FINANCIAL AND FISCAL COMMISSION

FFC Submission to the Portfolio Committee on Employment and Labour

"For an Equitable Sharing of National Revenue"

03 September 2019

Contents

1. Background

1.1. The FFC is a permanent statutory body established in terms of Section 220 of Constitution. It is and independent and subject only to the Constitution and the law. It functions in terms of the FFC Act.

1.2. The mandate of Commission is to 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.

1.3. The Commission is concerned with financial and fiscal matters, particularly Intergovernmental fiscal relations (IGFR); legislative provisions or executive decisions that affect either provincial or local government from a financial and/or fiscal perspective; regulations associated with legislation that may amend or extend such legislation.

1.4. This submission is in response to the invitation by the Portfolio Committee on Employment and Labour on the overall financial performance of the department and its entities for the 2018/19 fiscal year.

2. Current employment issues

2.1. South Africa's output growth continues to be sluggish and to raise concerns that the economy is lodged in a low growth trap. After two successive quarters of expansion, real gross domestic product (GDP) contracted at an annualised rate of 3.2 per cent in the first quarter of 2019[1]. This is the largest contraction since the first quarter of 2009. The little progress achieved in increasing employment is consistent with the weak economy.

2.2. According to Statistics South Africa, the labour force increased by 598 000 people in the second quarter of 2019 compared with the second quarter of 2018 whereas over the same period, the number of employed persons increased by 25 000[2]. This means that the labour force growth is outpacing employment and increasing unemployment. While the number of jobs in the economy has increased, it is not keeping pace with the growing labour force and, as a result, unemployment continues to rise.

2.3. The number of unemployed South Africans increased by 455 000 in the second quarter of 2019 to approximately 6.6 million[3]. As a result, the official unemployment rate increased from 27.6 per cent in the first quarter of 2019 to 29 per cent in the second quarter of 2019, mainly due to new entrants to the job market actively searching for work.

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[1] See Statistics South Africa *Gross domestic product-First quarter 2019*
[2] See Statistics South Africa *Quarterly Labour Force Survey Quarter 2: 2019*
[3] Ibid

2.4. Young people are particularly affected by unemployment. The unemployment rate for South Africans aged 15-24 increased from 55, 2 per cent in the first quarter of 2019 to 56, and 4 per cent in the second quarter of 2019. The unemployment rate for South Africans aged 25-34 increased from 34, 2 per cent in the first quarter of 2019 to 35, and 6 per cent in the second quarter of 2019[4].

2.5. High unemployment, among unskilled and young people in particular, remains an immense challenge. The percentage of young people who are not in employment, education or training (NEET) is high and increasing. The unemployment characteristics shows that of the 6,7 million unemployed persons, 57 per cent had an education level below matric, followed by those with matric at 33,4 per cent in the second quarter of 2019. This means that education remains an important factor in the labour market[5].

2.6. The pace at which the economy is creating jobs is too slow. Since 2016, the economy created 1 2 million jobs. However, over the same period 934 000 people lost their jobs, translating into a net job gain of only 293 000. The economy created 21 000 jobs in the second quarter of 2019, after shedding 237 000 jobs in the first quarter[6]. Compared to the second quarter of 2018, the working-age population increased by 6 percent whereas employment increased by only 0.2 percent.

2.7. The labour intensive sectors are shedding jobs. Employment by industry increased in six of the ten industries between 2018 and 2019, with the largest increases recorded in Trade, community and social services, Construction and Manufacturing. However, employment losses were recorded in, Transport, Mining and Finance and other business services. Agriculture and mining which are labour intensive sectors recorded negative growth rates of (-0.2) percent and (-12.4) percent respectively.

2.8. The sluggish economic growth is translating into high unemployment rates and consequently job creation remains weak. Since the second quarter of 2016, the number of unemployed people increased by 1.4 million[7]. However, over the same period only 293 000 jobs were created. The growth in GDP decelerated from 3.2 percent in the second quarter of 2016 to (-3.2) percent in the first quarter of 2019.

2.9. A high number of young people that are unemployed are unskilled. The percentage of young persons aged 15–24 years who were NEET increased from 31, 6 percent in the second quarter of 2018 to 32, and 3 percent in the second quarter of 2019. The percentage of young persons aged 15–34 years who were NEET increased by 1, 0 percentage point

[4] Ibid
[5] Ibid
[6] Ibid
[7] Ibid

from 39, 3 percent to 40, 3 percent in the second quarter of 2019[8]. More than four in every ten young females are not in employment, education, or training. This means that the prospects of finding a job are direr for females given the importance of education in finding employment.

3. Departmental MTEF Analysis

3.1. The Department plays a significant role in reducing unemployment, in employment creation and enterprise development. It also contributes to outcomes 4, 5, 11, 12 and 14 of the Medium Term Strategic Framework (MTSF). The department has four main programmes: Administration, Inspection and Enforcement Services, Public Employment Services, Labour Policy and Industrial Relations. It is responsible for six public entities: Supported Employment Enterprises, Productivity South Africa, Unemployment Insurance Fund, Compensation Fund, Commission for Conciliation, Mediation and Arbitration (CCMA), National Economic Development and Labour Council (NEDLAC).

3.2. The department expenditure outcome analysis show that the spending rate for the administration programme decelerated from 91.6 per cent in 2015/16 to 83.9 per cent in 2017/18. The Inspection and enforcement services rate declined from 100 percent in 2015/16 to 93.9 per cent in 2017/18. The Public and employment services decreased from 97.55 per cent in 2015/16 to 86.31 per cent in 2017/18. The labour policy and industrial relations programme also decelerated marginally from 98.74 per cent in 2015/16 to 98.37 percent in 2017/18[9]. This means that the Department spending performance is deteriorating.

