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# PARLIAMENT

OF THE

# REPUBLIC OF SOUTH AFRICA

# ANNOUNCEMENTS, TABLINGS AND COMMITTEE REPORTS

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# ANNOUNCEMENTS

## National Assembly and National Council of Provinces

### The Speaker and the Chairperson

**1. Draft Bills submitted in terms of Joint Rule 159**

(1) **South African Languages Bill**, 2011, submitted by the Minister of Arts and Culture.

Referred to the **Portfolio Committee on Arts and Culture** and the **Select Committee on Education and Recreation**.

(2) **National Health Amendment Bill**, 2011, submitted by the Minister of Health.

Referred to the **Portfolio Committee on Health** and the **Select Committee on Social Services**.

## National Assembly

### The Speaker

**1. Introduction of Bills**

(1) **The Minister of Arts and Culture**

(a) **South African Languages Bill** [B 23 – 2011] (National Assembly – proposed sec 75) [Explanatory summary of Bill and prior notice of its introduction published in ***Government Gazette*** No 34675 of 12 October 2011].

Introduction and referral to the **Portfolio Committee on Arts and Culture** of the National Assembly, as well as referral to the Joint Tagging Mechanism (JTM) for classification in terms of Joint Rule 160.

In terms of Joint Rule 154 written views on the classification of the Bill may be submitted to the JTM within three parliamentary working days.

**2. Minister relieved of duties**

(1) A letter dated 26 October 2011 has been received from the President of the Republic –

(a) outlining the findings of the Public Protector after an investigation into allegations of a breach of the Executive Ethics Code by the Minister of Cooperative Governance and Traditional Affairs Mr S Shiceka; and

(b) informing members of the Assembly that he has, after careful consideration of the Public Protector's report, relieved Mr Shiceka of his duties as the Minister of Cooperative Governance and Traditional Affairs.

Referred to the **Portfolio Committee on Cooperative Governance and Traditional Affairs** and to the **Joint Committee on Ethics and Members' Interests**.

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# TABLINGS

## National Assembly and National Council of Provinces

**1. The Speaker and the Chairperson**

(a) 2010 Second Quarterly Report of the National Conventional Arms Control Committee (NCACC), tabled in terms of section 23(1)(b) of the National Conventional Arms Control Act, 2002 (Act No 41 of 2002).

(b) 2010 Third Quarterly Report of the National Conventional Arms Control Committee (NCACC), tabled in terms of section 23(1)(b) of the National Conventional Arms Control Act, 2002 (Act No 41 of 2002).

(c) 2010 Fourth Quarterly Report of the National Conventional Arms Control Committee (NCACC), tabled in terms of section 23(1)(b) of the National Conventional Arms Control Act, 2002 (Act No 41 of 2002).

Referred to the **Joint Standing Committee on Defence**.

**2. The Minister of Finance**

(a) Report of the Registrar of Pension Funds for 2009 [RP 173-2011].

**3. The Minister of Police**

(a) Proclamation No 41 published in the Government Gazette No 34469 dated 20 July 2011: Notification by President in respect of entities identified by the United Nations Security Council, made in terms of section 25 of the Protection of Constitutional Democracy against Terrorist and Related Activities, 2004 (Act No 33 of 2004), tabled in terms of section 26 of the Act.

(b) Proclamation No 42 published in the Government Gazette No 34469 dated 20 July 2011: Notification by President in respect of entities identified by the United Nations Security Council, made in terms of section 25 of the Protection of Constitutional Democracy against Terrorist and Related Activities, 2004 (Act No 33 of 2004), tabled in terms of section 26 of the Act.

(c) Proclamation No 43 published in the Government Gazette No 34469 dated 20 July 2011: Notification by President in respect of entities identified by the United Nations Security Council, made in terms of section 25 of the Protection of Constitutional Democracy against Terrorist and Related Activities, 2004 (Act No 33 of 2004), tabled in terms of section 26 of the Act.

(d) Proclamation No 45 published in the Government Gazette No 34501 dated 4 August 2011: Notification by President in respect of entities identified by the United Nations Security Council, made in terms of section 25 of the Protection of Constitutional Democracy against Terrorist and Related Activities, 2004 (Act No 33 of 2004), tabled in terms of section 26 of the Act.

