



# BRIEFING TO THE PORTFOLIO COMMITTEE ON ECONOMIC DEVELOPMENT

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13 October 2015

*For an Equitable Sharing of National Revenue*

# PRESENTATION OUTLINE

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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. Audit Outcomes



# 1. ROLE AND FUNCTION OF THE FINANCIAL AND FISCAL COMMISSION

# ROLE AND FUNCTION OF THE FFC

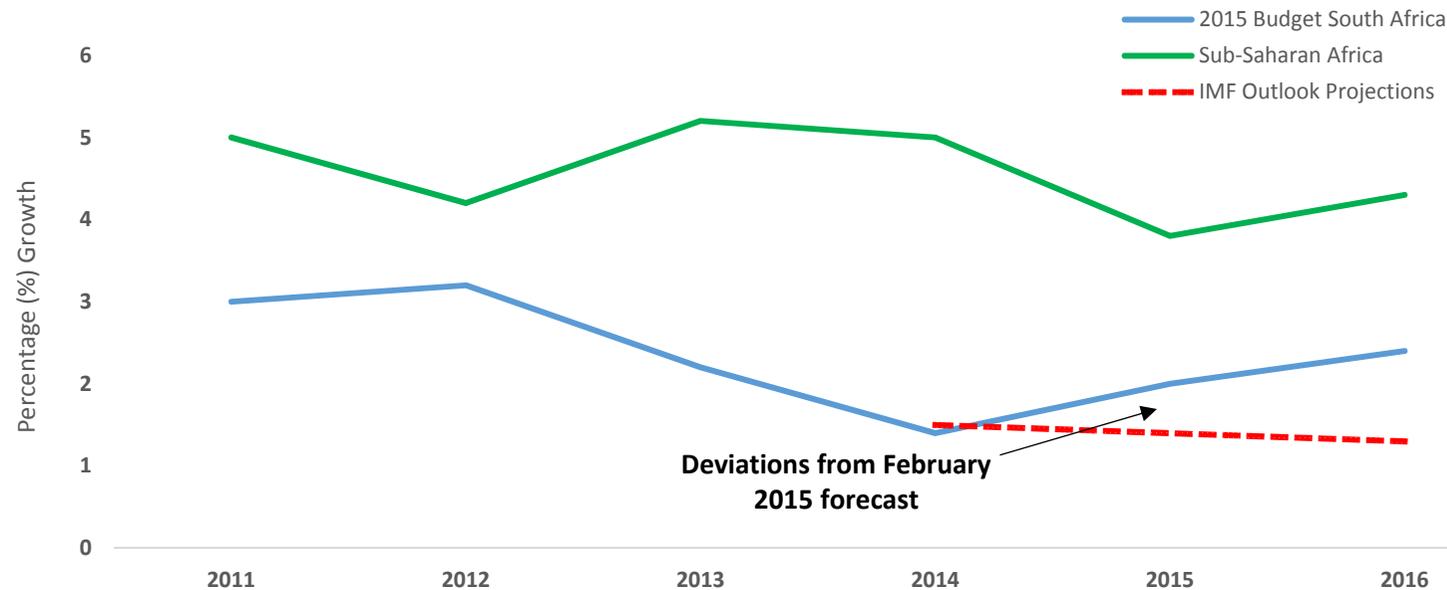
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- The Financial and Fiscal Commission (FFC)
    - Is an independent, permanent, statutory institution established in terms of Section 220 of Constitution
    - Must function in terms of the FFC Act
  - Mandate of Commission
    - To make recommendations, 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

# 2015 ECONOMIC OUTLOOK: NAVIGATING HEADWINDS



- 2015 Budget emphasised fiscal consolidation in response to weaker than expected economic outlook
  - October 2015 Medium Term Budget Statement (MTBPS) will occur against the background of further downward revisions to economic prospects of South Africa's economy.

