



BRIEFING TO THE PORTFOLIO COMMITTEE ON ECONOMIC DEVELOPMENT

12 October 2016

For an Equitable Sharing of National Revenue

PRESENTATION OUTLINE

1. Role and Function of the Financial and Fiscal Commission
2. Economic Development in the Context of Current Economic Outlook
3. Departmental Analysis
4. Entities under Economic Development Department
5. Measuring Departmental and Entities Performance
6. Concluding Remarks



1. ROLE AND FUNCTION OF THE FINANCIAL AND FISCAL COMMISSION

ROLE AND FUNCTION OF THE FFC

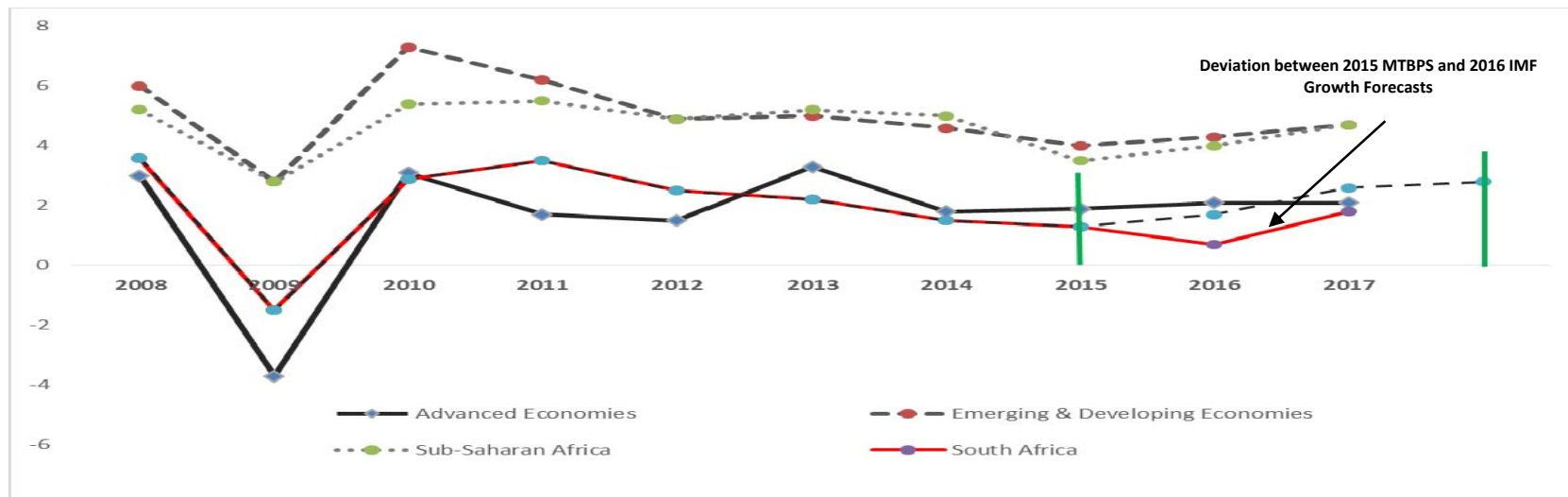
- The Financial and Fiscal Commission (FFC)
 - Is an independent, permanent, statutory institution established in terms of Section 220 of Constitution
 - Must function in terms of the FFC Act
 - Mandate of Commission
 - To make recommendations, envisaged in Chapter 13 of the Constitution or in national legislation to Parliament, Provincial Legislatures, and any other organ of state determined by national legislation
 - The Commission's focus is primarily on the equitable division of nationally collected revenue among the three spheres of government and any other financial and fiscal matters
 - Legislative provisions or executive decisions that affect either provincial or local government from a financial and/or fiscal perspective
 - Includes regulations associated with legislation that may amend or extend such legislation
 - Commission must be consulted in terms of the FFC Act
- Current research strategy focuses on developmental impacts of IGFR



