



PARLIAMENT
OF THE REPUBLIC OF SOUTH AFRICA

COMMITTEES

PO Box 15 Cape Town 8000 Republic of South Africa
Tel: 27 (21) 403 2597 Fax: 27 (21) 403 3205
www.parliament.gov.za

Rapid Analysis of the Accountability Plans: NDP, SONA and the Budget

*Covering 6 Sector Departments: Economic Development; Small Business Development;
Labour; Public Works; Transport and Energy*

Snapshot: Situational Analysis

- The South African economy, like other economies in the world has been affected by the global economic and financial crisis. The economy needs to grow faster than its current performance. Central is to create jobs, eliminate poverty and narrow inequality gap. Poverty is declining, noting government social policy interventions improvements, however inequality remains high.
- Factors such as a labour unrest, production disruptions in a number of industries, low commodity prices, electricity supply constraints pose major challenges. Hesitant domestic and foreign investor confidence and pessimism about the longer-term outlook for the economy pose a potential to compromise government intentions to attaining socio-economic policy objectives.
- In 2006/07 and 2007/08, South Africa achieved budget surpluses. In 2008, however, the worldwide economic crisis meant budget deficit forecasts were inevitable. The 2016 Budget review emphasised that the Country is currently faced with difficult global and domestic economic conditions over the medium economic and fiscal term.
- Fiscal environment is increasingly constrained, with most of the fiscal space for improvements to service delivery being made through reprioritisation.
- Government has committed to reinforce procurement reform and expenditure review initiatives. While the current fiscal position no longer automatically creates room by making additional funding available, progress towards our country objectives of inclusive economic growth and employment creation need be made in the face of a tough fiscal environment.
- Therefore new priorities and the expansion of existing programmes would have to be achieved through reprioritisation within the existing resource envelope. The current fiscal context is necessitating hard trade-offs: difficult policy and programme choices would need to be made.

- In keeping with the ongoing endeavour to improve transparency and reinforce accountability, the focus on programme expenditure trends (selected functional policy programmes), and determine interrelationship between the significant changes in spending, performance outputs and outcomes, and in personnel.
- The 2016 State of the Nation and Budget Review emphasised to diversify the economy and raise export competitiveness. Creating Economic and Social Partnerships to overcome entrenched structural unemployment. Furthermore to overcome apartheid's spatial legacy, including the provision of housing and social infrastructure. Thus government has proposed to co-invest with private sector including other social partners in order foster an inclusive and job-creating growth.
- The National Development (NDP) recognises the essential role of public-sector institutions in economic growth and development. The public sector institutions play a critical role in providing infrastructure finance (electricity, water, and transport including telecommunications infrastructure) and in job creation initiatives. The Road Accident Fund, SAA, POSA, including ESKOM remain areas that need greater attention.
- Lack of implementation of the National Commercial Ports Policy, 2002 and the National Ports Act, 2005 including the National Freight Logistics Strategy, 2005 (It calls for new institutional framework to separate the Ports Authority and Ports Terminals from the Transnet Group, to enhance competition in the ports, and furthermore boost private sector participation.)
- Development finance institutions (DFI(s) funding should be monitored. Government priorities such as education, health, agriculture and land reform, housing, and support of small businesses would need funding and support from DFI(s).
- South African economy has been characterised by high levels of economic concentration, some of the public state entities continue to enjoy dominance positions in various industries. 2016 Budget review emphasised that competition should be promoted in various industries in the economy, and thus would improve efficiency and competitiveness and further increase investment levels, entrepreneurship and employment.
- The NDP advocates for an integrated approach in planning, coordination and resource allocation of public resources within a sustainable framework. It is anticipated that capital investment by public enterprises would increase. Local government's annual infrastructure spending has doubled in real terms since the late 1990s. The public sector has invested over R1 trillion in infrastructure since 2009/10. Most of the cases, government has historically financed a sizeable share of the country's

infrastructure development on balance-sheet, and infrastructure rollout has thus been constrained by budgetary restrictions including economic conditions. With the current fiscal constraints, the public infrastructure spending rapidly becomes limited. To clear infrastructure backlog, and further meet new infrastructure programme, private sector investment in infrastructure becomes critical. The country's infrastructure and capital investments needs are a function of broad societal and economic development.

