



BRIEFING TO THE PORTFOLIO COMMITTEE ON ECONOMIC DEVELOPMENT

9 September 2014

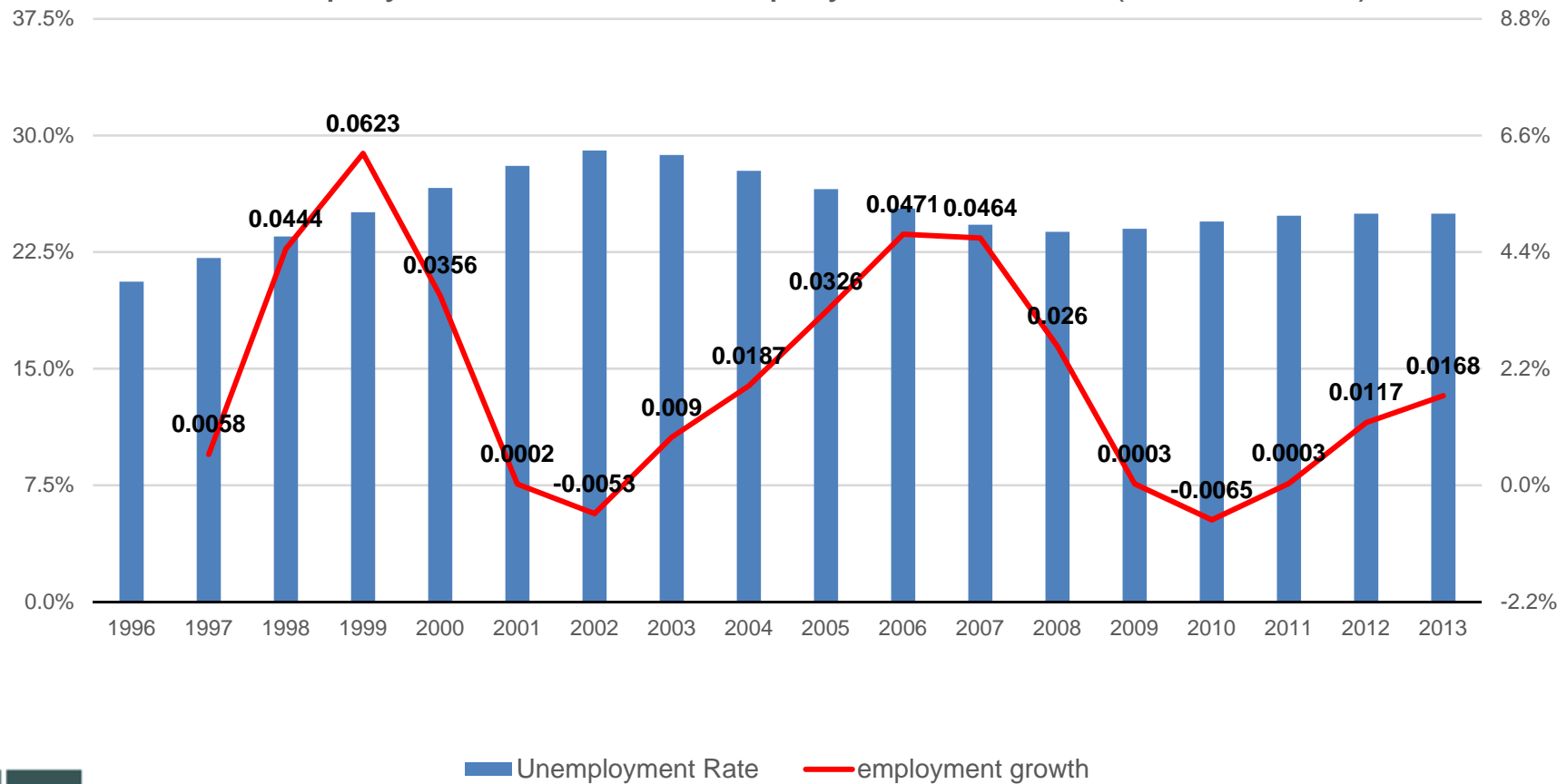
For an Equitable Sharing of National Revenue

ROLE AND FUNCTION OF THE FFC

- What?
 - Permanent statutory body established in terms of Section 220 of Constitution
 - Independent and subject only to Constitution and the law
 - Must function in terms of the FFC Act
- Mandate of Commission
 - Makes recommendations, envisaged in Chapter 13 of the Constitution or in national legislation to Parliament, Provincial Legislatures, and any other organs of state determined by national legislation
- Commission is concerned with intergovernmental fiscal relations (IGFR)
 - 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

