



STRATEGIC PLANNING WORKSHOP OF THE
PORTFOLIO COMMITTEE ON ECONOMIC
DEVELOPMENT:
PRESENTATION BY THE FINANCIAL AND FISCAL
COMMISSION

25 March 2015

For an Equitable Sharing of National Revenue

PRESENTATION OUTLINE

1. Introduction to the Financial and Fiscal Commission
2. South Africa's economy: current issues
3. Departmental Analysis: Prior Performance and 2015 MTEF Forecast
4. Emerging Issues
5. Appendix: Previous Commission Recommendations on MTEF

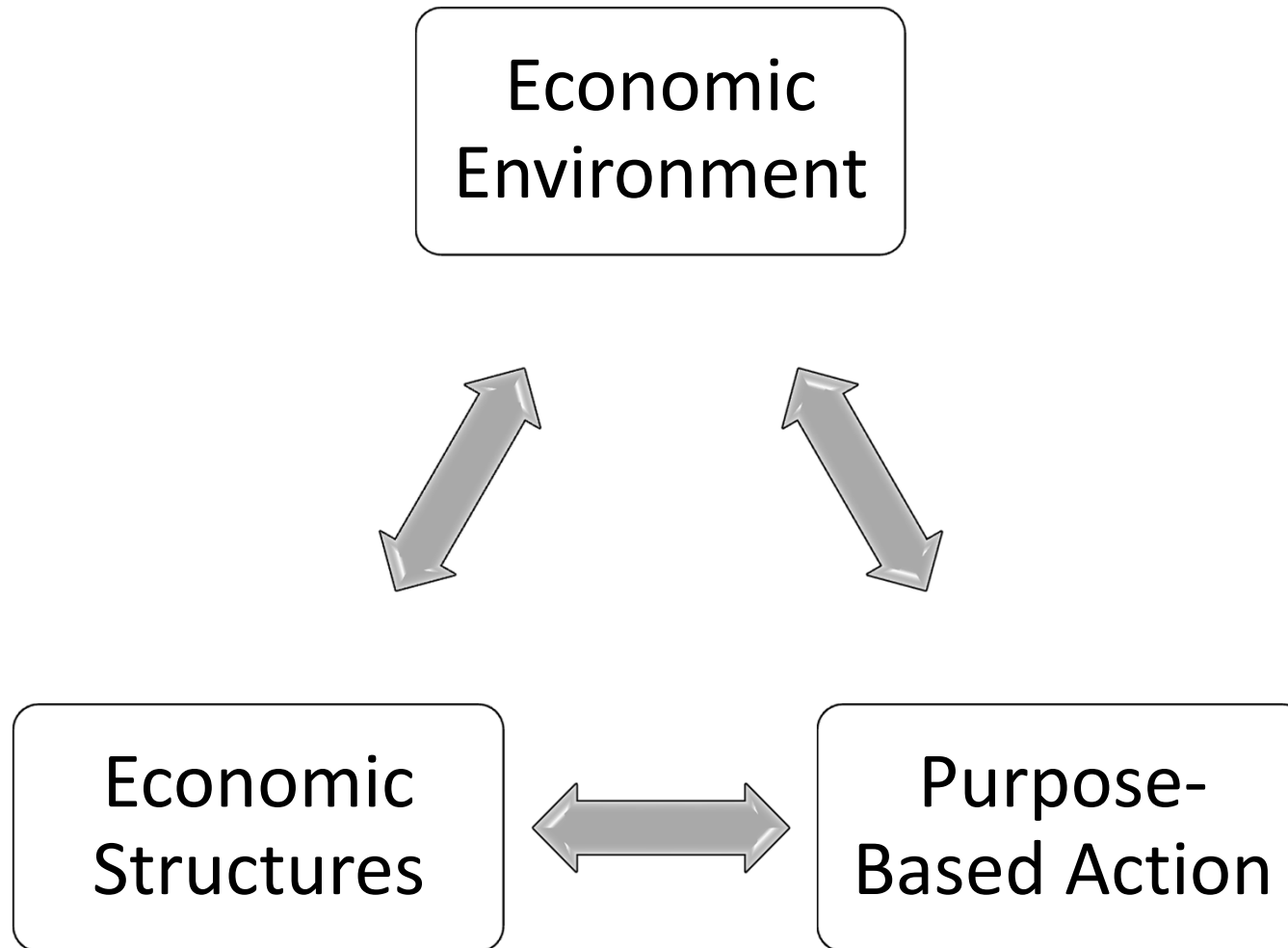


2. CURRENT ECONOMIC ISSUES

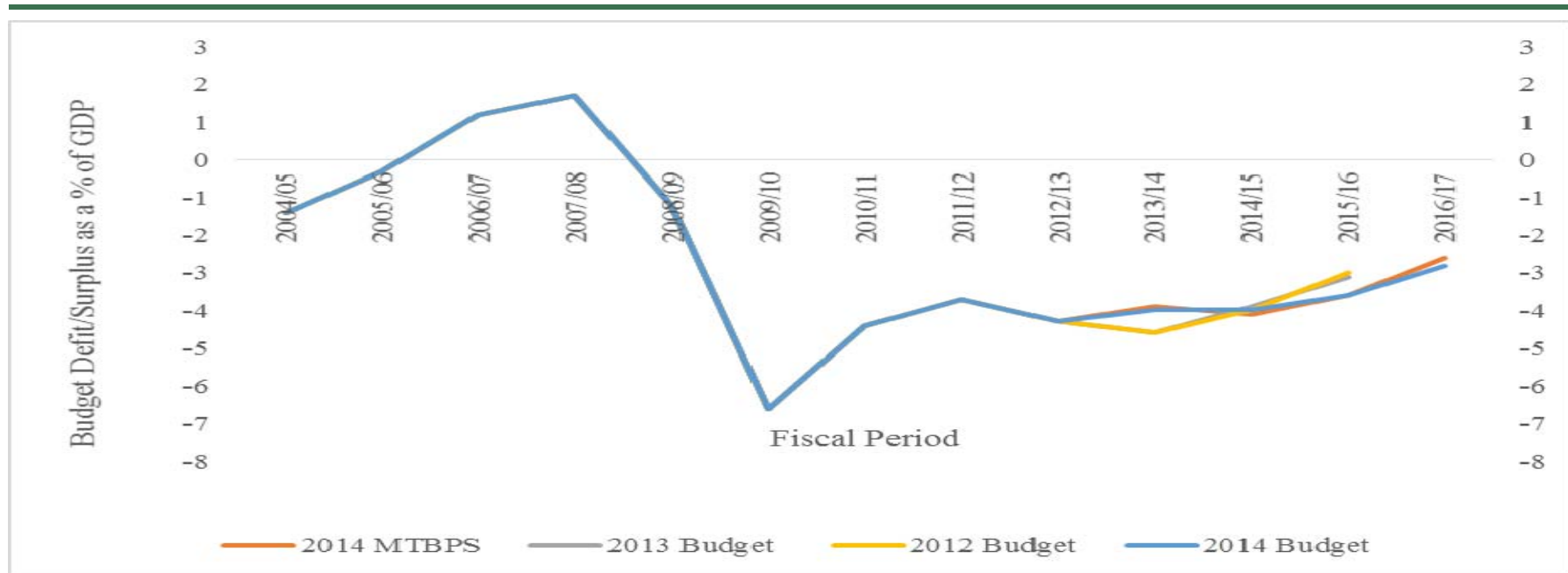
PREAMBLE: DEVELOPMENT VS GROWTH

- Economic development is a normative concept that aims to
 - Improve the material, social and economic of citizens/regions
 - Involves multiple areas including human development (education, health, access to infrastructure and economic opportunities)
 - Centers on policies aimed at improving factors that enhance productivity of citizens and could lead to economic growth
- Economic growth is a more quantitative
 - Focuses on improving the real output of goods and services within an economy
 - Affords opportunities to raise resources necessary to implement development objectives/initiatives
- The more quantitative aspect (growth) is a necessary condition for improvements in the qualitative aspect (development)

