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BRIEFING TO THE PORTFOLIO COMMITTEE ON ECONOMIC DEVELOPMENT ON ECONOMIC DEVELOPMENT DEPARTMENT STRATEGIC PLAN

17 April 2012

For an Equitable Sharing of National Revenue

CONTEXTUAL BACKGROUND: ECONOMIC GROWTH

- SA economy negatively affected by the uncertain global economic climate
  - Exposure to Eurozone economies through trade and financial markets
- Real economic growth: ↑ from 2.8% in 2010 to 3.1% in 2011
  - Reflective of ongoing economic recovery
    - However, current as well as projected economic growth = sluggish and posing a real threat to NGP and NPC targets
- SA economic growth figures revised ↓
  - Expected: 3.1% for 2011 (FFC forecasts: 2.9-3%)

ECONOMIC DEVELOPMENT CHALLENGES

- High unemployment biggest social hazard
- Poverty reduction still challenges development
- Growth of inequality is not slowing down
- Country vulnerable to climate change, water scarcity and environmental degradation
- Lack of development of small business, informal sector
- Lack of infrastructure and poor social outcomes (health and education in particular)

SPENDING POLICY PRIORITIES

- In 2010, Cabinet adopted 12 outcomes within which to frame public-service delivery priorities and targets
- Outcome 4: “Decent Employment through Inclusive Growth”
- Spending priorities for 2012 and over the MTEF period
  - Promoting investment for economic development and trade competitiveness
    - Increasing the provision of developmental finance
    - Effective implementation and adjudication of competition policy
    - Creation of an efficient system of international trade administration

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STRATEGIC OUTCOMES

Goal	Outcomes
Strategic Outcome Oriented Goal	**Promote decent work through meaningful economic transformation and inclusive growth**
Goal Statement	**Provide participatory, coherent and coordinated economic policy, planning and dialogue for the benefit of all South Africans**

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POLICY PRIORITIES

"Unemployment, Inequality, and Poverty"

- New Growth Path – 10 year plan in unlocking the employment potential in six key sectors and activities
  - Infrastructure
  - Agricultural sector (agric value chain/agro-processing)
  - The mining value chain
  - The green economy
  - Manufacturing sectors
  - Tourism and certain high-level services

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KEY PROGRAMMES

R thousand	2010/11	2011/12	2012/13	2013/14	2014/15
Administration	35,044	57,394	60,065	63,342	67,247
Economic Policy Development	6,647	15,865	29,056	30,657	32,554
Economic Planning and Coordination	358,527	486,778	565,462	598,209	519,287
Economic Development and Dialogue	456	7,560	18,149	19,137	20,324
Total expenditure estimates	**400,674**	**567,597**	**672,732**	**711,345**	**639,412**

EXPENDITURE TRENDS

- Economic Development Department (EDD) budget increased from R400 674 million in 2010/11 to R567 597 million in 2011/12.
  - Due to transfers to public entities (IDC for the capitalisation of the Agro-processing Competitiveness Fund)
  - Building personnel capacity within the Department
- Over the MTEF period it is expected to increase to R639 412 million, representing an increase of 2,2%.
- The largest expenditure is on:
  - Economic Planning and Coordination which increased from R358 527 million in 2010/11 to R519 287 million in 2014/15 at an average rate of 11,1% in nominal terms.

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EXPENDITURE TRENDS

- The purpose of this programme is to:
  - Promote economic planning and coordination through developing economic planning proposals
  - Provide oversight and policy coordination of identified development finance institutions and economic regulatory bodies
  - Contribute to the development of the green economy

- Expenditure on this programme is projected to increase due to the merger of Khula Enterprise Finance and the South African Micro-Finance Apex Fund with the Industrial Development Corporation of South Africa's small business unit which was scheduled for 1 April 2012.