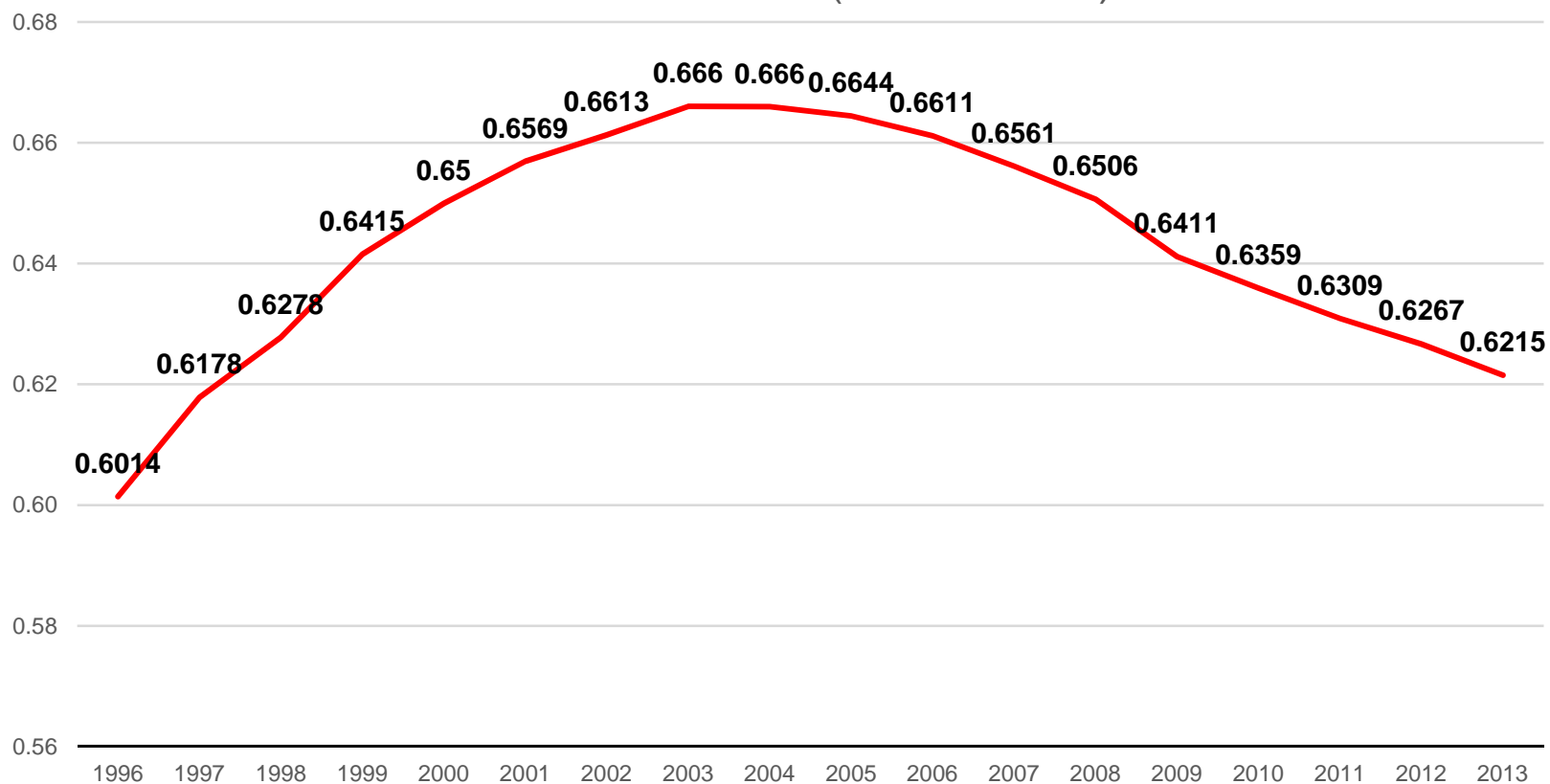
BACKGROUND [CONT.]

Unemployment Rate and Employment Growth (1996 - 2013)



BACKGROUND [CONT.]

Gini Coefficient (1996 – 2013)



BACKGROUND [CONT.]