2. ECONOMIC DEVELOPMENT IN CONTEXT OF CURRENT ECONOMIC OUTLOOK

2016 ECONOMIC OUTLOOK: NAVIGATING HEADWINDS

Economic Growth for SA, Advanced Economies, Emerging & Developing Economies and Sub-Saharan Africa, 2008 -2016/17



- Progressive slowdown in growth trajectory of South Africa's economy
 - Dampened growth projections driven by the combination of factors and events in both the global and domestic economy
 - Low fragile growth below National Development Plan (NDP) targets substantially constrains Government's ability to address triple challenges – unemployment, inequality and poverty
 - Sluggish growth will see South Africa's external competitiveness lag behind those of its peers

MAIN ISSUES AROUND ECONOMIC OUTLOOK

- Despite the improved growth performance in the second quarter of 2016, the domestic economy remains weak
 - SARB's projection for South Africa's growth in 2016 has been revised upward from 0% to 0.4%
- South Africa's weak economic growth outlook is as a result of escalating external and internal headwinds
 - **Externally:** global growth implications of Brexit, marked slump in global commodity prices, subdued economic performance across major industrialized nations, concerns regarding the growth trajectory of the Chinese economy
 - **Internally:** South Africa's worst drought in 30 years, increased uncertainty over the country's investment credit rating as well as plans to reform laws governing investments in property and mineral exploration, and existing supply-side constraints in power and bulk transport infrastructure have contributed to holding back South Africa's return to levels of economic activity enjoyed prior to the 2008 global financial crises

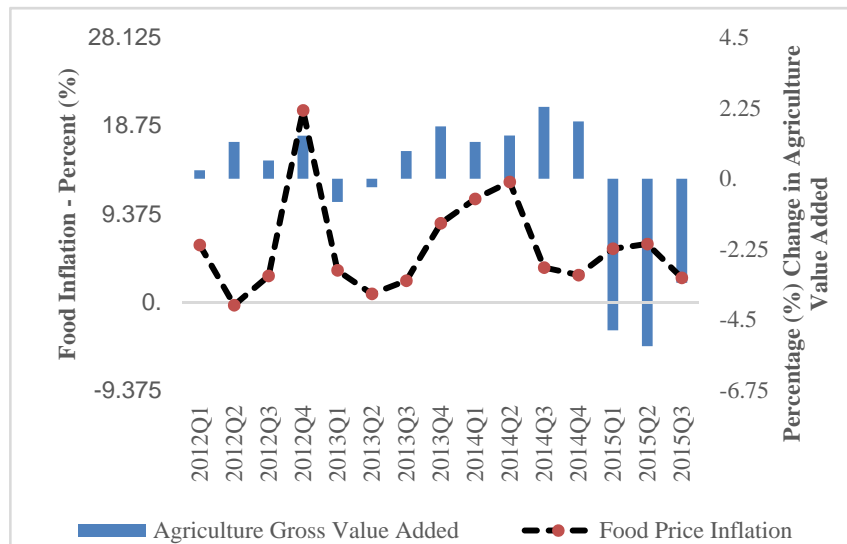
RECENT EXTERNAL DEVELOPMENTS IMPACTING ON SA'S GROWTH PROSPECTS

- The global economic outlook has been impacted by the Brexit decision
 - In the immediate aftermath of the decision, financial markets experienced a high degree of volatility
 - Downward revision of global growth forecasts as there are concerns over how this decision may influence the long-term investment outlook
- Following a slowdown earlier in the year, the Chinese economy has experienced stabilisation and moderate upward trend in commodity prices
 - Adverse impact on South Africa's export earnings and trade account deficit may be minimised
- Institutional investors have reduced exposure across developing and emerging economies stock markets
 - Declining confidence in long-term growth prospects of commodity-intensive export nations
 - Normalization of monetary policy in the United States
 - Contagion effect from recent significant volatility in Chinese equity markets.