EXPENDITURE OUTCOMES PER PROGRAM: 2010/11

Programmes	Budget	Expenditure	% Spent
Administration	45,127	35,044	78%
Economic Policy Development	17,101	6,647	39%
Economic Planning and Coordination	376,900	358,527	95%
Economic Development and Dialogue	10,712	456	4%
Total	**449,840**	**400,674**	**89%**
Source: Economic Development Department, Annual report 2010/11			

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EXPENDITURE OUTCOMES PER PROGRAM: 2010/11

- EDD spent 89% of its total budget in 2010/11 (Bulk being transfer payments to entities)
  - Under-spending mainly as a result of high vacancy rate

- Under-spending occurred primarily in Economic Policy Development (Programme 2) and Economic Development & Dialogue (Programme 4)
  - Due to the slow rate at which posts are filled because EDD was in its first year of operation

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3RD QUARTER PERFORMANCE BY PROGRAMME

R thousand	Adjusted Budget	Actual (Quarter 3)	% Spent
Administration	56,331	43,524	77%
Economic Policy Development	23,500	8,610	37%
Economic Planning and Coordination	502,071	395,024	79%
Economic Development and Dialogue	16,457	2,753	17%
Total	**598,359**	**449,912**	**75%**

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PUBLIC ENTITIES

- EDD is responsible for the following public entities:
  - Regulatory bodies
    - Competition Commission
    - Competition Tribunal
    - International Trade Administration Commission (ITAC)
  - Development finance institutions
    - Industrial Development Corporation (IDC)
    - Khula Enterprise Finance Limited
    - South African Micro-finance Apex Fund (Samaf)

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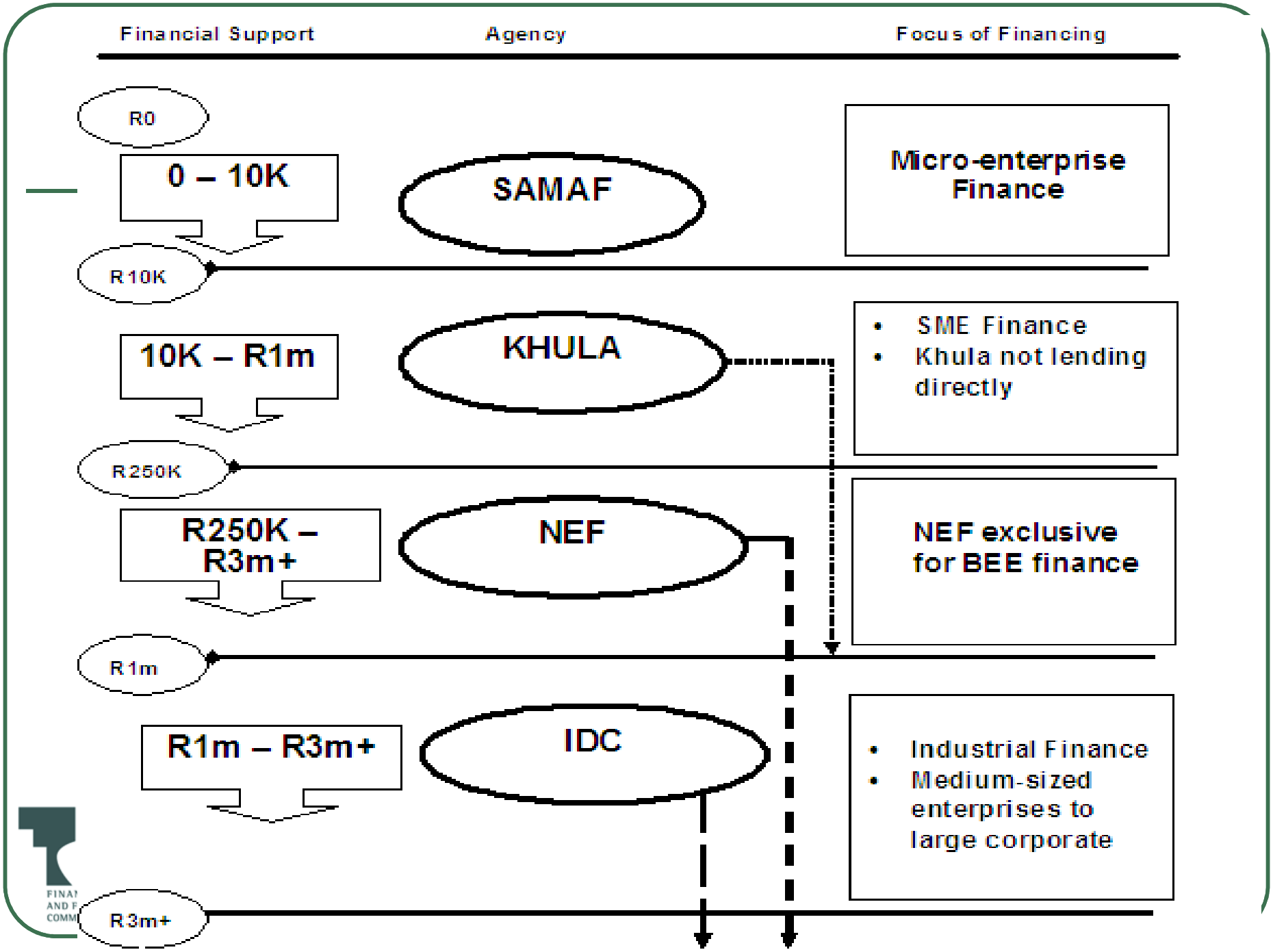
TRANSFERS AND SUBSIDIES

