

PORTFOLIO COMMITTEE ON ECONOMIC DEVELOPMENT

GOAL 1: ERADICATE EXTREME POVERTY AND HUNGER

Target 1b: Achieve full and productive employment and decent work for all, including women and young people.

Indicator: 1. Growth rate of GDP per person employed.

Indicator: 2. Employment-to-population ratio.

Indicator: 3. Proportion of employed people living below \$1 (PPP) per day.

Indicator: 4. Proportion of own-account and contributing family workers in total employment.

GOAL 8: DEVELOP A GLOBAL PARTNERSHIP FOR DEVELOPMENT

Target 16: In cooperation with developing countries, develop and implement strategies for decent and productive work for youth

Indicator: 36. Unemployment rate of 15 – 24 year olds, by each sex and in total.

1. Strategic Plan

The Economic Development Department (EDD) is relatively new as it was established by the President on 7 July 2009 in terms of the Public Service Act, 1994 (Proclamation 103 of 1994). Thereafter, Parliament created a new Committee known as the Portfolio Committee on Economic Development to exercise oversight on the Department.

South Africa's economic growth since 1994 has been on a par with all middle income countries except China and India. However, unemployment is far higher, reflecting a long-term decline in the employment ratio from the late 1970s. Income inequality is among the worst in the world. The downturn from late 2008 wiped out over a million jobs, returning unemployment to levels of the early 2000s. This is the primary challenge the Economic Development Department was established to address.

The Department's political mandate includes the following:

- Making the creation of decent work opportunities and sustainable livelihoods, the primary focus of government economic policies. Government will make maximum use of all the means at its disposal to achieve this including the programmes of Development Finance Institutions and Regulatory Bodies, through government procurement and public incentive rules, in industrial, trade, competition, labour market and other policies.
- To ensure that macro-economic policy is informed by the priorities detailed in the electoral mandate and actively promote creation of decent employment, economic growth, broad-based industrialisation, reduced income inequality and other developmental imperatives.
- Economic policy will include measures to decisively address obstacles that limit the pace of employment creation and poverty eradication, and government will intervene in favour of more sustainable and inclusive growth for all South Africans.
- To ensure that the mandates of Development Finance Institutions are clear and truly developmental and that their programmes contribute to decent work outcomes, achievement of the country's developmental needs and sustainable livelihoods.

On 25 October 2010 Cabinet adopted the New Growth Path (NGP), a strategy promoting decent work and inclusive growth. The NGP identifies key sectors in the economy with high jobs potential that will be supported by government. It further identifies key policy interventions to create an environment conducive to economic growth and job creation. The NGP, through EDD charges all government departments, provincial and local spheres, with the task of aligning their programmes with the job creation imperative. There is also a strong emphasis on aligning EDD's Development Finance Institutions and the country's state owned entities to the job creation agenda. EDD's duty is to coordinate and drive those efforts.

The Minister of EDD has also signed Outcome 4 of the Delivery Agreement entitled Decent Employment through Inclusive Growth. The Delivery Agreement provides detail on the outputs, targets, indicators and key activities required to achieve outcome 4. The Delivery Agreement consists of 12 outcomes that are key focus areas of work between now and 2014 - a year before the MDG deadline - and beyond. The MDG 1 targets for South Africa are as follows;

Table 1

GOAL 1: ERADICATE EXTREME POVERTY	1994	2010	2015	Achievability
Percentage growth rate of GDP per person employed	4.7	1.9	6	possible
Employment-to-population ratio	41.5	42.5	50-70	unlikely
Proportion of employed people living below \$1 (PPP) per day	52	ND	0	unlikely
Proportion of own-account and contributing family workers in total employment	11	9.9	5	possible

Source: UNDP South Africa

Cognisant of its coordinating responsibility in respect of the MDGs, EDD has drawn up a table that aligns government imperatives as spelled out in the Delivery Agreement¹ with the related MDGs. (See Table 2 below). The challenges of poverty, inequality and unemployment informed the development of the New Growth Path strategic framework and the Delivery Agreement for Outcome 4. In Table 3, EDD illustrates how the NGP, MDGs and Outcome 4 are linked together.

¹ The delivery agreement is a negotiated charter which a commitment on the part of key partners involved in the direct delivery process to work together in undertaking activities effectively and on time in order to produce mutually agreed outputs. The delivery agreement provides detail to the outputs, targets, indicators and key activities to achieve identified outcomes, identify required inputs and clarifies the roles and responsibilities of the various delivery partners. It spells out who will do what, by when and with what resources. The outcomes apply to the whole of government and are long term. While the delivery agreement may contain longer term outputs and targets, it also includes outputs and associated targets that are realisable in the next 4 years.