(e) Proclamation No 47 published in the Government Gazette No 34555 dated 25 August 2011: Notification by President in respect of entities identified by the United Nations Security Council, made in terms of section 25 of the Protection of Constitutional Democracy against Terrorist and Related Activities, 2004 (Act No 33 of 2004), tabled in terms of section 26 of the Act.

## National Assembly

**1. The Speaker**

(a) Reply from the Minister of Finance to recommendations in the *Report of Standing Committee on Finance on Strategic Plans and Budget Vote No 10: National Treasury, and the South African Revenue Service*, as adopted by the House on 25 August 2011.

Referred to the **Standing Committee on Finance**.

**2. The Minister of Finance**

(a) Report to Parliament on the over- and underspending of municipalities as at 30 June 2011.

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# COMMITTEE REPORTS

## National Assembly

*The report below replaces the Budgetary Review and Recommendation Report of the Portfolio Committee on Economic Development, published in the ATC of 02 Nov,on page 4034*

1. The Budgetary Review and Recommendation Report of the Portfolio Committee on Economic Development, dated 01 November 2011

### 1. Introduction

The Department of Economic Development (hereinafter referred to as "The Department") was established in 2009, with a mandate to develop economic policy with a broad, cross-cutting focus so that macro and micro-economic policy reinforce each other and are both aligned to the electoral mandate. The Department is further responsible for economic development planning and seeks to work collegially with other Departments to ensure coordination around a programme that places decent work at the centre of government's economic policies in order to secure better employment outcomes.

The Department is central to government efforts of reducing unemployment, income inequalities and poverty in the country. The Department's mandate is rooted in ensuring that the country focuses on employment creation. The Department's principal outputs are the New Growth Path (NGP) and Outcome 4 of the Service Delivery Agreement. The NGP identifies key 'jobs drivers', with high employment creation potential and the implementation of supporting policies to take advantage of this potential. The key 'jobs drivers' include agriculture and agro-processing, mining and beneficiation, manufacturing, the 'green economy' as well as tourism. In terms of Outcome 4 of the Service Delivery Agreement, the number of jobs created / reduction of unemployment is one of the key outcome indicators for the Department's performance. Other outcome indicators are GDP growth, employment ratio or absorption rate, distribution of earned income and household poverty

### 1.1 The role of the Committee

Chapter 4 of the Constitution of South Africa, Act 108 of 1996 sets out in detail the powers, functions and procedures of Parliament. Parliament through Committees, such as the Portfolio Committee on Economic Development, is tasked with the following functions;

- Making laws,
- Maintaining oversight over national executive authority and any organ of state.
- Facilitating public involvement in the legislative and other processes of the Assembly and its Committees.

In terms of making laws, the Committee is seized with the matter of the amendments to the Competition Act which have not yet been made into law. However, the Committee did not or introduce any new legislation or handle any amendments this year.

In respect of exercising its oversight functions, the Committee scrutinised the strategic plans, budgets, annual and quarterly reports of the Department and its entities. The Committee also embarked on oversight visits to places such as Free state and Gauteng, with the aim of ascertain the extent to which the work of the state's development finance institutions addresses the needs of the end users on the ground.

The Committee also conducted public hearing on SMME Access to Finance in the country. These hearings took place in November 2010 and the Committee adopted recommendations arising from the hearings.

Section 5 of the Money Bills Amendment Procedure and Related Matters Act empower the National Assembly, through its committees to annually assess the performance of each national Department in order to compile and submit an annual Budgetary Review and Recommendations Reports (BRRR) for each national Department that falls under its oversight responsibility. Such reports must be tabled in the National Assembly. In the compilation of this report, the Portfolio Committee on Economic Development interacted and engaged with the Economic Development Department and its entities by analysing and processing the tabled annual reports, including first and second quarter performance report briefings by the Department for the year under review.

### 1.2 The Department

The aim of the Department is to promote economic development through participatory, coherent and coordinated economic policy and planning for the benefit of all South Africans. In achieving its mandate, the Department will ensure that;

- It co-ordinates the economic development contributions of government Departments, state entities and civil society.
- Efforts that ensure coherence between the economic policies and plans of the state and state entities on the one hand, and the government's political and economic objectives and mandate on the other are supported.
- It promotes government's ability to achieve its goals of advancing economic development with decent work opportunities.