3.3. Past entities expenditure outcome analysis show that in most instances, the entities spend all the expenditure that was allocated to them. The only exception were minimal variances for the Commission for Conciliation, Mediation and Arbitration as well as the compensation fund in 2015/16 and the Supported Employment Enterprises in 2017/18.

3.4. The department’s spending increased from R3.3 billion in 2018/19 to R3.4 billion in 2019/20 and is projected to increase to R3.7 billion and R3.9 billion in 2020/21 and 2021/122 respectively. Budget reductions amount to R103.2 million over the Medium Term Expenditure Framework (MTEF) term on goods and services, compensation of employees and transfers to entities. Additional funding amounts to R151.6 million to the CCMA and NEDLAC[10].

3.5. Over the MTEF period, spending increases from R3. billion in 2018/19 to R3.9 billion in 2021/22 translating to an average annual real growth of 5.9 per cent compared with 6.6 per cent between 2015/16 and 2018/19. Labour policy and industrial relations programme

[8] Ibid
[9] See Department of Labour Annual Report 2017/18
[10] See National Treasury Estimates of National Expenditure 2019

is the main cost driver over the MTEF period, accounting for 36 per cent of the total expenditure, followed by administration (27.8) per cent, inspection and enforcement services (18.4) per cent and public employment services (17.7) per cent. This means that a relatively high expenditure goes to the administration programme as compared to the core programmes of the department. Current payments consume on average, 59.6 per cent of total allocated funds over the MTEF period. This expenditure classification consists of compensation of employees as well as goods and services. Expenditure on this is expected to increase from R1.89 billion in 2018/19 to R2.4 billion in 2021/22 growing at an average growth rate of 7.7 per cent[11]. This means that less than half of the department's budget is left for its core business.

4. Recent developments impacting on spending oversight of departments

4.1. The 2019 Budget continues to limit the growth of government expenditure through employee compensation has been trimmed and spending on goods and services not critical for service delivery has declined. Over the medium term, budget controls will be strengthened through additional controls on personnel budgets and procurement reforms.

5. Supporting role of DOL in Job creation

5.1. Employment is an integral part of economic development. Government is implementing the National Minimum Wage Bill to support minimum wages for the vulnerable workers. It is important for the department to enforce compliance in this regards while also guarding against unintended effects.

5.2. In its oversight role, The Commission recommends that the Portfolio Committee consistently measure and assess how well development entities within DOL have contributed to envisaged job creation through increasing safety and fairness in the workplace, supporting work seekers, regulating the workplace to establish minimum working conditions and fair labour practices. The Committee should also place greater oversight over the long term financial viability of UIF as a result of increasing unemployment.

6. Improving intergovernmental objectives

6.1. There is a growing emphasis and recognition that sub-national authorities have to play a more significant role in job creation. The Commission recommends that focus should be on ensuring resource allocations towards employment in productive, sustainable and development initiatives. The expansion of the role of provinces and municipalities in job

[11] Ibid

creation and economic development is vital. There is a need to have synergy or efficient integration in a myriad of employment programs across three spheres of government. The strengthening of the growing contribution by provinces and municipalities to job creation and economic growth is critical.

7. Addressing the Unemployment Challenge

7.1. Unemployment cannot be eradicated by Active Labour Market policies (ALMP) (i.e. (Community Works Program and EPWP) only. Many of ALMPs need to be redesigned to focus on labour market outcomes – ability to acquire skills and gainful employment after participating in the program. Public employment programs meant to provide temporary unemployment relief are increasingly becoming permanent source of employment for many people therefore compromising the very essence of transitory assistance. The Commission recommends that greater emphasis should be placed on school completion, improving and aligning the training content of SETAs and Colleges to the needs of the economy, improving the quality of learnerships, legislation and enforcement of timely payment of SMMEs as well as improving targeting of industrial incentives and foster integrated economic planning in alignment with finance, land, water, energy etc.

8. Reflections on National Treasury Economic Strategy Paper

8.1. The National Treasury economic policy paper entitled *Economic transformation, inclusive growth, and competitiveness: Towards an Economic Strategy for South Africa* focuses on Macro/Micro economic reforms such as how to improve growth, address skills constraints, improving education, reduce concentration, improve industrial policy and export competitiveness, create efficient network industries.

8.2. The Commission has noted the proposed employment interventions proposed by the paper such as youth employment programs, promotion of labour intensive sectors such as agriculture and tourism as well as leveraging procurement to support industrialisation The paper acknowledge the structural impediments to growth and employment but implicitly assume that growth will be inclusive and employment intensive. Many of the proposed interventions are already institutionalised with government delivery architecture. For instance, government and SETA are currently rolling out learnerships and the Department of Small Business and Trade and Industry are offering a range of industry incentives and small business financial support program. It is no clear from the economic strategy document how the proposed interventions would be different from existing ones. The Commission is of the view that the implementation of the suggested interventions should begin with identification of existing program aligned to each policy proposal to determine the weaknesses (and why the programs has not yielded desired results). This is necessary to avoid reinventing the will and duplication.

8.3. The commission note that the industries identified as employment intensive (agriculture and tourism) are modernising and increasingly needing skilled labour. The agriculture and tourism sectors are no lo longer low skilled activities that can absorb the millions of unskilled jobseekers. Efforts aimed at supporting this sectors must improve productivity and competiveness, while job creation proposals focuses on skills development. The Commission recommends that the procurement interventions suggested by the paper should prioritise eradication of abuse. It is the view of the Commission that successful implementation of the economic strategy needs effective, capable and responsive state administrative capacity. Majority of government development programs are failing not because of lack of resources, but importantly as result of poor design and substandard execution.

For and on behalf of the Financial and Fiscal Commission

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Chairperson

Date: ……………………….