A MODEL

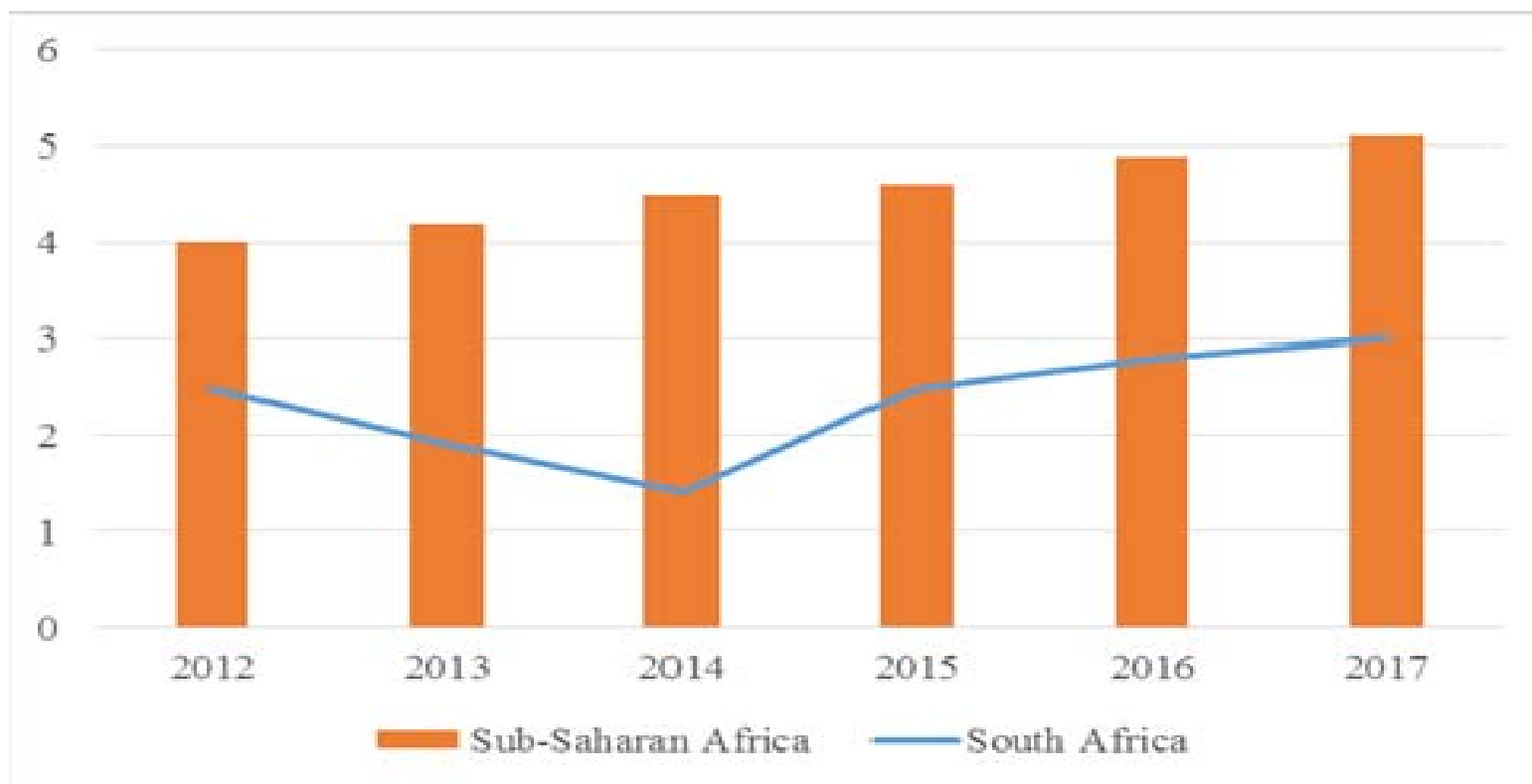


2015 BUDGET RESPONSE TO WEAK ECONOMIC OUTLOOK



- Prospects of a weaker than expected economic outlook has necessitated a reconsideration of expenditure and revenue plans (fiscal consolidation)
 - Reducing growth in expenditure is to be driven by combination of cost containment measures and efforts to improve efficiency of spending.
 - Growth in revenue to be achieved through adjustments to tax policy