- South Africa still some way from restoring strong and sustainable economic growth rates as required by the National Development Plan
 - Growth forecast in 2014 is expected at 1.7% compared to 2.1% previously mainly due to protracted strike action in mining and manufacturing sectors.
- Inflation expected to average 6.3% in 2014 compared to 6.2% previously
 - Largely due to exchange rate depreciation, ↑ in price of food and possibly wage-price spiral resulting from recent wage settlements in excess of inflation and productivity growth
- While overall employment ↑ by 42 000 jobs in year to end of March 2014, 49 000 jobs were created in the public sector while the private sector shed jobs, especially in mining sector where 29 000 jobs were lost (Reserve Bank, 2014)
- The global economy reflects a mixed picture, with easing of risks in some regions (E.g. Japan, UK) while other regions reflect poorer outlook (E.g. US, Brazil, Russia) (Reserve Bank, 2014)

BACKGROUND [CONT.]

- Economic growth expected to improve over the medium term to 3.1% in 2015 and 3.4% in 2016
 - These growth projections are sensitive to future supply-side shocks such as labour disruptions, electricity shortages and possibility of credit-rating downgrades
 - These risks amplify South Africa's vulnerability to global shocks
- Moderate inflation is expected over the medium term with 5.9% forecasted for 2015 and 5.5% for 2016
- Medium Term global outlook presents both opportunities and risks
 - Advanced economies expected to grow at a slower pace than emerging economies over medium term, with fiscal tightening in the US a potential risk to the outlook
 - Global commodity prices expected to fall over the medium term which could damage export performance for South Africa

BACKGROUND [CONT.]

- To achieve NDP targets, need to grow economy by 5.4% per annum to eliminate poverty and reduce inequality by 2030
- NDP envisages unemployment ↓ from 24.9% to 14% with additional 11 million jobs created
- The Economic Development Department (EDD) developed the National Growth Path (NGP) framework in 2010
 - The NGP has a shorter timeframe than the NDP and is a strategy to achieve NDP goals. It is aimed at taking the country on a higher growth trajectory and create 5 million jobs over the next 10 years, largely through investment in infrastructure
 - Integrated Infrastructure Plan = key infrastructure lever and Industrial Policy Action Plan (IPAP) = key manufacturing lever of NGP



DEPARTMENTAL ANALYSIS

BACKGROUND TO EDD

- The Department
 - established in 2009 and assumed responsibilities relating to creating jobs through inclusive growth and implementation of the NGP
 - contributes to outcome 4 (inclusive growth) and outcome 6 (economic infrastructure) in the Medium Term Strategic Framework (MTSF)
 - has four main programmes: *Administration, Economic Policy Development, Economic Planning and Coordination, Economic Development and Dialogue*
 - is responsible for five public entities (i.e. Competition Commission, Competition Tribunal, International Trade Administration Commission of South Africa, Industrial Development Corporation and Small Enterprise Finance Agency)

Slide 9

B1

Can we streamline bullet points to reduce reference to "the Department"

Bk, 2014/09/04

PROGRAMME SPENDING AND 2014 MTEF BUDGET

(Rand, Thousand)	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2010/11 - 13/14 Real Avge Growth P.A	2014/15 - 2016/17 Real Avge Growth PA
<i>Administration</i>	35 044	50 822	55 400	95 800	79 500	84100	86700	36.25%	-8.65%
<i>Economic Policy Development</i>	6 647	12 498	11 600	23 600	23 100	24300	27600	55.36%	-0.38%
<i>Economic Planning and Coordination</i>	358 527	501 013	597 500	639 400	579 100	760900	583600	15.94%	-6.38%
<i>Economic Development and Dialogue</i>	456	13 269	9 000	12 700	15 300	16100	19400	933.54%	9.47%
Total expenditure estimates	400 674	577 602	673 500	771 466	696 900	885400	717300	19.04%	-6.47%

- Departmental spending ↑ from R400 million in 2010/11 to R771 million in 2013/14 due increases in compensation of employees, goods and services and transfers and subsidies