R thousand	2010/11	2011/12	2012/13	2013/14
Khula Enterprise	69 729	73 912	75 908	80 083
Khula Direct Pilot		55 000		
SAMAF	82 082	90 537	93 072	98 191
ITAC	64 343	69 604	72 666	76 908
Competition Commission	88 818	126 595	159 020	175 291
Competition Tribunal	13 625	15 175	15 600	16 458
IDC		34 000	108 000	108 000
Total	**318 597**	**464 823**	**524 266**	**554 931**


Financial Support
Agency
Focus of Financing
R0
0 – 10K
SAMAF
Micro-enterprise Finance
R10K
10K – R1m
KHULA
• SME Finance
• Khula not lending directly
R250K
R250K – R3m+
NEF
NEF exclusive for BEE finance
R1m
R1m – R3m+
IDC
• Industrial Finance
• Medium-sized enterprises to large corporate
R3m+

Design Of Policy Evaluation at FFC – Economic Development

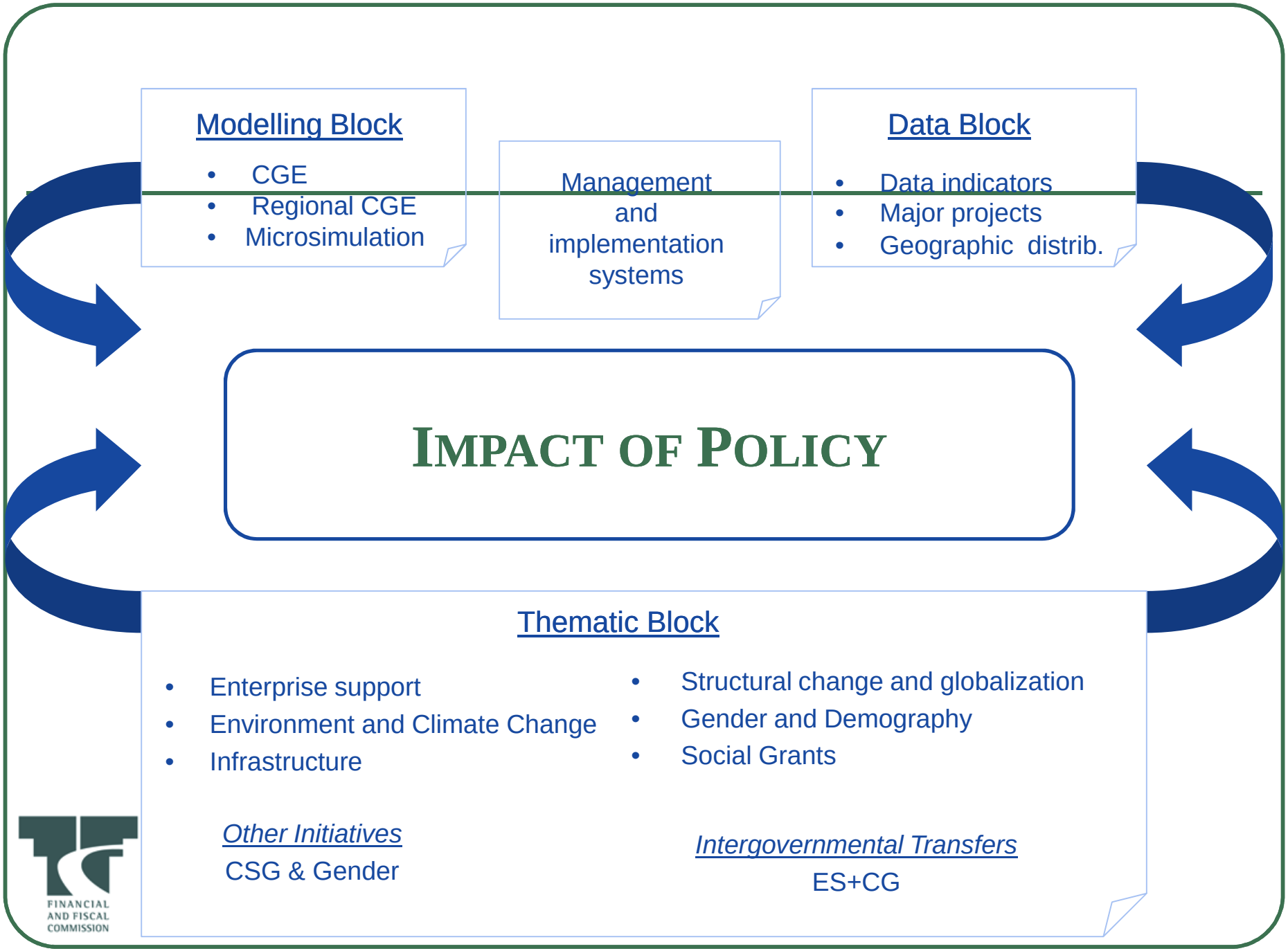
- Question of the evaluation:
  - What has been achieved in terms of reducing disparities (e.g. as GDP per capita)? *and*
  - in specific policy fields?
- Evaluation design:
  - Thematic approach - methods and evaluation teams adapted to themes
  - Evaluation effort has been substantially stepped up in scale and resources. Academic community involved