GDP GROWTH FOR SOUTH AFRICA AND SUB-SAHARA AFRICA, 2012-2017



MAIN ISSUES AROUND ECONOMIC OUTLOOK

- SA's GDP forecast has been revised downwards. The projections reflect GDP growth of 2% and 3% in 2015 and 2016 respectively.
- Forecast driven by internal and external dynamics
 - **Externally**: A fragile global economic recovery is forecasted over the medium term, with growth forecasted to rise from 3.3% in 2014 to 3.5% and 3.7% in 2015 and 2016 respectively
 - **Internally**: structural dynamics of South Africa's economy; labour market productivity and relations, and increasing concern about the effects of renewed electricity supply shock will negatively impact export revenues.
 - In particular the mining and manufacturing sectors, accounting for 85% of total exports will be severely affected and the export volume could decrease substantially.

ECONOMIC OUTLOOK CONT'D

- Cyclical factors constraining growth are increasingly becoming structural.
 - The weakness of competition in factor and product markets, skill mismatches and limited opportunities for entrepreneurship are contributing to the high unemployment rate
 - These factors are also hindering the attainment of required growth rates needed to address the significant levels of poverty and inequality.
- Note the change in factor dynamics
 - For much of late 1980s and early 1990s, cycles related to volatile commodity prices and weather-affected agricultural output drove economic booms and busts
 - South Africa's integration into global economy has meant structural factors such as inefficient labor markets, infrastructure bottlenecks and uncompetitive markets are constraints to growth (and development)



3. DEPARTMENTAL MTEF ANALYSIS

BACKGROUND TO EDD

- The Department started in 2009 and assumed responsibilities relating to creating jobs through inclusive growth and implementation of the NGP
- The Department contributes to outcome 4 (inclusive growth) and outcome 6 (economic infrastructure) in the Medium Term Strategic Framework (MTSF)
- The department has four main programmes: *Administration, Economic Policy Development, Economic Planning and Coordination, Economic Development and Dialogue*
- The department 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)

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

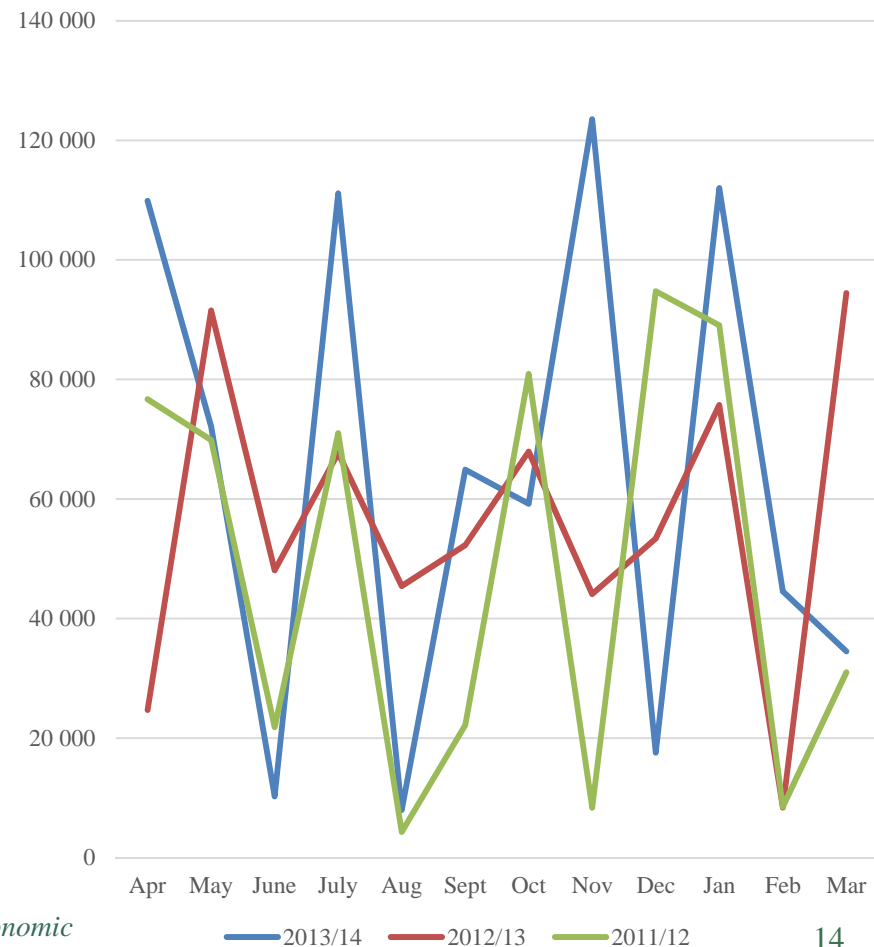
ENTITIES AND AGENCIES [CONT.]