- Infrastructural planning and coordination platforms in government should facilitate a process that would enable government departments and public entities to augment productive capacity in the economy through delivering essential infrastructure and further support enterprise sector. Social infrastructure investment would complement economic advancement and sustainable development.
- The infrastructure delivery needs to respond to the government's broader social, environmental and economic goals, and anchored around fiscal realities.

Table 1: Potential Risk factors that need to be observed

Inherent and emerging risks
<ul style="list-style-type: none"> • South Africa is small open economy in the global context • Weak economic performance has had an effect over fiscus position, with expenditure exceeding the revenue base-load. • Rating agencies down grading • Lending and investing in South Africa economy (Business confidence-low, and low private investment) • Debt-service costs have increased by R15.3 billion over the next two years • Slow pace of service delivery • Managing Wage Bill • Energy supply has an effect to growth and investments • South Africa's infrastructure bottlenecks and high logistics costs need to be addressed, particular in ports, rail and telecommunication (effect on exports performance) • Industrial relations (conflict) effect on confidence • Improve policy certainty

Table 2: Policy Perspective of the National Development Plan (Opinion-Qualitative)

Policy Perspective	Economic Growth	Employment	Equity	Competitiveness	Exports
Education, Training and Innovation					
Economy and Employment					
Expand Infrastructure					
Urban and Rural Economy including space economy					
Finance and Supporting SMMEs					
Finance and Supporting Cooperatives					
Support Low Carbon Economy					
Impact					
	High +++				
	Medium ++				
	Low +				

Table 3: Policy Perspective of the Sector Departments (Opinion-Qualitative)

Policy Perspective	Economic Development	Small Business Development	Public Works	Transport	Labour	Energy
Education, Training and Innovation						
Economy and Employment						
Economic Infrastructure						
Integrated Urban and Rural Economy including space economy						
Finance and Supporting SMMEs						
Finance and Supporting Cooperatives						
Support Low Carbon Economy						
Policy Outcomes						
Economic Growth						
Employment						
Equity						
Competitiveness						
Exports						
social capital						
Average Growth Rate %						
	Negative 5.4	Positive 11.4	Negative 9.7	Positive 6.9%	Positive 6.3	Positive 5.4
Contribution						
	High +++					
	Medium ++					
	Low +					

Table 4: Summary of the Economic Composition: Sector Departments: Economic Development; Small Business Development; Labour; Public Works; Transport and Energy

Economic Composition		2016/17
Current payments	Compensation of employees	2 581 676
	Goods and services	2 340 547
	Interest and rent on land	0
Current payments Total		4 922 223
Transfers and subsidies	Provinces and municipalities	24 855 010
	Departmental agencies and accounts	19 600 440
	Higher education institutions	0
	Foreign governments and international organisations	73 911
	Public corporations and private enterprises	24 187 785
	Non-profit institutions	798 707
	Households	376 548
Transfers and subsidies		69 892 401
Payments for capital	Buildings and other fixed	28 000
	Machinery and equipment	94 041
	Software and other intangible assets	411
Payments for capital		122 452
Payments for financial	Payments for financial assets	0
Payments for financial		0
Grand Total		74 937 076

Source: National Treasury, 2016/17 Budget Review

The Committee Oversight Work is organised along the following strategic policy themes:

- Job creation to eliminate poverty and inequality
- Infrastructure development to support economic growth, trade and investment
- Skills development to support economic growth and social cohesion
- Support and promote SMMEs-as growth engines
- Promote integrated regional economic development-enhance partnerships in economic development

Budget Policy Overview

Economic Development

- Contribute to the overall economy and employment performance.
- Improve coordination of the economic and social infrastructure (water, transport, electricity, ICT etc.)