# MAIN ISSUES AROUND ECONOMIC OUTLOOK

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- Based on the International Monetary Fund's October 2015 projections, South Africa's GDP growth will be 0.6 and 0.8% lower than originally forecast in February 2015 Budget.
- Dampened growth projections driven by internal and external dynamics
  - **Externally:** Volatile global economic conditions in which modest growth in advanced economies of Europe, North America and Japan has been tempered by economic distress in a number of emerging market and developing economies. The result is that in 2015 and 2016, respectively, global economy is expected to grow at 0.2% point below initial 2015 forecasts.
  - **Internally:** structural dynamics of South Africa's economy; labour market productivity and relations, and continued concern around South Africa's capacity to address pressing key infrastructure challenges

# RECENT EXTERNAL DEVELOPMENTS IMPACTING ON SA'S GROWTH PROSPECTS

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- The anticipated lift-off in U.S. interest rates from zero lower bound
  - Impact on capital flows esp. to emerging markets such as South Africa
  - Tightening external financial conditions (borrowing costs); currency depreciation (volatility in value of Rand)
- Growth slowdown in China: anticipated but larger than expected cross-border repercussions
  - China seeking less reliance on import-intensive investment and facing trade-offs as it seeks to strengthen role of market forces in adjusting its assets market
  - Slowdown reflected in weakening commodity prices (especially metals) and Chinese demand for manufactured goods thus limiting any potential gains from currency depreciation.
- Limited space to promote exports in alternative markets
  - Emerging countries (Russia and Brazil) and developing economies (oil/commodity exporting states in Africa and Middle East) are in midst of severe economic downturn

# INTERNAL DYNAMICS IMPACTING ON SA'S GROWTH PROSPECTS

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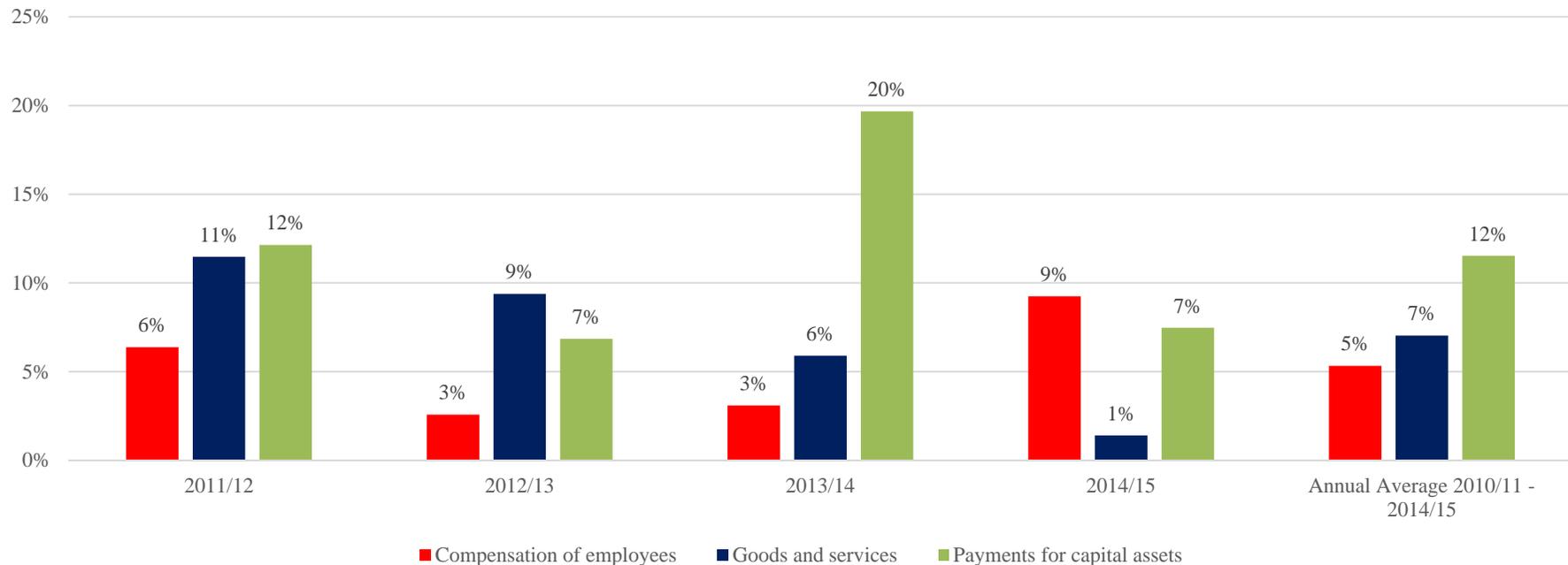
- Severe pressure faced by mining industry
  - Significant drop in China's imports (14.6%) affecting South Africa for which over 80% of exports to China are commodities based
  - Currency deprecation offset by declining prices (platinum, gold, iron ore and coal) and slide in output.
  - Despite business, government and union compact, industrial tensions remain affecting productivity and heightening uncertainty
- Infrastructure bottlenecks remain
  - Need to solve electricity supply constraints still a top priority
  - More coordinated policies to enhance SMMEs and address skills mismatch within labor market.
  - Enhance efficiency of infrastructure spend across the three spheres of government.