## 1. Department's Strategic Priorities and measurable objectives

### 2.1 Strategic priorities

The following were highlighted as the key strategic priorities of the department as emphasised in the department's strategic plan;

- Promotion of decent work through meaningful economic transformation and inclusive growth.
- Provision of participatory, coherent and coordinated economic policy, planning and dialogue for the benefit of all South Africans.
- Maintenance of high levels of public investment in infrastructure to support private and public job preservation and creation.
- Deployment of macroeconomic policies in combination and aggressively, where required, to address the economic crisis.
- Utilisation of industrial and trade policies to rebuild local industrial capacity and avoid the erosion of the country's manufacturing base.
- Utilisation of a combination of measures on public employment, private sector initiatives, including training, to avoid massive job loses scaling up social interventions to address the jobs challenge and ensure social.

#### 2.1.1 Strategic priorities per programme

In March 2011, the Minister of the Department stated that the focus of the Department will be to try to increase the staffing of those posts that deliver services. The Minister indicated that the Department is working towards greater integration between the Department and the agencies, reporting to it. The Minister further noted that the inter-ministerial Committee has become a critical forum in which a consensus on policy is forged and key issues identified. The Minister acknowledged that the approach adopted by government is not where it is supposed to be, but reiterated that government has made significant strides in moving away from the "silo" approach of government Departments.

Four critical programmes determine the work of the Department. Within each of the programmes, the Department identified a number of strategic priorities, which relate specifically to the purpose:

- **Programme 1: Administration**

The purposes of this programme are to co-ordinate and render an effective, efficient, strategic support and administrative service to the Minister, Deputy Minister, Director General, the Department and its agencies. The Department's reported organisational structure provides for 265 posts, but funding was available for 124 vacancies. Out of 124 funded posts for the year ending in March 2011, the Department had 75 employees. Accordingly, as at 31 March 2011, there were 49 funded but vacant posts, representing a 39.5percent vacancy rate.

- **Programme 2: Economic Policy Development**

The overall functions of this programme are to:
- Develop South Africa's path for economic growth and the creation of descent work;
- Undertake work to ensure macro and micro economic policies that are coherent and aligned to the broader economic objectives;
- Co-ordinate the economic development programmes of government;
- Draw the links between different policy and programme areas and economic development objectives;
- Engage with civil society and manage their contributions to policies for economic development; and
- Conduct economic policy research that informs the formulation of appropriate economic policies.

- **Programme 3: Economic Planning and Coordination**

The purpose of this programme is to develop economic planning proposals for consideration by cabinet and for submission to the National Planning Commission to be incorporated in the wider national plan.

It will contribute the above-mentioned by:
- Contributing to the coordination and coherence between macro and micro economic policies. This will be achieved through the development of these plans for the consideration of the economic sectors and employment cluster of cabinet;
- Providing oversight and strategic direction to certain development finance and related institutions and economic regulatory bodies;
- Contributing to the work of other Departments that are participating in African and regional institutions, international economic agencies and multilateral institutions; and
- Building economic opportunities including the job creation potential of green economic activities.

- **Programme 4: Economic Development and Dialogue**

The purpose of this programme is to promote social dialogue to foster economic development. The Department envisage to:
- Lead government in its dialogue with the social partners on matters pertaining to economic development and attempt to build consensus with, and acquire the active support of labour, business and the community on government's economic policies, plans, goals and growth path for economic development
- Represent government in the discussions about the implementation of the framework agreement on South Africa's response to the economic crisis;
- Develop the capacity of social partners to engage in social dialogue, including at sectoral and workplace level; and
- Enhance productivity, entrepreneurship and innovation.

## 2.2 Measurable Objectives of the Department

According to the strategic plan, the following were highlighted as the Department's key indicators

- Number of jobs created / reducing unemployment
- GDP growth
- Employment ratio or absorption rate
- Distribution of earned income
- Households in poverty

### 2.2.1 Measurable objectives per programme

- **Administration**

The number of posts filled is expected to grow significantly as the Department begins to have a proper recruitment strategy in place. The key activities from the operational plan under this programme include;

- Implementation of the recruitment plan and ensuring that the adequate Staff is in place to render the support service needed.
- Ensuring that the Department has enough accommodation, furniture and equipment.
- Planning and reporting.

- **Economic Development Policy**

The key activities from the operational plan under this programme include;

- Monitoring the implementation of the New Growth Path by producing quarterly reports, to reduce unemployment significantly by 2020.
- Add to the body of knowledge on macroeconomic matters by periodically issuing policy papers
- Policy platforms on economic policy challenges.
- Development of an economic model.
- Establishment of an economic development index.
- Establishment of database on the real economy.
- Proposal for the establishment of the economic development institute.