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- Financing and support of the black industrial programme-cross functional policy programme (Department of the Trade and Industry, EDD through IDC including other sector departments such as Small Business Development, Energy, Mineral Resources)
 - Support Public Procurement initiative, cross functional policy issue with the Small Business Development
 - Improve competition, cement trade and investment initiative. This another cross functional policy programme that includes Trade and Industry including its entities and the EDD's entities- Competition Commission.
 - Highlighted elsewhere in this input that South African economy-characterised by high levels of economic concentration, some of the public state entities continue to enjoy dominance positions in various industries.
 - 2016 Budget review emphasised that competition should be promoted in various industries in the economy, and thus would improve efficiency and competitiveness and further increase investment levels, entrepreneurship and employment.
 - Support SMMME development initiatives, cross functional policy programme-Small Business Development and Trade and Industry.
 - Both the Department and National Treasury should support the technical functional component of the PICC.
 - The Department and National Treasury (Infrastructure and the PPP units) to provide necessary technical support to the work of the PICC. Key focus is on strategic resource allocation, policy, sector strategy research and data information hub consolidation and improved monitoring and implementation capability.
 - Furthermore the Procurement Office residing at the National Treasury needs to support the work of the PICC, and work closely with the Department.
 - ✓ The Department infrastructure policy focus areas should cover the following issues:
Maintaining a high level of dialogue with stakeholders, and developing partnerships; Provide Infrastructure advisory support services; Working with industry stakeholders to identify opportunities for better regulation; Improving the practice of government as an asset manager; Research into infrastructure issues to allow improved planning and management
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in the future; Reporting on a regular basis against the vision, goals and principles set out in the infrastructure plan, including on infrastructure performance;

- Cities, towns including rural, mining and small towns need a coordinated infrastructure investments, both social and economic infrastructure. Cities and regions have been recognised long that they are the engines for economic growth and job creation. This is the policy space that the Department needs to lead in collaboration with other departments such as rural development, cooperative governance and traditional affairs, trade and industry, development finance institutions, state owned enterprises, in partnership with the private sector.
- For the 2016/17 FY, expected to spend R674,7 million, and the bulk of the budget is would be allocated to the transfers and subsidies-expenditure item.

Small Business Development

- A review of business incentives in an attempt to strengthen their impact on growth, productivity, competitiveness, trade and competitiveness-cross functional policy programme (Small Business Development; Trade and Industry including Economic Development).
- For the 2016 MTEF, the Department of Small Business Development allocated R475 million thorough reprioritisation process to finance and support small and medium enterprises and cooperatives.

Box 1: Small and medium enterprises in South Africa face a number of challenges (Source: Banking Association of South Africa)

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| <ul style="list-style-type: none">•Crime and corruption.•Appropriate technology and low production capacity (includes access to electricity).•A lack of management skills and in adequate skilled labour.•Finance and obtaining credit.•Access to markets and developing relationships with customers.•Recognition by large companies and government bureaucracy.•Knowledge and support for the role that they play in economic development.•Regulatory compliance. |
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- The role of SMMEs needs to be integrated into strategic thinking and programmatic policy implementation linking enterprise development with overall government economic policy.
 - Business support should focus on the following strategic areas:
 - The creation and growth of SMMEs, in particular linked to entrepreneurship, access to finance, research and innovation, technology transfer, access to information and communication technologies or environmentally friendly production. Government would need to avail resources to respond to this strategic area.
 - Other investment support should focus on productive investment and the provision of business support services in the abovementioned areas.
 - Support to business and employees aimed at anticipating and managing economic and structural changes, which would need to step-up efforts geared on training and development, and thus support life-long learning strategies.
 - Coordination with the department of labour, sector training authorities and higher education including private sector remains a critical factor that would ensure a capable and adaptable workforce. Better allocation and coordination of resources would be vital for successful implementation of the SMMEs support programmes.
 - The Department should ensure that businesses have the necessary resources they need to start and expand their operations and create jobs that support a growing economy.
 - The main focus of the Department as articulated in the NDP, should be on economic growth and job creation. The Department needs to lift the following priorities:
 - ✓ Ensure that SMMEs get capital by streamlining and simplify government existing lending platforms;
 - ✓ Promoting inclusive entrepreneurship by providing access and opportunity to promising entrepreneurs all across the country;
 - ✓ Improving the Country's entrepreneurial ecosystem, supporting regional clusters and growth accelerators that support innovation;
 - ✓ Building capacity and depth in the Country's small business supply chain (both commercial and government) to strengthen manufacturing and exporting.
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- ✓ Support and promote initiatives that seek to link small businesses more globally competitive through export growth.
 - For the 2016 FY, the Department would receive R1.3 billion.