# AREAS OF RISK TO FISCAL FRAMEWORK

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- Persistent weakness in the balance sheets of certain state owned companies (SOCs) could trigger calls for additional government support
  - Continuous cash injections to assist ailing SOCs places undue stress on the fiscal framework and redirects funding away from core service delivery areas
  - Also brings into question ability of SOCs to effectively drive infrastructure-led growth
- Intentions to reform health-care and social protection pose significant areas of impact on the national and provincial fiscal frameworks
- The use of contingency reserve to accommodate higher public wages poses significant risk to target of ensuring that the national budget over the MTEF period adjusts to modest potential economic growth and lower revenue collection
  - There is a need to ensure that wage increases are linked to increased productivity and performance across public sector

# AREAS OF RISK TO FISCAL FRAMEWORKS: WAGE BILL CHALLENGE



- Between 2010/11- 2014/15 real growth in wage bill amounted to 5% on average per annum
  - While the growth in wage bill was slower than goods and services and capital payments over the period, the size of the wage bill means the growth is significantly larger in absolute terms
  - The Commission welcomes efforts aimed at trying to find a long-term solution to the wage bill issue especially the setting up of the Presidential Public Service Remuneration to examine remuneration and conditions of service of public officials



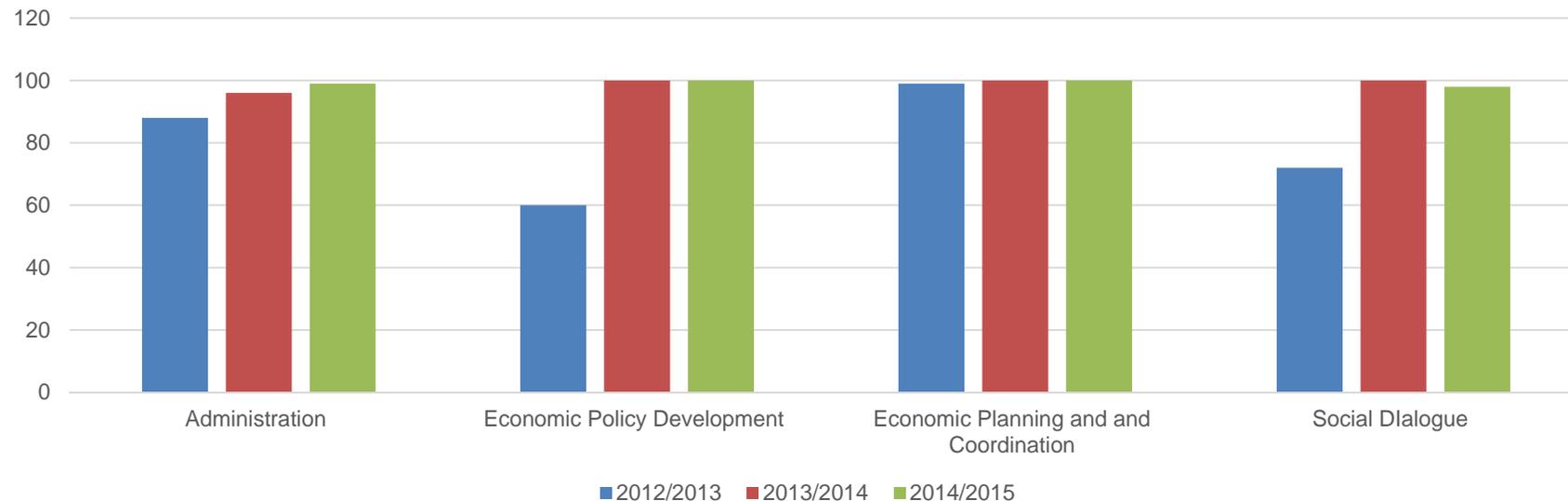
### 3. DEPARTMENTAL ANALYSIS

# BUDGET AND PROGRAMMES OF EDD

- Following an 8.3% real increase in EDD budget for 2013/14, EDD experienced a real decline in its allocation for 2014/15 – a result of Cabinet-approved reductions due to vacancies between 2011/12 and 2013/14 and fiscal consolidation. With exception of 2016/17, growth in budget set to recover by end of medium term