- 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

PREVIOUS PERFORMANCE : IN-YEAR EXPENDITURE – 2013/14

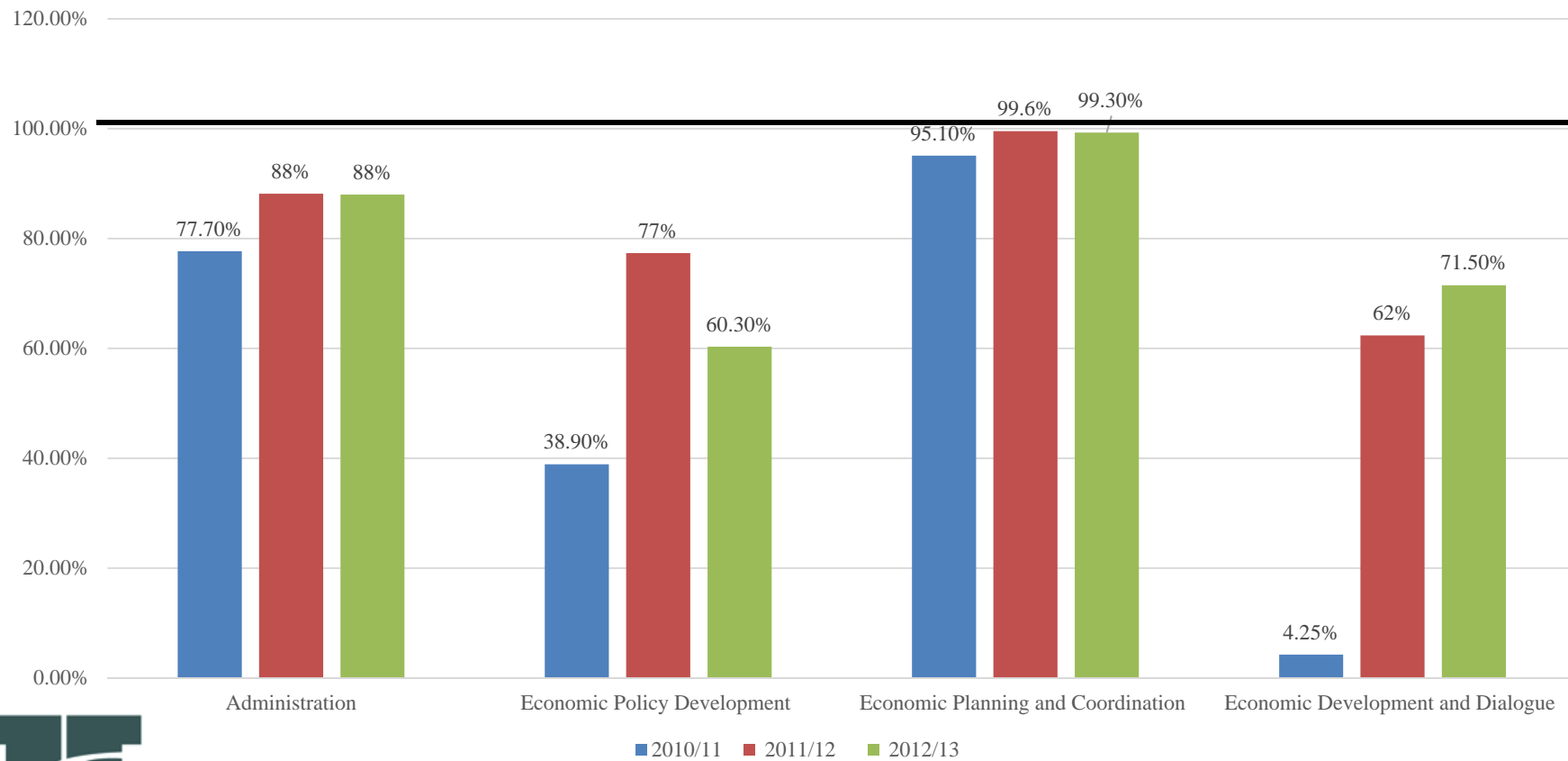
- EDD spent 99% of its total budget by March 2014 compared to 97% of total budget at the same time in 2012 and 2013
- Generally, May, July, October and January are typically high spending months, largely because of transfer payments to public entities
- In-year spending behaviour in 2013/14 more erratic 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