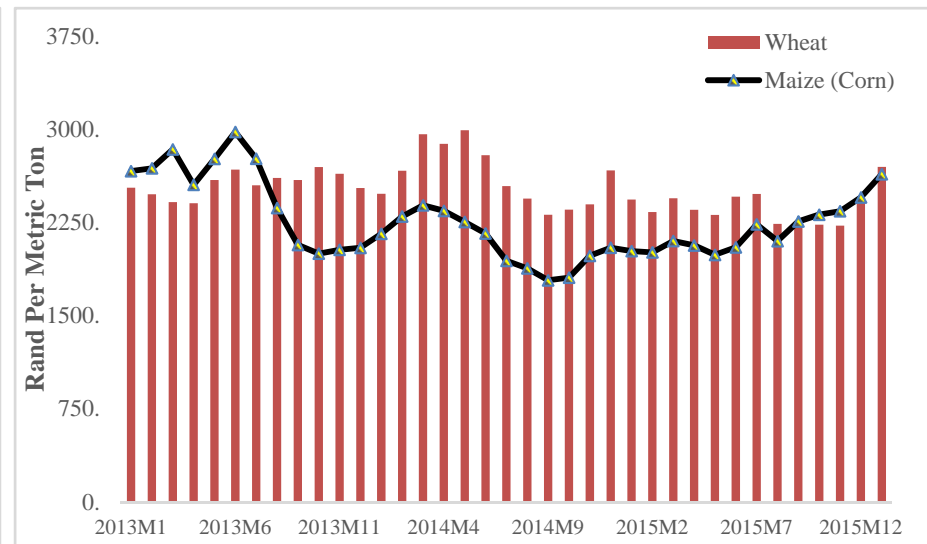


INTERNAL DYNAMICS IMPACTING ON SA'S GROWTH PROSPECTS - DROUGHT

Agricultural Output Growth and Food Price Inflation



World Price of Major Imported Grains



- Already noticeable impact of drought – average contraction of about 5% through first 3 quarters of 2015 in contrast to average growth of 1.5% in normal years 2013 – 2014
- South Africa set to become significant net importer of grains in 7 years: Estimated 5 million tons of maize and 2 million tons of wheat between May 2016 – April 2017
- Rising imports against backdrop of currency depreciation and rising global grain prices
- Significant costs: R11.5 billion for imported grains PLUS increased pressure on timeous and efficient delivery of imports due to constrained infrastructure capacity for agricultural bulk operations at Transnet



3. DEPARTMENTAL ANALYSIS

BUDGET AND PROGRAMMES OF EDD

- Allocations to the EDD budget erratic over the period reviewed
 - Following a 20.94% real increase in EDD budget for 2015/16, EDD experienced a real decline of 28.55% in its allocation for 2015/16 – a result of Cabinet-approved reductions due to vacancies between 2011/12 and 2013/14 and fiscal consolidation.
 - Over the rest of the 2016 MTEF period, allocations to EDD decline further, albeit marginal declines of under 1%
 - Concern is how erratic trend of allocations affects the ability of the EDD to plan and execute those plans