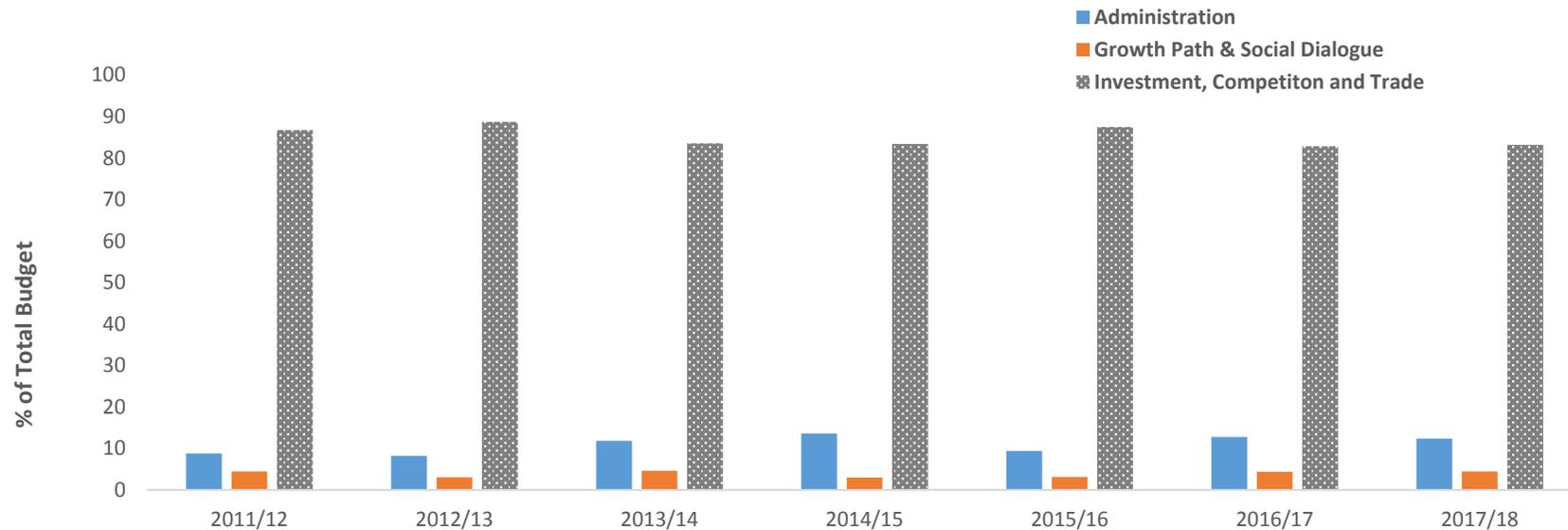
R 'million	Audited Outcome			Adj. Appropriations	Medium-term Expenditure Estimates		
	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
Administration	50.8	55.4	91.3	94.9	83.2	87.6	89.9
Growth Path & Social Dialogue	25.8	20.6	35.6	20.9	27.9	30	32.6
Investment, Competition and Trade	501	597.5	644.5	581.1	774.7	568	605.3
Total	577.6	673.5	771.4	696.9	885.8	685.7	727.9
<b>Year on Year Growth</b>		<b>2011/12-2012/13</b>	<b>2012/13-2013/14</b>	<b>2013/14-2014/15</b>	<b>2014/15-2015/16</b>	<b>2015/16-2016/17</b>	<b>2016/17-2017/18</b>
Administration		3.26%	55.87%	-2.03%	-12.33%	5.29%	2.63%
Growth Path & Social Dialogue		-24.4%	63.45%	-44.66%	33.49%	7.53%	8.67%
Investment, Competition and Trade		12.92%	2.02%	-15.02%	33.32%	-26.68%	6.57%
<b>Total</b>		10.4%	8.33%	<b>-14.84%</b>	27.11%	<b>-22.59%</b>	6.15%