Public Works

- The Department needs to improve linkages of the expanded public works programme with overall government building investment programme. The Department needs to enhance the performance of the incentive grant paid to eligible provinces, municipalities and non-profit organisations in order to increase job creation efforts.
 - The Department needs to manage effectively the geographic distribution of the grants earmarked for job creation, also to track municipal spending of the grants.
 - Coordination of jobs opportunity with other sector departments such as Economic Development, Trade and Industry, Small Business Development including Public Works should be prioritised.
 - Alignment of the rehabilitation programme of 34 state owned buildings with regional economic development, including providing support to SMMEs, is critical. That means the Department should take into account integrated regional economic development approach in planning, resource allocation and monitoring in relation to employment creation programmes.
 - The Department needs to work closer with various development finance institution to improve black people participation in the construction and property industry-support broad black economic empowerment initiatives (CIDB, PMTE remain red-flags). Furthermore it needs to improve working relations with industry players to support workforce development, strengthen working relations with higher education and training institutions, including sector training agencies. In order to support skills development programmes.
 - Lift the functioning of the Independent Development Trust, thus to improve the organisational capacity and capability to meeting government policy priorities.
 - Improve lease management, to manage compliance and legal risks (governance management).
 - For the 2016 FY, the Department would receive R6.5 billion.
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Transport

- Each of the transport modes needs to operate effectively and efficiently to meet the needs of its users. More than that we need an integrated transport system whose total contribution to our country is more than the sum of its individual parts.
 - For smooth and effective implementation of transport infrastructure in municipalities, the Department needs to work closer with the government development agencies such as the Municipal Infrastructure Support Agency, Development Bank of Southern Africa.
 - South Africa has a backlog for the maintenance and upgrading of its road infrastructure. For maintenance alone the backlog is estimated to be R149 billion.
 - The condition of the national road network (Managed by SANRAL) has improved. This has been confirmed by the study conducted by the CSIR, the University of Stellenbosch and Imperial Logistics. The key challenge is to address the conditions of both the provincial and local governments' roads and rail transport networks.
 - Rural transport infrastructure delivery needs to be accelerated. Government needs to accelerate rural transport infrastructure delivery in order to benefit rural economies, and to improve rural incomes.
 - The public transport infrastructure and public transport network operations grants requires greater participation of provincial and local government in planning. Efforts should be channelled to improve planning in the cities and municipalities, including rural areas.
 - There is a need to improve transport infrastructure planning, policy and programme implementation. Emphasis is on integration and coordination both at national, provincial and local government to accelerate service delivery.
 - Financial and Fiscal Commission (FFC) advocates that the current public transport subsidy framework is not aligned with the national transport policy that promotes an efficient and effective public transport system.
 - FFC states that the Country's public transport subsidies are paid only to specific modes (rail and bus) and not to minibus taxis, which have the broadest network coverage. Thus the current subsidy package fall short in addressing social, economic (productivity) and environmental considerations.
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- South Africa's coastline accounts for 3 000 km long which significant shipping traffic. To date approximately 85 per cent of the Country's trade demonstrate movement by sea.
 - It is expected that South Africans' owned carriers will actively participate in the shipment of export and import in the region and globally.
 - Funding and financing the ocean economy remains a key issues. That would need private sector and academic institutions including basic education. Investor confidence also remains critical.
 - The National Development (NDP) recognises the essential role of public-sector institutions in economic growth and development. The public sector institutions play a critical role in providing infrastructure finance (electricity, water, and transport including telecommunications infrastructure) and in job creation initiatives. The Road Accident Fund, and SAA, POSA, including ESKOM remain areas that need greater attention.
 - Lack of implementation of the National Commercial Ports Policy, 2002 and the National Ports Act, 2005 including the National Freight Logistics Strategy, 2005. There is a need to create a new institutional framework to separate the Ports Authority and Ports Terminals from the Transnet Group, to enhance competition in the ports, and furthermore boost private sector participation.
 - For the 2016 FY, the Department would receive approximately R56.5 billion.