No.	OUTCOME	MDGs
1	Improved equality of basic education	2
2	A long and healthy life for all	4,5,6
3	All people are and feel safe	2,3
4	Decent employment through inclusive economic growth	1,2,3,7,8
5	Skilled and capable workforce to support inclusive growth	2
6	Efficient, competitive and responsive economic infrastructure network	1,3,8
7	Vibrant, equitable and sustainable rural communities with food security for all	1,2,7
8	Sustainable human settlements and improved quality of household life	2,3,7
9	A responsive, accountable, effective and efficient local government system	1,2,3,8
10	Environmental assets and natural resources that are well protected and continually enhanced	2,3,7
11	Create a better South Africa and contribute to a better and safer Africa and world	1,2,7,8
12	Efficient, effective and development oriented public service and an empowered, fair and inclusive citizenship	1,2,3,8

Source: EDD²

The NGP sets an ambitious target of 5 million new jobs by 2020 and directs that economic policy should actively pursue jobs goals. The NGP sets a target of five million jobs to be created in the next ten years. According to the NGP, "(if) we can grow employment by five million jobs by 2020 (around three million more than the anticipated growth if we extrapolated from 2002 to 2009), over half of all working-age South Africans would have paid employment and narrow unemployment would drop by 10 percentage points (approximately) 25% currently to around 15%³." Thus by 2020, the country will be close to halving unemployment. Provided all things remain constant, this means the target of halving unemployment by 2015 will not be achieved.

² EDD (2011a)

³ EDD (2011c)

Table 3: MDGs NGP and OUTCOMES

MDG LINK WITH NGP AND OUTCOME 4		
GOAL NO.	MDGs	LINK TO NGP AND OUTCOME 4
1	Eradicate extreme poverty and hunger	Poverty reduction and inequality through employment creation and sustainable livelihoods
2	Achieve universal primary education	Skills development
3	Promote Gender equality and empower women	Inclusive growth and job creation
7	Ensure environmental sustainability	Improving conditions in sectors with insecure employment conditions (agriculture)
8	Develop a global partnership for development	

Source: EDD⁴

2. Budget

The EDD has two roles in the implementation of the NGP, namely to

- Bolster the integration of diverse government policies, programmes and projects to support employment creation.
- Ensure that the development financial institutions and regulatory agencies for which it is responsible become central agents in achieving a more inclusive, equitable and jobs-rich economy.

The Department plans to distribute the budget as follows:

- R219,4 million for small business funding, through transfers to Khula and Samaf,
- R141,8 million for the competition authorities,
- R69,6 million for trade administration to International Trade and Administration Commission (ITAC),
- R34 million for agro-processing promotion to the IDC,
- R23,3 million for policy development within the EDD,
- R35,1 million for economic planning and coordination,
- R16,3 million for economic development and dialogue and
- R55 million for administration, the Ministry and capital expenditure⁵.

The Economic Development Department received a total of R594.5 million in the 2011/12 financial year, an increase of R144 million or 32.17 per cent in nominal terms compared to the previous year. This increase is also reflected in real terms of 26.12 per cent (that is, from R449.8 million to R567.3 million). Of the total budget allocation (R594.5), 78.18 per cent (or R464.8 million) is allocated to transfers and subsidies 20.72 per cent (R123.2 million) is billed to current payments and payments to capital assets received 1.1 per cent (R6.5 million). The 2011/12 allocation to the Department against all national budget votes represents 0.12 per cent. This compares favourably to the 0.09 per cent of the previous

⁴ Ibid

⁵ Patel (2011)

year's budget. The slight increase might be attributed to the Department's expansion since its establishment in 2009 especially in the two of four programmes; Economic Planning and Coordination Programme (nominal of 41.74 per cent) and Economic Development and Dialogue Programme (33.45 per cent).

The Economic Policy Development Programme plays a critical role in monitoring the implementation of the New Growth Path, despite its small share (3.9 per cent) of the total budget's allocation. Thus by monitoring the NGP, this programme also indirectly monitors progress made in the advancement of Goal One of the MDGs. Economic Policy Development also contributes to the alignment of policies within the different spheres of government. As the NGP driver, policies developed under this programme will have an impact on the MDG 1, indicator of halving unemployment by 2015 and of achieving a Gini co-efficient target of 0.3 on income distribution.