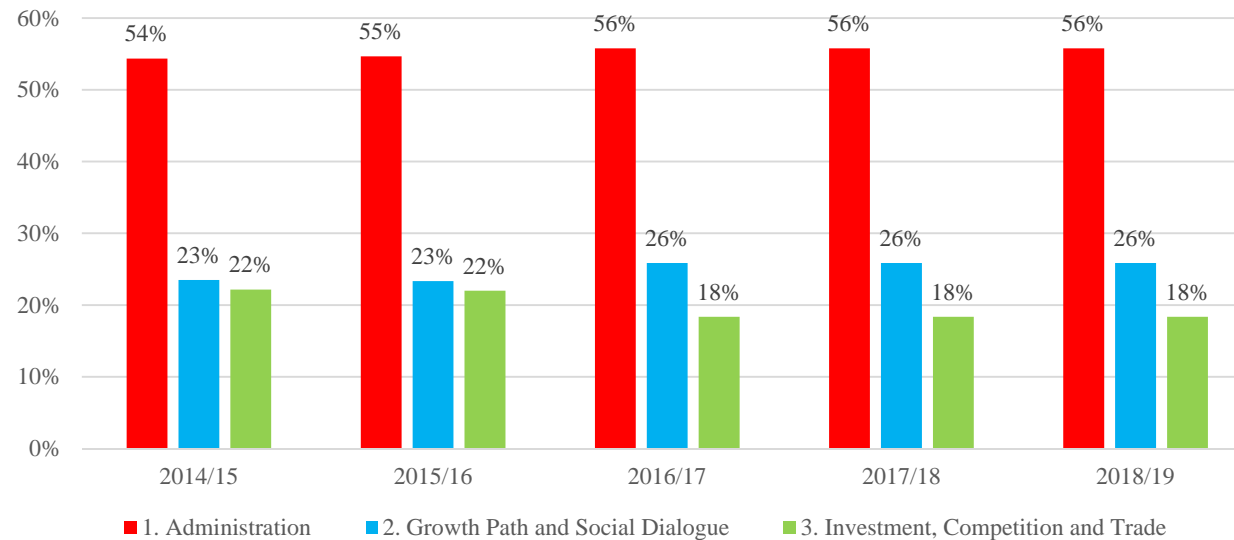
Programme (R'mil)	Audited Outcome			Revised Estimate	Medium Term Expenditure Framework Estimates		
	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
1. Administration	55	91	87	83	79	81	79
2. Growth Path and Social Dialogue	21	36	22	28	36	36	40
3. Investment, Competition and Trade	598	645	585	775	559	598	632
Total	673	771	695	886	675	714	751
Real Year on Year Growth		2012/13-2013/14	2013/14-2014/15	2014/15-2015/16	2015/16-2016/17	2016/17-2017/18	2017/18-2018/19
1. Administration		55.78%	-9.30%	-9.68%	-10.72%	-4.08%	-7.10%
2. Growth Path and Social Dialogue		63.60%	-41.32%	20.05%	21.12%	-6.88%	4.98%
3. Investment, Competition and Trade		1.94%	-13.95%	25.54%	-32.25%	0.65%	-0.20%
Total		8.25%	-14.66%	20.94%	-28.55%	-0.31%	-0.72%

SPENDING BY ECONOMIC CLASSIFICATION

R'mil	Audited Outcome			Revised Estimate	Medium Term Expenditure Framework Estimates			Real Annual Average 2012/13-2015/16	Real Annual Average 2016/17-2018/19
	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19		
Compensation of employees	62	71	76	88	94	91	92	6.3%	-6.8%
Goods and services	59	69	41	53	49	50	48	-8.4%	-6.9%
Transfers and subsidies	551	628	576	742	529	572	608	4.6%	1.1%
Payments for capital assets	2	4	3	3	3	1	3	6.7%	-2.2%

- Transfers and subsidies is largest item
 - It is also the only item projected to show positive, albeit marginal, real annual average growth over the 2016 MTEF period
- Consistent decline in goods and services (relates to reduction in travel and subsistence) over the entire period reviewed – this is in accordance with cost containment measures
- Compensation of employees projected to decline significantly over the 2016 MTEF period (real annual average decline of 6.9% per annum) – the result of Cabinet’s decision to lower the national aggregate expenditure ceiling

CAPACITY TO SUPPORT EDD'S MANDATE



- Over half staff complement fall under the Administration programme – proportion of staff under this programme increased from 54% (2014/15) to 56% (as of 2016/17)
- Similar trend for Programme 2 where proportion of staff increased from 23% in 2014/15 to 26% as of 2016/17
- The opposite is true for Programme 3 where the proportion of staff under this programme declined from 22% in 2014/15 to 18% as of 2016/17