# SPENDING BY ECONOMIC CLASSIFICATION



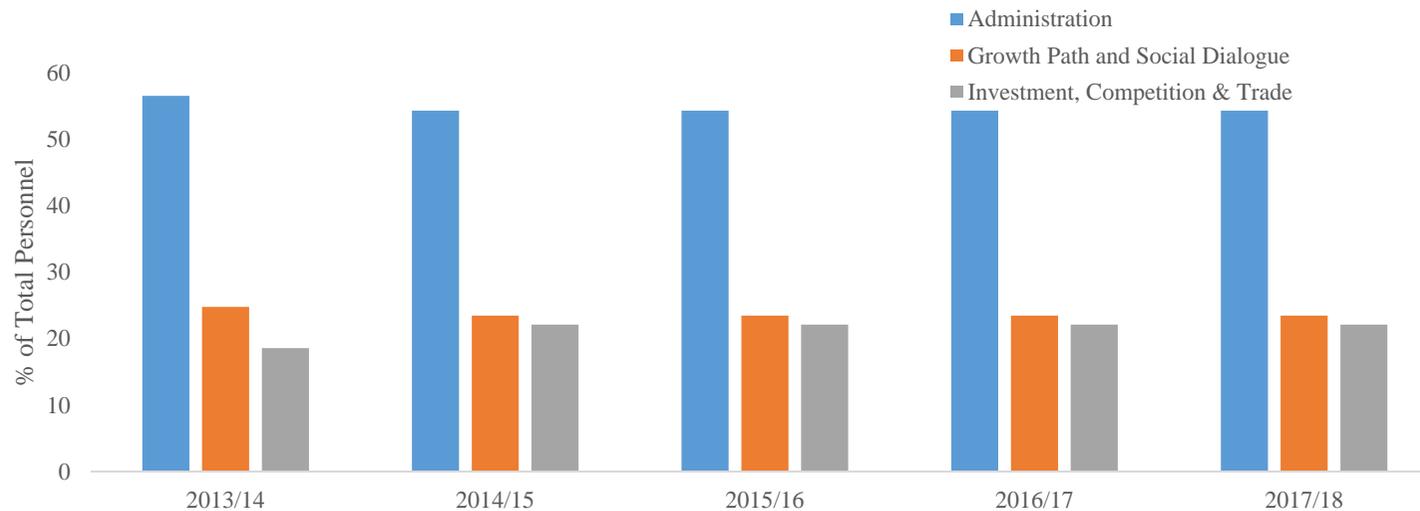
- Spending performance across major programmes has improved
  - In 2014/15, all programmes achieved almost 100% expenditure against budget
  - Review to organizational structure has seen significant drop in underspending – in 2014/15, this amounted to about 0.3% of total budget
  - No roll-overs requested in 2014/15, signaling improved efficiency in planning, budgeting and implementing budgeted programs.

# BUDGET COMPOSITION ACROSS PROGRAMMES



- The investment, competition and trade programme within the Economic Planning and Coordination division consumes the largest share of DAFF's budget
  - Funding for the financing of small enterprises and entities implementing economic regulation grant fall under this programme
  - Administration consumes the second largest share – coincides with improvements to organizational structure to reflect pertinent capacity needs

# CAPACITY TO SUPPORT EDD'S MANDATE



- Modest growth in personnel from 117 in 2014 to 149 over the medium-term, that reflects
  - EDD's implementation of strategies to address previous underspending around personnel
  - Growth in capacity to strengthen EDD's secretariat support to the PICC
- Compensation of employees still the main cost driver (excluding transfers to entities) accounting for almost 13% of total expenditure over the medium-term