The Economic Planning and Coordination programme is the largest by allocation (84.09 per cent or R499.9 million). The bulk of the budget allocation to this Programme, about 93 per cent (or R464.8 million) is allocated to transfers and subsidies. The size of the amount reflects the important role of the Department's entities in meeting broader economic development goals of poverty reduction, job creation and alleviation of income disparities. For example, the Development Finance Institutions will facilitate the provision of development finance at concessionary rates. It may be argued that the success of South Africa's industrialisation will depend largely on the efficiency of these entities in providing financial support. The state owned Development Finance Institutions include Khula (with a transfer of R128.9 million), SAMAF (R90.5 million) and Industrial Development Corporation (R34.0 million). The Regulatory Bodies on the other hand consist of the Competition Commission (R126.6 million), Competition Tribunal (R15.2 million) and the International Trade Administration Commission (R69.6 million)⁶.

The IDC will substantially increase the level of industrial funding and will make available R102 billion over the next five years for investment in New Growth Path priorities. This represents a 160 per cent increase over actual approvals in the last five years and revised upward from the R66 billion in its current five-year projections.

The five-year funding will be allocated as follows:

- Green industries: R22.4 billion,
- Mining and beneficiation: R22.1 billion,
- Manufacturing: R20.8 billion,
- The agriculture value chain: R7.7 billion,
- Tourism, the creative industries and high level services: R14.8 billion,
- Funding to distressed companies: R2.5 billion,
- Strategic High Impact Projects: R11.1 billion and
- Venture capital: R500 million.

These allocations will be reviewed annually and adjusted as required. Within this envelope, the IDC will provide R10 billion to local firms at prime less 3% for projects with a high employment impact (the 'Jobs Fund'). It will invest between R7 billion and R10 billion in the rest of Africa, in projects with strong forward and backward linkages to our economy⁷. The budget has been structured as an injection into the sectors that have a greater propensity to create jobs in order to achieve the 5 million jobs target, thereby drawing the country closer to meeting the MDG target.

⁶ Mahlangu (2011)

⁷ Ibid

3. Programmes/projects

The work of the Department is divided into four programmes namely, Administration, Economic Policy Development, Economic Planning and Coordination and Economic Development and Dialogue. The EDD's strategic outcome oriented goals state that EDD's aims to provide participatory, coherent and coordinated economic policy, planning and dialogue for the benefit of all South Africans and promote decent work through meaningful economic transformation and inclusive growth.

The programmes that among others play a vital role in the advancement of the Millennium Development Goals are Programme 2: Economic Policy Development and Programme 3: Economic Planning and Co-ordination. The two programmes advance the MDG's as follows:

Programme 2: Economic Policy Development

This programme consists of the following sub-programmes;

- **Growth Path and Creation of Decent Work.** This sub-programme aims to develop papers and policy proposals and host policy platforms; consult with departments, municipalities, public entities and SOEs; establish an economic development index; and generate fact sheets, policy briefings, policy proposals and working papers.
- **Economic Policy.** This sub-programme's objective is to identify macro-economic and micro-economic policy options, outline and analyse future paths of the economy under a different mix of policies in a consistent manner; quantitatively analyse the likely impact of policy options and shocks on the main growth and development index; and analyse the impact of uncertainty on the economy by showing how the system will respond to different development in external factors such as oil prices or world trade.
- **Broad-Based Black Economic Empowerment.** The purpose of this sub-programme is to ensure that the economy is structured and transformed to enable the meaningful participation of the majority of its citizens and to further create capacity within the broader economic landscape at all levels.
- **Second Economy.** This sub-programme's function is to develop policies that will transform second economy activities into dynamic, competitive activities that are part of the economic mainstream and included in the country's tax and other arrangements. Initial research and consultation has been undertaken on: a multi-pronged strategy to reduce youth unemployment; a strategy to integrate second economy activities into the mainstream economy; and a cooperatives strategy.
- **Economic Development Institute and Research.** This sub-programme's role is to provide a platform for economic researchers and practitioners to collaboratively produce research and policy papers, to provide analysis of data collected by the state and other institutions and to popularise and make accessible issues of economic policy.

Programme 3: Economic Planning and Co-ordination

This programme consists of the following sub-programmes:

- **Spatial, Sector and National Economic Planning.** This sub-programme will develop economic plans for South Africa; promote the development of spatial economic development action plans, particularly for key and distressed areas; build the coherence of provincial and local economic development plans; and promote economic development in major sectors of the economy.
- **Investment for Economic Development.** This sub-programme will provide oversight and strategic direction to the Industrial Development Corporation (IDC), the

56000 jobs with a 10% target for the youth.