- **Economic Development: Planning and Coordination**

The key activities from the operational plan under this sub-programme;

- Strategic engagements with DFIs and ERBs.
- Strategy to enhance investment for economic development.
- Oversight of special financing for small business, targeted growth sectors and companies in distress.
- Interventions to leverage state expenditure and procurement.
- Engagements with international agencies and multilateral institutions.

- Submission of economic planning proposals.
- Production and review of sector plans.
- Production and review of spatial plans.

- **Economic Development and Dialogue**

The key activities from the operational plan include;

- Promoting dialogue among social partners by conveying and participating in national social dialogue forums on economic development on an ongoing basis.
- Alleviate hardship as a result of the economic downturn and mobilise society behind common socioeconomic goals by facilitating, monitoring and reporting on the implementation of framework agreements and social pacts.
- Secure stakeholder partnerships for major government initiatives such as the new growth path by hosting an annual economic development conference
- Inform the development of new policies by establishing an advisory panel on economic development to get advice from prominent experts on the challenges facing government.

## 3. Analysis of the Department's Prevailing Strategic and Operational Plan

### 3.1 New Growth path

The New Growth Path (NGP) sets a target of creating 5 million new jobs by 2020. The initiative directs that economic policy should be geared towards the attainment of this target and the Department of economic development is tasked with ensuring that it has measures to coordinate efforts to realise the goal of delivering 5 million new jobs.

In order to achieve this target, government will focus on unlocking employment potential in six key sectors and activities. These are;

- Infrastructure, through the massive expansion of transport, energy, water, communications capacity and housing sectors.
- The agricultural value chain, with focus on expanding farm-output and employment and increasing the agro-processing sector.
- The mining value chain, with a particular emphasis on mineral beneficiation as well as on increasing the rate of mineral extraction.
- The green economy, with programmes in green energy, component manufacture and services.
- Manufacturing sectors in the Industrial Policy Action Plan 2 (IPAP2)
- Tourism and certain high-level services.

### 3.2 Findings from oversight visits that impact on the Department

The Portfolio Committee undertook a study tour to the Eastern Cape, Free State and Gauteng provinces from 3-5 August 2011.

The Committee also held a meeting with the residents of Soweto at the Orlando Community Hall. The overarching issues raised in the Free State are poverty, unemployment, under developed rural areas, ageing infrastructure, radiation from exposed uranium, the contamination of the land and water in affected areas and declining mining activity due to mines that are closing down.

In the Eastern Cape, the Committee took time to examine the auto industry which was going through challenges and a possibility of retrenchments. There were discussions made, including assurances made by the role players that efforts will be made to preserve jobs. It was further realised that institutions such as Samaf were almost non-existent in the province of Eastern Cape.

**Some issues raised**

- Dissatisfaction with government for allowing the importation of products that can be produced and manufactured in the country.
- Government failure to regulate the quantity and quality of imported goods in the country.
- The view that unemployment is partly due to the fact that government allows foreign businesses to invest in the country and when profits have been made, citizens are left abandoned.
- Concerned that malls inhibit the SMME development in townships.
- The Department needs to assess the impact of the SMME development in the townships.
- Complaints about cumbersome DFI processes.
- The Department should ensure that the IDC, Khula, Samaf merger is sufficiently equipped to create large cooperatives that are able to alleviate poverty in a significant way.

**Recommendations**

- The Department should embark on road shows to establish the state of cooperatives nationally and consider ways to overcome existing hurdles to enable them to push back the frontiers of poverty in the country.
- The Economic Development Department and its entities undertake a follow up community outreach programme in Orlando, in order to respond to the community's plea for a meaningful relationship after the August parliamentary oversight visit in Soweto.
- The department should work together with municipalities and provinces and other relevant departments to formulate an integrated strategy for restoring the small business parks in Soweto and other areas to their full potential.

## 4. Analysis of Section 32 Expenditure Reports

The Department reported its first and second quarter reports to the Committee. Among the key highlights was the fact that the Department had managed to spend 45 percent of its total allocated budget of R594.5 million.

Spending was hampered by slow filling of posts which was due to challenges of scarce skills in the economic sector.