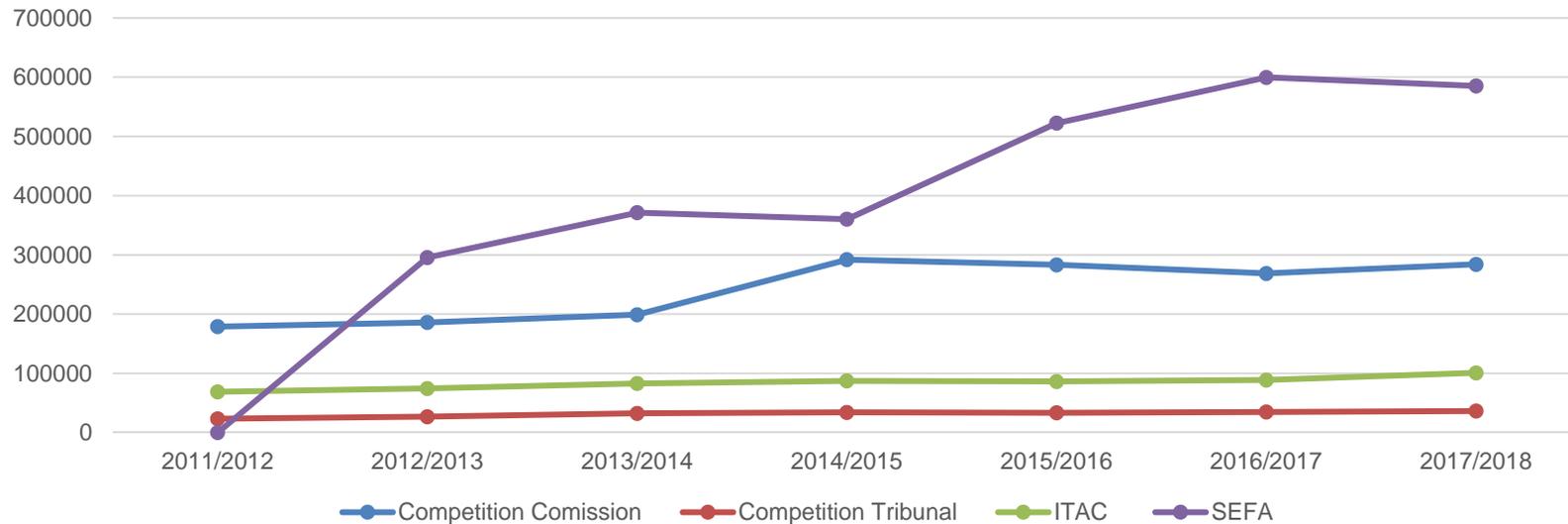


## 4. ENTITIES UNDER EDD ANALYSIS

# ENTITIES AND AGENCIES EXPENDITURE TRENDS

Entities	Audited outcomes			Revised Estimate	Average growth rate	Medium Term expenditure estimate			Average growth rate
	2011/12	2012/13	2013/14			2014/15	2015/16	2016/17	
IDC	9676000	12611000	18378000	19988000	27.4%	19963604	21780130	22869137	4.6%
Competition Commission	178891	185955	198925	291859	17.7%	283139	268675	283912	-0.9%
Competition Tribunal	23287	26789	32485	34029	13.5%	33416	34727	36362	2.2%
ITAC	68830	74436	82901	87149	8.2%	86306	88694	100843	5%
SEFA	-	295491	371220	360283	-	522455	599476	585053	17.5%

# ENTITIES AND AGENCIES EXPENDITURE TRENDS



- Expenditure highest within the Small Enterprise Finance Agency (SEFA) and consistent with government's focus on supporting new industries and new entrepreneurs within SMMEs
  - SEFA a vital component of institutional channels through which the state disburses almost R20billion into new areas where the risks might deter purely private investment.



• Second highest expenditure within the Competition Commission and in line with government's commitment to promote competition, trade and regulation that enhances economic efficiency.

# REALIGNING THE IDC TO ECONOMIC POLICIES

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- The IDC has been realigned to the 2014-2019 medium term strategic framework, the national development plan, the new growth path and the industrial policy. The policy review process will see the IDC proactively driving the development of the metals and mining, chemicals, and agro-processing value chains in alignment with priority sectors.
- The corporation generates revenue mainly from sales, interest and dividends, and this is expected to increase to R25.5 billion over the medium term mainly as a result of higher interest income as the corporation increases the levels of funding it provides to drive sector development.
- The IDC is currently financially independent and is able to fulfil its refined mandate without any major fiscal consequences.

# FISCAL SPACE AND THE ROLE OF SEFA

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- SEFA's focus is on developing SMMEs through provision of access to finance.
- Expenditure on compensation of employees is expected to increase at an average annual rate of 25.4% over the medium term to increase capacity, in line with the provision of increased access to finance.
- The shrinking fiscal space could negatively affect SEFA's resource funding capacity and consequently its supportive role of the SMME sector and entrepreneurship.