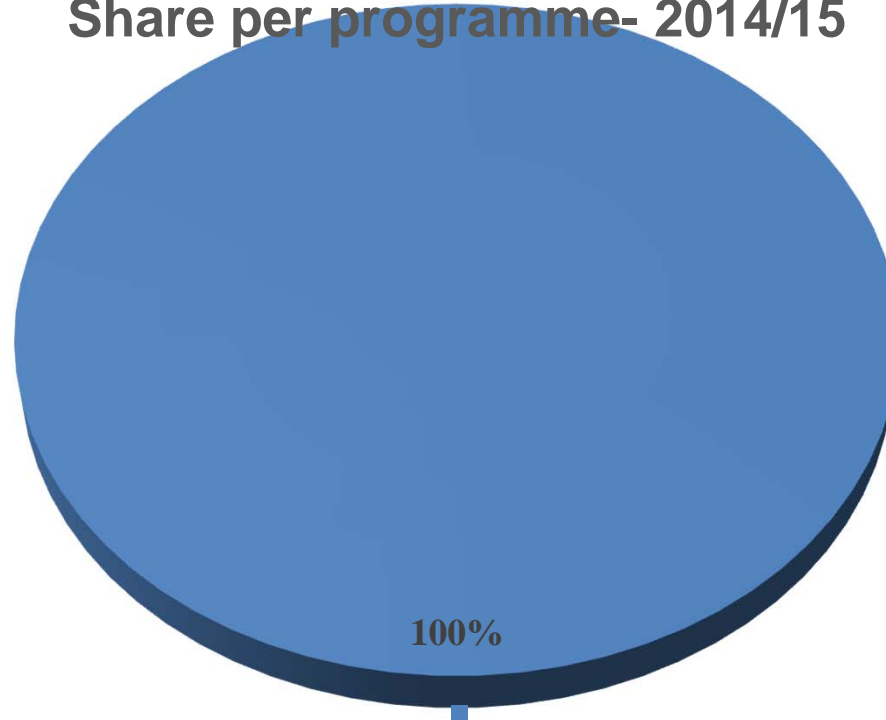
- R180 million provided between 2010/11 and 2013/14 as initial capitalization for the Agro-Processing Competitiveness Fund under the Industrial Development Corporation

PROGRAMME SPENDING AND 2014 MTEF BUDGET [CONT.]

- Over the MTEF period, spending expected to decline from R771 million in 2013/14 to R717 million in 2016/17, representing an average annual real growth decline of 6.5% over the period
 - Reductions include R146 million spending cut to the Small Enterprise Finance Agency, hence there is less capital for lending to SMMEs
 - The department implemented cost containment measures such as reduction in non-core items in line with fiscal sustainability guidelines
 - Over the MTEF period, increases expected to fund vacant posts and reduce reliance on consultants; additional funds made available for renewable energy projects