→ Change in comparison to earlier work

Design Of Policy Evaluation at FFC – Economic Development

- Not possible to judge success of policy by observation of statistics – other factors at work!

- Approach adopted:
  - Was scale of funding big enough to make a difference?
  - Was it targeted at relevant factors?
  - Do macroeconomic models indicate positive effect on growth?
  - Was growth performance better in assisted regions?
  - Is there concrete evidence of positive results?


Modelling Block
CGE
Regional CGE
Microsimulation
Management and implementation systems
Data Block
Data indicators
Major projects
Geographic distrib.
IMPACT OF POLICY
Thematic Block
Enterprise support
Environment and Climate Change
Infrastructure
Structural change and globalization
Gender and Demography
Social Grants
Other Initiatives
CSG & Gender
Intergovernmental Transfers
ES+CG
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MAJOR FINDINGS

- With respect to prospects for achieving accelerated economic growth
  - Focused infrastructure spending (TFP and employment) results in improved GDP growth
  - Reduces the debt-to-GDP ratio especially in medium term
- With respect to MDGs
  - Importance of MDG 6 (AIDS) and MDG 2 (universal education) – AIDS has massive impact on maternal mortality and child mortality
  - Costs of attaining all outstanding MDGs prohibitively high – too much to do in 4 years
- With respect to current IGFTs
  - Reduce disparities in terms of well-being amongst provinces
  - Have small overall GDP effect but high provincial disparities

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RECOMMENDATIONS

- National, provincial and local government should further reprioritise expenditures in respect of Equitable Share and Conditional Grants for 2012/13 to move towards attaining the MDGs
  - Government should prioritise MDG 2 (universal education) and MDG 6 (HIV indicators) in the interim as their attainment will have positive impacts on other MDGs (positive spillovers)
  - Time-frame for attaining all outstanding MDGs simultaneously should be extended beyond 2015 to make the task feasible

RECOMMENDATIONS

- Government should continue strengthening the equity focus of the current system of intergovernmental transfers, in particular in health and education sectors
  - The existing transfer system is not the most effective instrument to support government's growth objectives, and this aspect should continue to be strengthened so that it plays a supportive role in this respect
- Government should actively and specifically continue pursuing implementation of significant capital investment in public infrastructure that has a positive impact on total factor productivity and employment in the context of the NGP

KEY CONCEPTS IN ECONOMIC DEVELOPMENT

- Consistency of government's projections
- Redistribution
- Restructuring
- Investment Vs subsidies
- Subsidiarity not top down (generally)
- Wide partnership
- Geographical balance/catching up/'reducing disparities'
- Regions: sub national
- Climate, Green Growth and Jobs

CONCLUSION

- Evaluation demonstrates contribution of government to reduction of disparities
- South Africa as a whole wins with policy
- We have more knowledge about what policy has delivered in main policy fields (growth, equity, efficiency)
- We can demonstrate that policy delivers more than growth: a better income distribution and social benefits
- We know much better how to evaluate
- We have many more questions to answer!

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THANK YOU.

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