4. ENTITIES UNDER EDD ANALYSIS

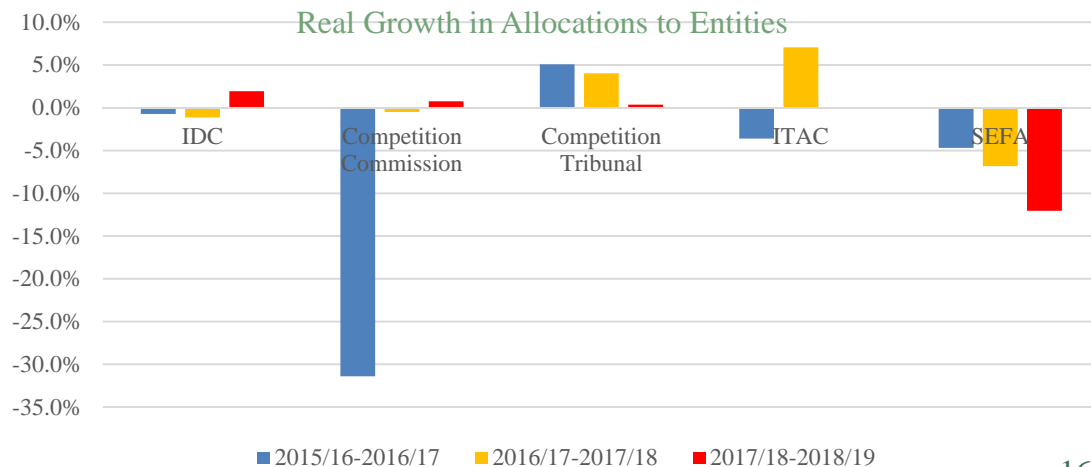
ENTITIES REPORTING TO THE MINISTER OF EDD

Entity	Financial Relationship	Nature of Operations
Competition Commission	Transfer and subsidies	Investigative and enforcement arm of the Competition Act and investigates merges and anti-competitive conduct. Refers findings to the Competition Tribunal for decision
Competition Tribunal	Transfer and subsidies	Adjudicates on merges and prohibited practice cases (anti-competitive behaviour)
International Trade Administration Commission of SA	Transfer and subsidies	Aims to create fair trade conditions that will boost SA's economic development and growth
Industrial Development Corporation	IDC generates the bulk of funding required for investment through internal profitability and borrowing funds. It also manages some funds on behalf of the Department (Agro-processing Competitiveness Scheme)	Main activity is provision of industrial financing to support sustainable industrialisation, job creation and empowerment. Develops projects in priority industries

ENTITIES ALLOCATION AND REAL GROWTH

- IDC/SEFA largest allocation over the period
 - Consistent decline in allocation to SEFA can negatively affect the supportive role that this entity plays in the SMME sector and entrepreneurship
- Competition Commission shows massive decline in allocation in 2016/17 – marginal recovery towards the end of the 2016 MTEF period
 - Deteriorating growth outlook of this entity could impact negatively on its critical role of enforcing competition and boosting economic growth

Entity (R'000)	2015/16	2016/17	2017/18	2018/19
IDC	20 577 855	21 780 130	22 869 137	24 686 658
Competition Commission	367 442	268 675	283 912	302 940
Competition Tribunal	36 999	41 444	45 787	48 669
ITAC	86 306	88 694	100 843	106 678
SEFA	572 390	581 523	575 407	536 018