PROGRAMME SPENDING

Share per programme- 2014/15



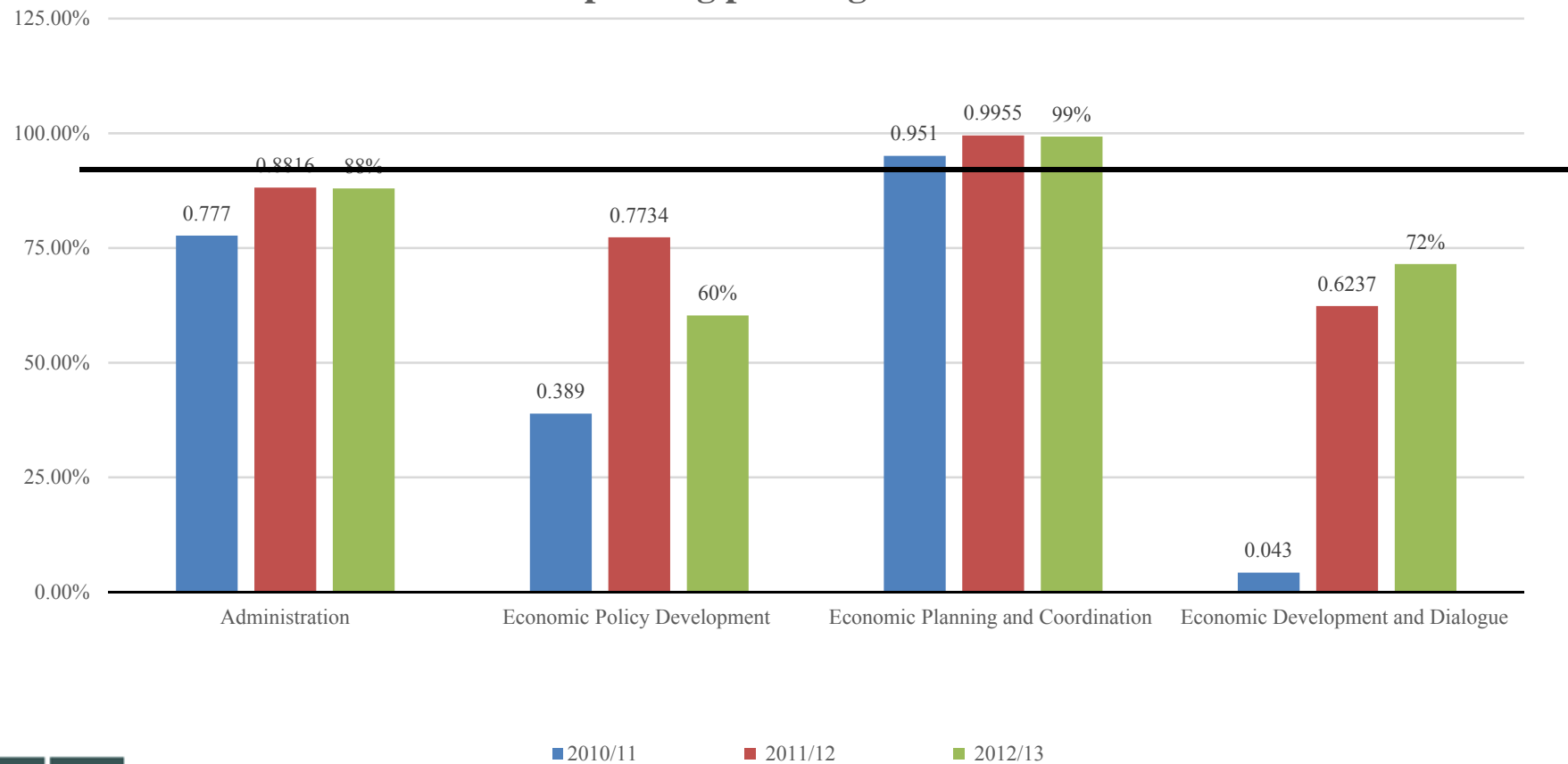
SPENDING BY ECONOMIC CLASSIFICATION

(Rand, thousands)	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2010/11 - 13/14 Real Ave Growth P.A	2014/15 - 2016/17 Real Ave Growth PA
<i>Compensation of employees</i>	25 200	48 300	62 100	72 400	107 800	113300	111000	39.54%	13.06%
<i>Goods and services</i>	14 700	40 000	58 500	84 500	53 000	56700	60200	81.53%	-11.50%
<i>Transfers and subsidies</i>	356 500	488 000	551 000	612 600	533 900	713100	536100	14.26%	1.11%
<i>Payments for capital assets</i>	4 300	1 300	1 800	1 900	2 200	2200	9900	-14.65%	116.00%
Total expenditure estimates	400 674	577 602	673 500	771 466	696 900	885400	717300	19.04%	-6.47%

- Between 2010/11 and 2013/14, the largest growth in line items were CoE (39.5% per annum) and goods and services (81.5% per annum), largely as a result of start-up costs and establishing necessary infrastructure to implement departmental mandate
- Over the 2014/15 MTEF period, CoE ↑ by 13.1% per annum to fill vacant posts and goods and services ↓ by 11.5% per annum as part of cost containment measures
- Transfers and subsidies to entities account for nearly 80% of the total EDD budget. Growth of transfers and entities slower over 2014 MTEF compared to 2010/11 – 2013/14