- **Competitiveness and Trade for Decent Work.** This sub-programme focuses on providing oversight of and policy and strategic direction to the Competition Commission, the Competition Tribunal and the International Trade Administration Commission of South Africa (ITAC); promoting African and regional economic development; engaging with international economic agencies and multi-lateral institutions; and pursuing economic opportunities with major economic groupings including the BRICS, EU and the USA.
- **Economic Development, State Budgeting and Financing and Procurement Processes.** This sub-programme's goal is to undertake research and analysis on government's developmental programmes and processes to ensure alignment with the NGP and will identify opportunities for improving local procurement and production. As at December 2010, the value of special financing facilitated for small businesses, targeted growth sectors and companies in distress reached R2. 379bn (annual target of R2bn).
- **Green Economy.** This sub-programme aims to identify, develop and support projects, incentives and other measures to promote industries that create jobs and have lower or no carbon emissions in energy, agriculture, manufacturing and service sectors, especially tourism.

The Department has already developed an economic growth path for the country, namely the NGP, which was also approved by Cabinet in 2010. It is now focusing on developing strategies and implementation plans in cooperation with the relevant government departments and agencies. It has identified the following priorities for the 2011/12 financial year:

- The merger between Khula, SAMAF and the IDC small business operations.
- Strengthening competition policy.
- Procurement reform to support local procurement.
- Implementation of a revised broad-based BEE framework.
- Skills enhancement and reform of the skills system.
- Small business development.
- Developmental trade strategy implementation.
- Improving the regulatory framework.
- Promoting a competitive exchange rate.
- Social dialogue.
- Addressing costs pressures in the economy.

Since 1994, due to the country's focus on poverty eradication, absolute poverty has declined, based on a period of economic growth combined with a series of redistributive measures, most notably, there has been a five-fold increase in the number of people benefiting from social grants. There have also been pro-poor investments in services such as sanitation, housing and others. However a few challenges remain and they are; persistent inequality which according to the Department is unlikely to be met by 2015, and the employment to population ratio, which shows that there is a high risk of poverty amongst females. This according to the Department emphasises the need to create employment at the lower level. The poverty gap is still wide and there is a huge discrimination/ inequality between black and white wealth with only 17% of black people in contrast to 72.7% of white

in the 10th decile⁸. Through Programme 3, EDD aims to promote African and regional economic development, engage with international economic agencies and multi-lateral institutions and pursue economic opportunities with major international economic organisation the country. This objective is an opportunity for EDD to advance MDG 8, indicator 36. However, there are no clear targets that have been articulated with regard to working in cooperation with other developing countries develop to implement strategies for decent and productive work for youth. This may be attributed to the fact that the Department is relatively new and is hard at work to ensure that its work is established within the country.

4. Monitoring Mechanisms

As part of performing its oversight duties, the Portfolio Committee on Economic Development has already called two meetings where MDGs were discussed. On the 11th March 2011, EDD presented a progress report on the country's MDG targets. On the 14 of June 2011, the Financial and Fiscal Commission provided the Committee with an analysis and recommendations on South Africa's MDG reports.

As a new Department responsible for monitoring and coordinating the facilitation of employment creation, EDD is currently establishing a system for all government departments to report on their impact in providing jobs. Existing incentives will be refined where appropriate to ensure greater employment outcomes. Government policy instruments, ranging from tariffs, score cards, licenses to procurement and quotas, will increasingly contain conditions or reciprocal commitments on employment and investment⁹.

5. Issues for Consideration

- Establish reasons for the high vacancy rate in the public service.
- Find out why were there no improvements on the unemployment figures despite the existence of Development Finance Institutions such as Samaf, IDC and Khula to promote small business development.
- Determine what could be done to encourage household savings.
- Establish what the impediments to job creation are, as there are many people who are skilled but cannot get a job.
- A high premium is placed on experience in South Africa.
- The impact of MDG programmes on people living with disabilities.
- The impact work migration patterns have had on growth figures.

6. Recommendations

- Municipalities should focus on Local Economic Development (LEDs) initiatives that are skills creating, employment generating and domestic production supporting.
- Strengthened support to local entrepreneurs.
- Scale-up of community and school gardens.
- Increased support to women in cooperatives.
- Land reform so as to ensure greater access and improved support.
- Improvements to Expanded Public Works Programme (EPWP) so as to ensure skills transfer and increase job creation.
- Skills development with a focus on artisan programs and mentorships.
- Attention needs to be paid to unemployment as a long-term solution that would potentially replace social assistance programmes.

⁸ EDD (2011b)

⁹ Ibid

- Competition interventions to control prices.
- Government should align its budget allocation to the MDGs.

7. References

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