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

Spending per Programme



EXPENDITURE OUTCOMES PER PROGRAMME— EXPLANATION OF VARIANCES

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

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

*Presentation to the Portfolio Committee on Economic
Development*

PAST 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

STRATEGIC PLAN FOR 2015/16-2019-20

- The DEE strategic plan for the next five years focuses on increase in living standards of the populace-economic development rather than increase in real level of national output-economic growth. The strategic objectives are:
 - Coordinate job drivers and implementation of New Growth Path economic strategy in support of the National Development Plan
 - Coordinate infrastructure development and strengthen its positive impact on the economy and citizens
 - Promote investment, industrial financing and entrepreneurship for jobs and inclusive growth
 - Promote competition, trade and economic regulation in support of job creation, and social inclusion

KEY 2015 MTEF SPENDING POLICY PRIORITIES

- Promoting investment for economic development and trade competitiveness by:
 - Increasing the provision of developmental finance
 - Implementing and adjudicating competition policy more effectively
 - Creating an efficient system of international trade administration
 - Supporting efforts to meet SA's long term infrastructure needs
 - Work with development finance institutions and economic regulators to improve their efficiency and facilitate investment.

PROGRAMME SPENDING AND MTEF BUDGET (1)

R million	Medium Term Expenditure Estimate				Average Growth Rate %	Average Growth Rate %
	2014/2015	2015/2016	2016/2017	2017/2018	2011/12-2014/15	2014/15-2017/18
Administration	94.9	83.2	87.6	89.9	19%	-1.80%
Growth path and Social Dialogue	20.9	27.9	30	32.6	-19.50%	16%
Investment, Competition and Trade	581.1	774.4	568	605.3	5%	1.40%
Total	696.9	885.8	685.7	727.9	5.20%	1.50%
		0.4	-31.6	-26.7		