EXPENDITURE OUTCOMES PER PROGRAMME: 2010/11- 2012/13

Spending per Programme



EXPENDITURE OUTCOMES PER PROGRAMME— EXPLANATION OF VARIANCES

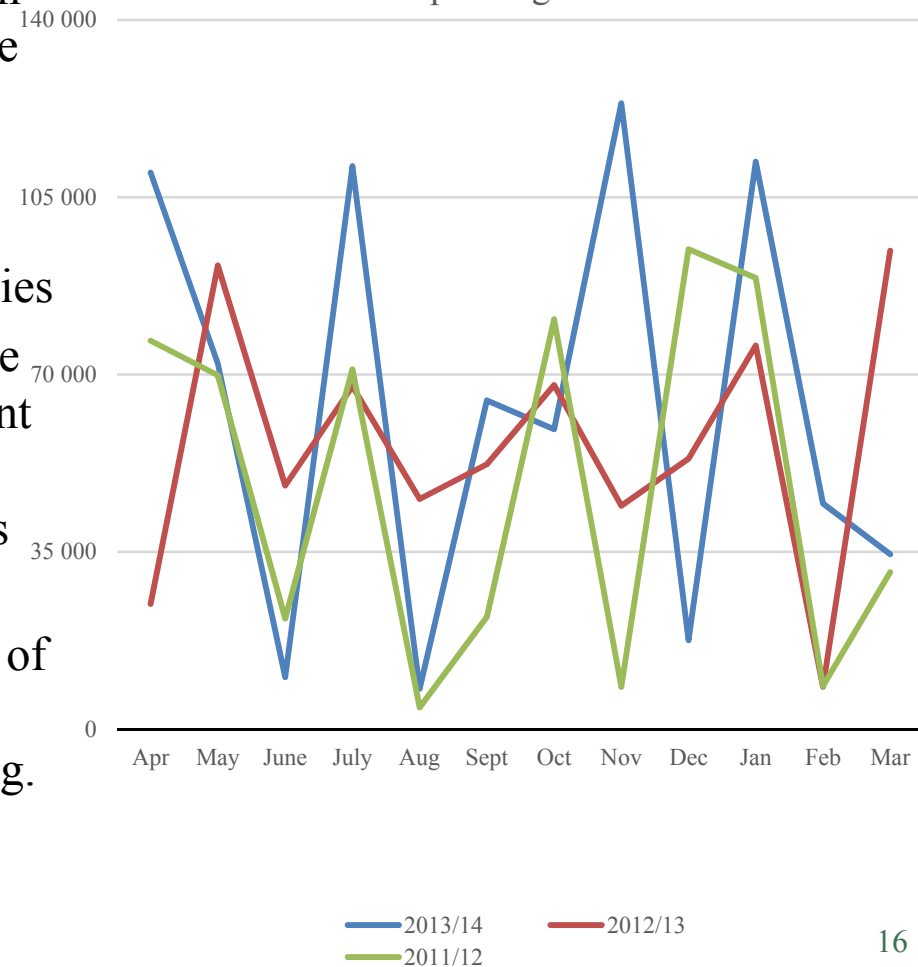
Programmes	2011/12	2012/13
<i>Administration</i>	<i>Slow spending on capital assets due to slow expansion of department</i>	<i>Delays in procurement processes of capital assets</i>
<i>Economic Policy</i>	<i>Slow rate of filling vacant posts</i>	<i>Outstanding commitments and vacancies at senior level</i>
<i>Economic Planning & Co.</i>	<i>N/A</i>	<i>Unfilled vacancies and additional allocation during adjustment budget not fully spent</i>
<i>Economic Development & Dialogue</i>	<i>Slow rate of filling vacant posts</i>	<i>Outstanding commitments and vacancies</i>

Source: EDD Annual Reports (2011/12 & 2012/13)

IN-YEAR EXPENDITURE – 2013/14

- EDD spent 99% of its total budget by March 2014 compared to 97% of total budget at the same time in 2012 and 2013
- Generally, May, July, October and January are typically high spending months, largely because of transfer payments to public entities
- In-year spending behaviour in 2013/14 more erratic compared to 2012/13. The department is therefore unable to maintain consistent improvement in its cash flow disbursements over time
- By smoothing expenditure through phasing of transfers to entities across each quarter, the department can improve cash efficiency (E.g. increase savings)

In-Year Spending Profile



MEASURING DEPARTMENTAL PERFORMANCE

- EDD met or exceeded all its performance targets in 2012/13 compared to 73% in 2011/12, although it only spent 96.7% of its budget in 2012/13 compared to the same share in 2011/12
- Most indicators reported on in 2012/13 are new indicators. Although this may suggest the department is expanding its scope of work, many indicators read as activities and are not strategic in nature
 - E.g. ‘Audit reports submitted’; ‘EDD conference held’, etc.
- Some indicators are vague
 - ‘Sector methodologies developed and applied’
- The Auditor-General made no material findings on the performance information concerning the usefulness and reliability

MEASURING DEPARTMENTAL PERFORMANCE

[CONT.]