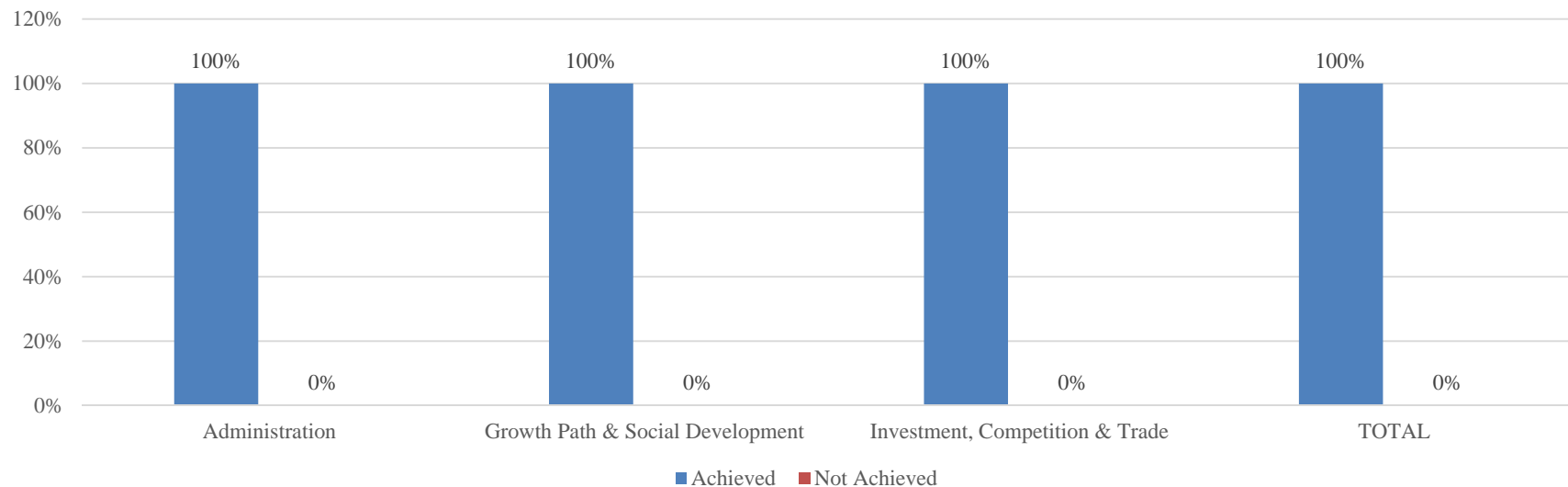




5. MEASURING DEPARTMENTAL AND ENTITIES PERFORMANCE

ACHIEVEMENT OF DEPARTMENTAL PERFORMANCE TARGETS

- The department reported 100% achievement of its indicators, however, this is questionable in light of AG assessment of performance information
- The AG reported material findings on usefulness of reported performance information
 - Targets were not specific, measurable and well defined (E.g. Drive Implementation of SIP 5 of National Infrastructure Plan – reported target 4 and achieved 4, yet no clarity about what the target is meant to measure)
 - The reported performance information was not reliable when compared to source information



PERFORMANCE OF ENTITIES

- Even though the department reported significant overspending of transfers by public entities under its budget, there is no explanation for the variances
- It is also unclear whether the overspending was compensated by own income from the budgets of entities or further transfers by EDD

Rand ('000) 2015/16	Planned	Spending	% Spent
Competition Commission	231 045	296 458	128%
Industrial Development Corporation	411 397	323 889	79%
Competition Tribunal	19 102	35 130	184%
International Trade and Admin. Commission of SA	88 701	92 685	104%



6. CONCLUDING REMARKS

CONCLUSION

- Within the constraints of current economic environment the 2016 medium-term budget should reiterate policies that will help prevent economic growth from falling too far and the country from entering into a debt trap. The following key aspects are noted with respect to the EDD
 - EDD experiences erratic trend of allocations (significant budgetary increases followed by equally large declines). Concern around how this affects the ability of EDD to plan and execute those plans
 - The quality of performance information in the Annual Report is poor and does not allow for any oversight over the department's performance. The department should engage with stakeholders such as National Treasury and DPME and request assistance on improving departmental indicators

FFC'S WEBSITE: WWW.FFC.CO.ZA



FINANCIAL AND FISCAL COMMISSION

An Independent Constitutional Advisory Institution



- [Home](#)
- [About](#)
- [Discussions](#)
- [Media & Events](#)
- [Research](#)
- [FAQs](#)
- [P.A.I.A](#)
- [Jobs & Tenders](#)
- [Links](#)
- [Contact](#)

You are here: [Home](#)



Submissions

- [Commission Submissions](#)
- [List of Recommendations](#)
- [Submission Chapters](#)
- [Budget Process](#)

Financial and Fiscal Commission
Intergovernmental Fiscal Relations Conference
10 - 13 August 2014

International Convention Centre,
Cape Town, South Africa

[Our Mandate](#)

More Publications

[Vote of Thanks 20th anniversary conference](#)

[Keynote Address - FFC 20th Anniversary Conference - Acting Chairperson](#)