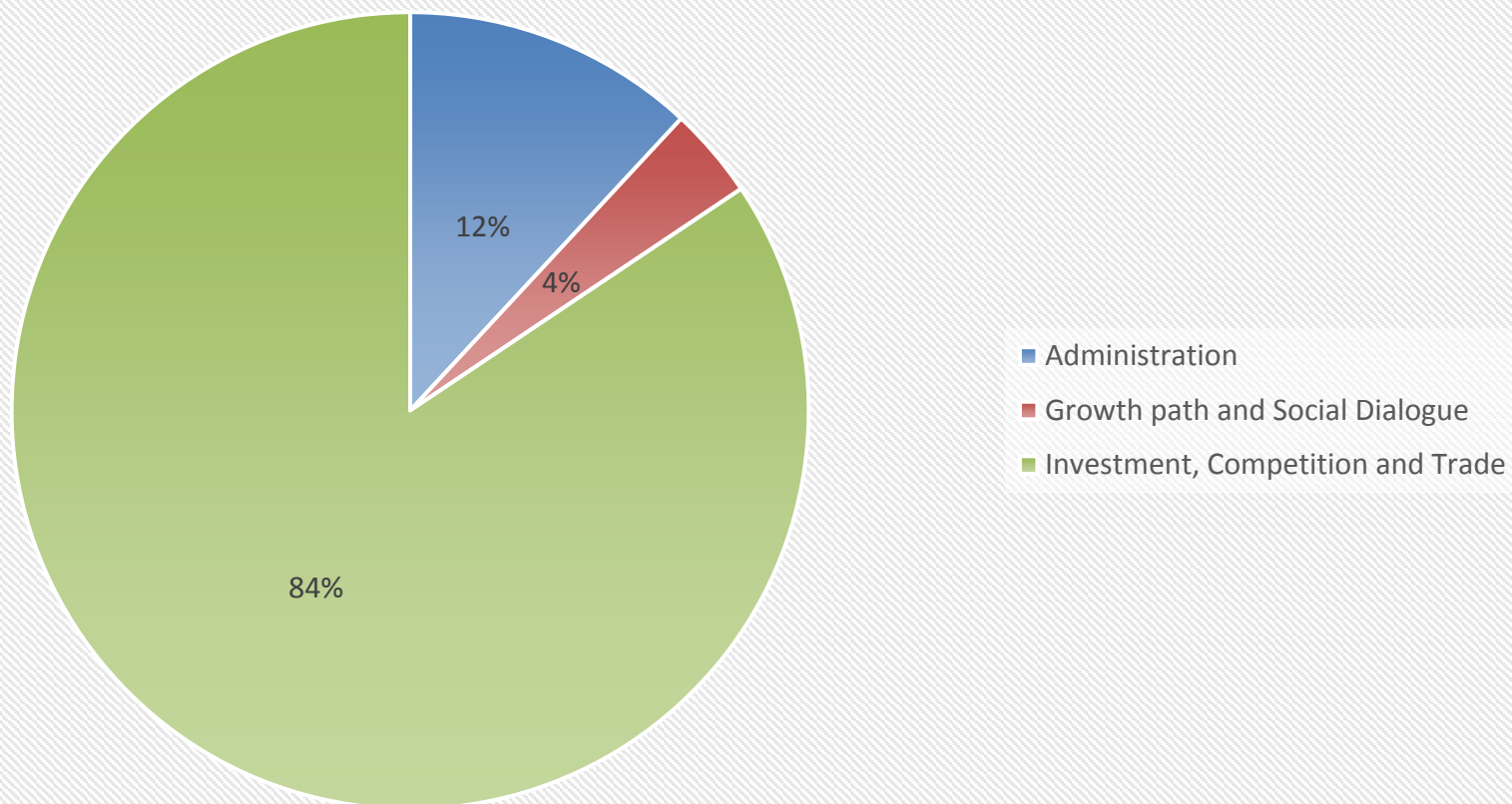
- The department's spending increased from R696 million in 2014/15 to R885 million in 2015/16 and is projected to increase to R727 million in 2017/18.
- Reductions amount to R41.5 million over the medium term on compensation
- Additional funding of R25 million to the Competition Commission

PROGRAMME SPENDING AND MTEF BUDGET (2)

- Over the MTEF period, spending increase from R696.9 million in 2014/15 to R727.9 million translating to an average annual real growth of 1.5% compared with 5.2% between 2011/12 and 2013/14.
- Compensation of employees is the main cost driver over the medium term, accounting for 12.5 per cent of the total expenditure, excluding transfers to the entities over which the department has oversight.
- The Investment, Competition and Trade programme consumes on average, 84% of total allocated funds. The programme consists of several tribunals and development finance institutions which the Department oversees
 - Expenditure on this programme is expected to decrease from R774.7 million in 2015/16 to R605.3 million in 2017/18 at an average growth rate of 1.4%.