# EXPORTS GROWTH AND THE ROLE OF ITAC

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- The role of ITAC is to foster economic growth and development, raise income levels, and promote investment and employment in through an efficient and effective administration system for international trade. It is instrumental in customs tariff investigations, trade remedies, and import and export control.
- Its current focus is on identifying fast growing economies in order to increase the export of goods manufactured in South Africa by monitoring trade flows to identify potential threats and opportunities.
- South African exports are likely to slowdown due to the severe economic downturn in developing and emerging economies. This could impact negatively on the role of ITAC in economic growth.

# ECONOMIC REFORMS AND THE COMPETITION COMMISSION

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- The Competition Commission supports economic growth through employment creation, the participation of SMMEs, and the diversification of ownership. It contributes towards a fair and efficient economy through effective competition enforcement and merger regulation.
- The commission plans to increase the number of market inquiries initiated from 2 in 2015/16 to 9 in 2017/18 and also initiate 36 cartel investigations in priority sectors.
- The Commission has an increasing role in promoting competition in product markets as part of the economic reforms necessary to enhance growth. The deteriorating fiscal outlook could impact negatively on the funding of the commission and consequently its critical role of enforcing competition and boosting economic growth



# 5. MEASURING DEPARTMENTAL AND ENTITIES PERFORMANCE

# MEASURING DEPARTMENTAL PERFORMANCE

- In 2012/13, the department spent 96.6% of its budget. In 2013/14, the spending further improved to 99.9%. In 2014/15, it marginally decelerated to 99.7% of its allocated budget, but the department met all its targets and exceeded its targets for 50% of the indicators included in its Annual Performance Plan.

	Total indicators	Indicators against which targets were met	Indicators against which targets were exceeded	Indicators against which targets were met		
Budget programmes				0		
Economic policy Development	4	2	2	0		
Economic planning and coordination	13	5	8	0		
Economic Development and Social Dialogue	5	4	1	0		
Total						
Targets against set indicators	Economic Policy Development	Economic Planning and Coordination	Economic Development and Social Dialogue			
Planned	18	122	14			
Achieved	22	172	15			

# MEASURING ENTITIES PERFORMANCE

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- Between March 2013 and February 2014, the Competition Commission imposed penalties to the value of R2,6 billion compared to R800 million a year for the previous four years.
- The tariff amendments recommend by ITAC in 2013/14 resulted in commitments by companies to create 3764 jobs and sustain 114 793 jobs.
- SEFA disbursements increased from R822 million in 2013/14 to R1 294 million in 2014/15. Approvals were R1 008 million in 2014/15 compared to R1 065 million in 2013/14.
- In 2013/14 , the competition tribunal approved 97 mergers of which 17 had conditions. In 2012/13, the tribunal had approved 76 mergers of which 20 had conditions.
- In 2013/14 , the IDC approved R13.8 billion and disbursed R11. 2 billion. Disbursements were lower than in 2012/13 but higher than any of the preceding three years from 2009/10 to 2011/12 In 2014/15, approvals were R11.5 billion and disbursements were R10.9billion.



## 6. AUDIT OUTCOMES

# DEPARTMENT AND ENTITIES AUDIT OUTCOMES

Economic Development Department	Unqualified audit opinion with findings
Competition Commission	Unqualified audit opinion with no findings
Competition Tribunal	Unqualified audit opinion with findings
International Trade Administration Commission of South Africa (ITAC)	Unqualified audit opinion with findings

- ❑ The IDC and SEFA were not audited in 2013/14. Their overall audit outcomes have remained the same as in the previous year. Both entities had an unqualified opinion with no findings.
- ❑ Competition Commission improved to an unqualified audit opinion with no findings. ITAC regressed from financially unqualified audit opinion with no findings to a financially unqualified audit opinion with findings on compliance with legislation.
- ❑ Non-compliance with supply chain management prescripts remains a risk that led to key reported non-compliance matters. This resulted in irregular expenditure. However, the irregular expenditure for the portfolio has decreased from R30,9 million in the previous year to R7,6 million.

# CONCLUSION

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- The Commission commends Government for tabling a stable budget with plans to put the country's public finances on a consolidation path still being maintained
  - Within the constraints of further reduced overall economic growth compared with earlier forecasts and an associated reduction in budgeted revenue growth, the 2015 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
  - Commission's assessment indicates that whilst 2015 Budget attains a balance between contending priority areas there are various areas of risk that can unsettle the delicate balancing act
  - Presentation presented views on how the fiscal framework can be strengthened

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