- Most of the performance indicators have been revised in the 2014/15 Departmental APP and significantly increased compared to 2012/13, suggesting expansion of the scope of work and also alignment with the new MTSF
- It is unclear whether the department has proper systems in place to measure, track and accurately report on the new indicators as no proper indicator definitions are provided in the 2014/15 APP
- The performance indicators also do not clearly show alignment with the targets and indicators in the NGP, Infrastructure Plan and the MTSF

ASPECTS HIGHLIGHTED BY THE AUDITOR- GENERAL, 2012/13

- Audit opinion of department = financially unqualified, with emphasis of matter
- Financial statements not prepared according to prescribed framework
 - Material misstatements of receivables, departmental revenue and disclosure items
- Internal audit has not established sufficient controls to comply with treasury regulations
 - Did not submit quarterly reports to audit committee as required by Treasury regulations
 - Did not assess operational procedure and monitoring mechanisms over all transfers made and received

ENTITIES AND AGENCIES

- Competition Commission
 - Investigate, control and evaluate restrictive business practises to avoid abuse of dominant position in economy
- Competition Tribunal
 - Adjudicates on large corporate mergers and allegations of restrictive practises
- Industrial Development Corporation of South Africa
 - National development finance institution with objective to lead industrial capacity development
- International Trade Administration Commission of South Africa
 - Manage trade administration system for international trade. Its core functions are customs tariff investigation, trade remedies and import and export control

ENTITIES AND AGENCIES [CONT.]

- Small Enterprise Finance Agency
 - Established in 2012 and combines operations of Khula Enterprise Finance, South African Micro-finance Apex Fund and small business operations of the IDC
 - Subsidiary of the IDC
 - Objective is to increase access to finance development of SMMEs

PERFORMANCE OF ENTITIES

Entity	Amount Transferred (April 2012 - March 2013)	Amount Spent (April 2012 - March 2013)	Audit Outcomes
Competition Commission	R 157.2 million	R 157.2 million	Financially unqualified; procurement irregularities noted by the AG
Competition Tribunal	R 15.8 million	R 15.8 million	Financially unqualified; irregular expenditure and not sufficient oversight over SCM regulations noted by the AG
ITAC	R 74.4 million	R 73.1 million	Financially unqualified
IDC	R 109 million	R 75.1 million	Financially unqualified
Sefa	R 171.3 million	R 171.3 million	Financially unqualified

REPORTING REQUIREMENTS OF PUBLIC ENTITIES

- Public entities that report to departments have to comply with the provisions of the Public Finance Management Act (PFMA) and the treasury regulations
- The PFMA provides an accountability framework for public entities to ensure efficient and effective use of state resources and sets out reporting requirements that must be adhered to. For schedule 3B entities, the following reports must be produced:
 - Submit a corporate plan to Executive Authority (EA) and National Treasury on an annual basis
 - Submit budget 1 month before beginning of financial year to EA
 - The EA must sign a shareholder's compact with the public entity which represents an agreement regarding performance expectations [regulation 29.2.2]
 - Submit annual report and quarterly performance report to Executive Authority
- EDD, as the EA, have responsibility to monitor performance of public entities under its control
 - Of critical importance is the shareholder's compact, which should be used as a basis for periodic reporting by board of directors to the EDD



PAST ECONOMIC DEVELOPMENT- RELATED RECOMMENDATIONS

FFC RECOMMENDATIONS

Submission	FFC Recommendation
<i>Submission for the 2013/14 DoR</i>	<p><i>Government should re-direct government spending towards activities that directly or indirectly create jobs through enhancing productivity performance. Activities such as health care, durable goods manufacturing, agriculture, community services, and hospitality and food service should also form the basis of much of the expanded infrastructure expenditure plan which traditionally have gone chiefly to construction activities (e.g. building highways and bridges, dams and flood control structures).</i></p> <p>GOVT. RESPONSE: <i>Government already has a number of job creation initiatives</i></p>
	<p><i>Government should develop and implement credible job plans for each sphere of government. To unblock prisoner's dilemma scenarios government should ensure collaboration across a broad set of actors – not only employers, but also unions, economic development agencies, Sector Education and Training Authorities (SETAs), secondary schools, colleges, universities, vocational training centres and business support providers</i></p> <p>GOVT. RESPONSE: <i>No response</i></p>



THANK YOU.

*Financial and Fiscal Commission
Montrose Place (2nd Floor), Bekker Street,
Waterfall Park, Vorna Valley, Midrand,
Private Bag X69, Halfway House 1685*

www.ffc.co.za

Tel: +27 11 207 2300

Fax: +27 86 589 1038