SPENDING PROGRAMME SPENDING

Share per programme, 2014/15-2017/18



SPENDING BY ECONOMIC CLASSIFICATION (1)

R million	Medium Term Expenditure Estimate				Average Growth Rate %	Average Growth Rate %
	2014/2015	2015/2016	2016/2017	2017/2018	2011/12-2014-15	2014/15-2017/18
Compensation of Employees	76.9	96.1	97.8	103.5	-1,2%	10.4%
Goods and Services	54.2	54.2	55.2	59.3	6.1%	3.0
Transfers and subsidies	560.5	733.2	528.8	562.9	6.3%	0.1%
Payments for capital assets	5.3	2.2	3.9	2.2	-6.6	-25.9%
	696.9	885.7	685.7	727.9	5.2%	1.5%

RECENT DEVELOPMENTS IMPACTING ON SPENDING OVERSIGHT OF DEPARTMENTS

- The 2015 Budget continues to limit the growth of government expenditure
 - Employee compensation has been trimmed
 - Spending on goods and services not critical for service delivery has declined

- Over the medium term budget controls will be strengthened
 - Additional controls on personnel budgets
 - Procurement reforms will be implemented



4. EMERGING ISSUES LINKED TO COMMITTEE'S OVERSIGHT ROLE

SUPPORTING ROLE OF COOPERATIVES TO ECONOMIC DEVELOPMENT

- Cooperatives are an integral part of economic development.
- 2004 Co-operative Development Policy for South Africa now in place to support the vast developmental potential offered by cooperatives
- In its oversight role, Portfolio Committee will need to consistently measure and assess how well development entities within EDD have contributed to envisaged cooperatives role to
 - create and develop income-generating activities and sustainable decent employment
 - develop their business potential, including entrepreneurial and managerial capacities
 - strengthen their competitiveness as well as gain access to markets and to institutional finance
 - increase savings and investment

IMPROVING INTERGOVERNMENTAL OBJECTIVES

- There is a growing emphasis and recognition that sub-national authorities have to play a more significant role in regional and national economic development
 - Focus on ensuring resource allocations towards productive, sustainable and productive development initiatives
- Expand own financing of capital expenditures and economic development
 - The need to have synergy or efficient integration in a myriad of development programs across three spheres of government. For example
 - How do objectives of development financing by the Department fit with plans such as those of Gauteng Province to grow local economies?
 - Are there synergies to exploit between national and sub-national development agencies in ensuring that cross-cutting initiatives do not overlap and cause disparate objectives that hinder rather than enhance development?

QUALITY OF NON-FINANCIAL INFORMATION FOR OVERSIGHT PURPOSES

- Some indicators are vague
 - ‘No. of arrangements in the establishment of economic development institute’
- Unclear how indicators are measured
 - ‘Number of sector, spatial and economic plans reviewed or developed’. Yet. narrative only mentions engagement by department on economic development and do not make reference to plans reviewed.
- Indicators have more than one output
 - No of reports produced, strategy developed and meetings held with provincial and local government
- Some indicators overlap
 - ‘Number of economic policies and sector strategies developed’ and ‘policies developed to maintain second economy’
 - The AG made no material findings on the reliability and validity of performance information at the department.



APPENDIX: PREVIOUS FFC
ECONOMIC DEVELOPMENT – RELATED
RECOMMENDATIONS

Submission	FFC Recommendation
<p data-bbox="241 730 495 970">Submission for the 2015/16 DoR</p>	<p data-bbox="533 280 1671 331">Improving the Financing of Municipal Capital Investments</p> <p data-bbox="533 807 2024 1082">Government explores a new funding and infrastructure delivery model for poorly resourced rural municipalities. It is clear that the capacity to service infrastructure needs in these areas is extremely inadequate. There is potentially a greater role for State-owned companies and other state agents to deliver infrastructure on behalf of these municipalities.</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