCY AND EFFECTIVENESS OF THE IDZ PROGRAMME

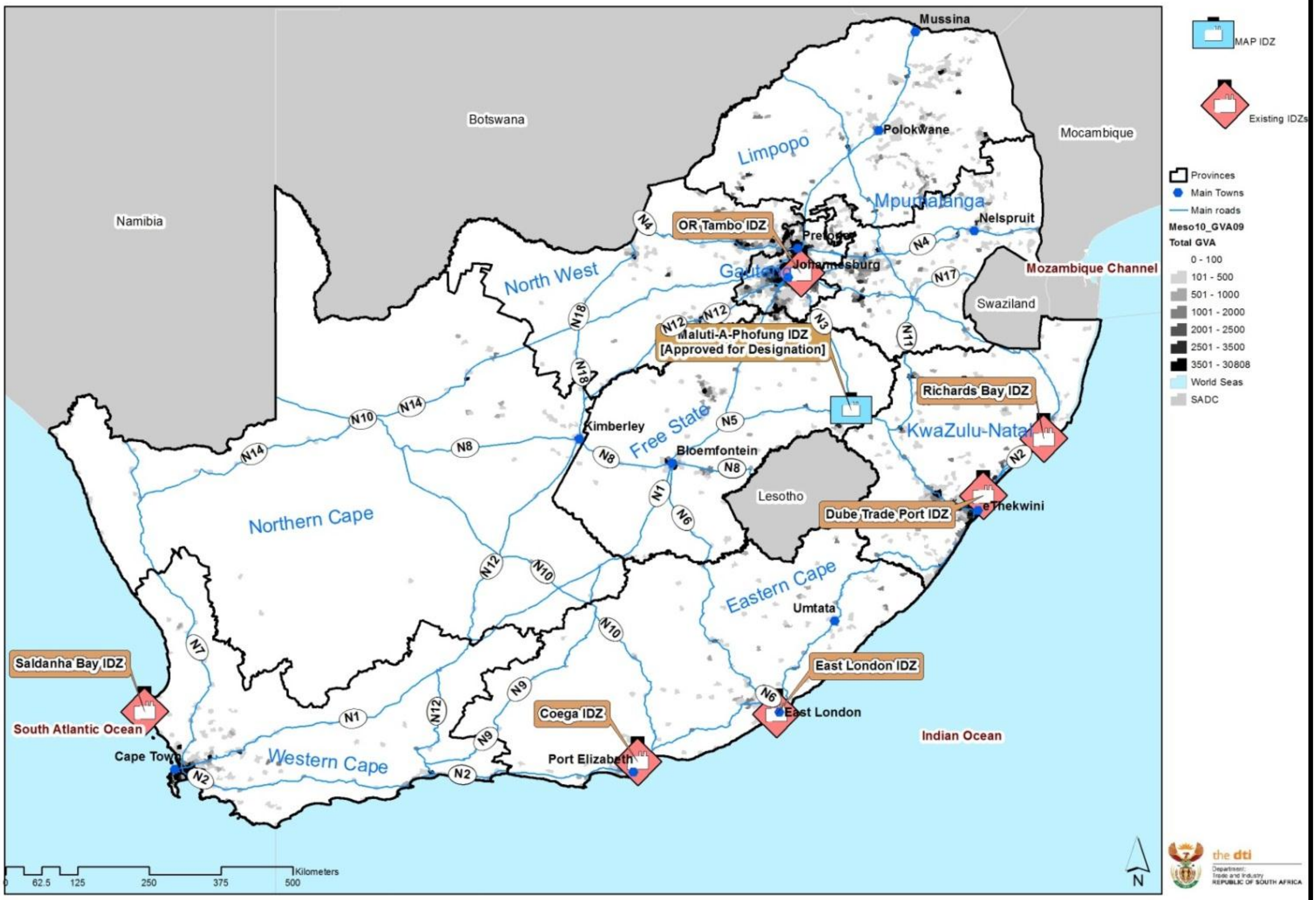
- The effectiveness of the IDZ programme hinges on the number of investments attracted to the zones and the value of the jobs and exports that they contribute to the South African economy.
- Excluding the indirect jobs resulting from construction activities and multiplier effects, the average cost to Government of every direct job that has been created to date is R1.2 million (ranging from R1.93 million in RBIDZ to R1.2 million in ELIDZ and R1.12 million in Coega).
- The average cost per direct job from private sector investment is R370 000 (ranging from R2 million in RBIDZ to R580 000 in ELIDZ and R490 000 in Coega).
- At this stage, Government investment into the IDZs has not been matched by a corresponding inflow of private investment.
- However, this picture will ultimately change, given the quality of pipeline investors.

Table 1: Government[1] vs private cost per job created in the zone

INDICATOR	RBIDZ	ELIDZ	COEGA	TOTAL
	R'million			
Total government investment	*R 773*	*R 3 117*	*R 6 191*	R 10 081
Private investment	*R 800*	*R 1 477*	*R 2 694*	R 4 971
Direct employment	*400*	*2554*	5546	8500
Construction & indirect employment	*3961*	*23975*	*37 065*	65 001
Total employment	4361	26 529	42 611	73 501
Ratios				
Government cost per direct job	*R 1.93*	*R 1.22*	*R 1.12*	R 1.19
Private investment per direct job	*R 2.00*	*R 0.58*	*R 0.49*	R 0.37

[1] Total government investment includes both investment made by **the dti** and provincial government to the designated zones as at March 2014/15

GEOGRAPHICAL LOCATION OF IDZs



LIST OF DESIGNATED IDZs AND SECTORAL FOCUS

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

LIST OF PROPOSED SEZs AND SECTORAL FOCUS

Province	Region	Focus
Eastern Cape	Mthata	Agro-processing
Free State	Harrismith	Automotive logistics, agro-processing, pharmaceutical
Gauteng	JHB	ICT and electronics
KZN (designated)	DTP	Agro-processing and electronics
Limpopo	Tubaste	PGMs
	Musina	Logistics, petrochemicals and trade hub
Mpumalanga	Nkomazi	General logistics
Northern Cape	Upington	Solar corridor
North West	Bojanala	PGMs
Western Cape	Antlantis	Renewable energy

LIST OF PIPELINE INVESTORS FOR THE PROPOSED SEZs

Area	Project	Sector	Value
Musina - limpopo	Metallurgical Complex(11 projects)	Metallurgical (Mining)	R36billion
Middleburg(Mpumalanga) or Richards Bay(KZN)	Steel Plant	Steel	USD 5billion
Ekurhuleni - GP	Fuel Cells	Energy	USD100 million
Upngton - NC	Aircraft Maintenance Repair & Overhaul facility	Aircraft Maintenance & Repair	R800 million
Maluti – a – Phofung - FS	Construction of rail-based container, Auto Value Chain, Medical equipment, Manuf.of a new type jet aircraft, agro-processing, Gas electricity generation, logistics and Oil blending and related sectors	General Manufacturing	R8billion