Labour

- Unemployment is sitting approximately at 25 per cent remains the highest social challenge, and is more pronounced on young people.
 - The 2016 MTEF sees efforts to enhance job creation and protect social security.
 - Government should adopt a cross functional programme approach that would assist in the realisation of job creation targets (improve coordination and implementation of the public employment programmes, employment tax incentive and jobs fund.
 - The Department should position itself to work closer with the National Treasury for successful implementation of the Jobs Fund.
 - Coordination of jobs opportunity initiatives with other sector departments such as Economic Development, Trade and Industry, Small Business Development including Public Works should be prioritised.
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- Repositioning the department to address the needs of the people with disabilities in terms of work opportunities, training and development. Sheltered Employment Factories (SEF), need to be repositioned to respond to employment creation policy objectives.
 - Employment, labour and social protection grow in the past and including the current MTEF, has recorded increase.

Key Risk areas:

- ✓ Over the past years, the Compensation Fund had been faced with different challenges. In 2008/09 and in 2009/10, it had received disclaimer audits outcomes. Key concerns are around revenue management and debtors, and claims.
 - ✓ Compensation Fund: Inadequate capacity in human resource, IT infrastructure and just general enterprise performance management system.
 - ✓ Building internal capacity so as to reduce spending on consultants
 - ✓ The Department needs to improve the performance of the work seekers programme. Scale up performance in the labour centres. The Department needs to outline plans to address poor performance of the work seekers programme.
 - ✓ Some of the government programmes can help reduce unemployment by improving the matching of workers seeking jobs and job vacancies. Job search assistance and training programs, are effective in reducing unemployment. The Committee needs to know how the Department is performing in this area.
 - ✓ Ensuring that all vacant funded posts are advertised and filled in compliance with the Public Service prescripts; and capacitating the Inspection and Enforcement Services programme so as to ensure that the Department fulfils the decent work mandate.
 - ✓ Training of the unemployment insurance beneficiaries should be a priority.
 - ✓ Impact assessment report of the projects funded through the UIF Social Responsibility Investments, should be prioritised.
 - ✓ Productivity South Africa remains a priority in the quest to boost employment, competitiveness and accelerating economic growth.
 - For the 2016 FY, the Department would receive approximately R2.8 billion.
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Energy

- Global economy remains a risk to all emerging markets including South Africa.
- Overall investment remains weak, and export performance is gloomy.
- Financial health of Eskom including other state entities remains a concern. In relation to the energy industry, more specific to the electricity industry, greater private sector participation in the industry and infrastructure development would support the economy, and enhance employment opportunities and investment.
- There is no doubt that infrastructure investment contribute to economic growth. The challenge is to ensure that state owned enterprises including provincial governments and municipalities deliver infrastructure on time to avoid cost overruns.
- The Department is expected to accelerate the implementation of the Independent Power Producer Programme; Bio-fuels; Clean Energy; Solar Water Heating Programme; and Solar Park.
- Windows 1 and 2 of the Renewable Energy Independent Power Producer Programme (REIPPP) were successfully concluded with 47 projects contracted. Key challenge is to improve community participation and ownership of the energy development projects.
- Department and the developers need to improve engagements and communication with local communities, local and provincial governments regarding the socio-economic development benefits of the energy development projects in order to manage risks that could compromise completion and sustainability of the developments.
- Financing of energy related projects such as nuclear remains a challenge. It is more difficult to generate resources under the current economic situation, and the fiscus is constrained.
- Improving provincial and local governments' infrastructure delivery remains a challenge. Local government has insufficient infrastructure delivery capacity and capability.
- The Department needs to lift the oversight management over its public entities.
- Finalisation of the following pieces of legislation , would add valuable contribution to the energy sector;
 - ✓ The Gas Amendment Bill

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- ✓ National Nuclear Regulator Amendment Bill
 - ✓ Electricity Regulation Second Amendment Bill
 - ✓ National Energy Regulator Amendment Bill
 - ✓ Radioactive Management Fund Bill
 - ✓ Nuclear Energy Amendment Bill
 - ✓ Independent System Market Operator Bill
 - Development of the sound oil and gas regulatory regime would contribute in the realisation of the National Development Plan's energy policy goals and action plans.
 - For the 2016 FY, the Department would receive approximately R7.5 billion.
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In conclusion, government including economic development partners (social partners) need to manage the economic risks that have the potential to hinder government's quests to meet the National Development Plan's policy outcomes. Development partnerships with all critical role players in the economy need to be established and strengthened.