The Committee remarked as follows :-

- Committee needed clarity as to what was the main priority of the Department in as far as the usage of funds was concerned, that is, conflict between spending to create new jobs versus spending to save existing jobs.
- The Committee was not convinced that the Department had placed emphasis in seeking to cater for people living with disabilities.
  The committee strongly expressed its dissatisfaction with slow progress in the filling of vacancies, more especially those that are funded.
- The Department was further asked to put emphasis on local content when implementing its procurement policy. Promoting green economy activities must be prioritised and reflected through the spending patterns of the Department.
- The Department reported that there were challenges faced with respect to finding the suitably skilled people to recruit especially people who possessed financial skills as there was high demand for such individuals in the private sector.
- There is a need to incorporate the Millennium Development Goals imperatives in the department's plans, especially those MDGs that are aimed at reducing poverty, unemployment, through curbing indicators such as child mortality and gini coefficiency.
- The Department was also urged to look at ways of reducing their dependence on the Department of Trade and Industry on space issues as this was likely to be a contributing factor to the department's high attrition rate. Few entities had raised the challenge of office space as a cause of concern during interactions with the Portfolio Committee.

**Table 1 Vote 28 Economic Development**

| Programme | Budget | | | | Nominal Rand change | Real Rand change | Nominal % change | Real % change |
|---|---|---|---|---|---|---|---|---|
| R million | 2010/11 | 2011/12 | 2012/13 | 2013/14 | 2010/11-2011/12 | | 2010/11-2011/12 | |
| Administration | 45.1 | 55.0 | 60.5 | 63.7 | 9.9 | 7.4 | 21.95 per cent | 16.37 per cent |
| Economic Policy Development | 18.6 | 23.3 | 29.3 | 30.9 | 4.7 | 3.6 | 25.27 per cent | 19.53 per cent |
| Economic Planning and Coordination | 374.6 | 499.9 | 566.6 | 599.5 | 125.3 | 102.4 | 33.45 per cent | 27.34 per cent |
| Economic Development and Dialogue | 11.5 | 16.3 | 18.3 | 19.3 | 4.8 | 4.1 | 41.74 per cent | 35.25 per cent |
| **TOTAL** | **449.8** | **594.5** | 674.7 | 713.4 | **144.7** | 117.5 | **32.17 per cent** | **26.12 per cent** |

***Adapted from Treasury Estimates of National Expenditure 2011***

**Programme Analysis**

The department has four programmes, namely :-
the Administration (9.25 per cent of the total budget), 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 R 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 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) and Economic Development and Dialogue (2.74 per cent). In terms of economic classification, transfers and subsidies constitute the largest allocation (78.18 per cent). These transfers are made to the entities falling under the Department. The entities are divided into two bodies namely the 3 Development Finance Institutions and Regulatory bodies. The 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 consists of the Competition Commission (R126.6 million), Competition Tribunal (R15.2 million) and the International Trade Administration Commission (ITAC – R69.6 million) Over and above the initial allocation to these entities, additional allocations are expected over the medium term period.

- **Receipts**

The Department generates its revenue from dividends received from the Industrial Development Finance (IDC) as well as fines and penalties imposed by the Competition Tribunal for contraventions of competitive practices. Between the financial year 2010/11 and 2011/12, the Departmental receipts increased by 6% the Department from R230.0 million (2010/11) to R243.8 million (2011/12). Over the medium term period, the revenue is expected to increase from R243.8 million in 2011/12 to R263.8 million in 2013/14. This represents an average nominal increase of 8.2% the Department over the same period.

## 5. Analysis of the Department's Annual Report and Financial Statements

The allocated budget for the Department for the 2010/11 financial year was R449 840 00. The expenditure for 2010/11 was R400 674 000, which translates to 89 percent of the voted budget. The major cost driver of the Department is in programme 3: Economic Planning Coordination which includes transfers to Departmental agencies with an expenditure of 95 per cent of the adjusted budget as well as Programme 1: Administration, which has an expenditure of 78 per cent of the adjusted budget.

Under-expenditure occurred primarily in Programme 2: Economic Policy Development and Programme 4: Economic Development and Dialogue.

This is attributed to the rate in which posts are filled as the Department is in its early years of operation. Overall under-spending of R49 166 000 must be read in the context of the request for rollovers, amounting to R35 050 000, pending approval by the National Treasury.

## 5.1 Analysis of Annual Reports and Financial Statements of the State Owned entities

### 5.1.1 Competition Commission

The Competition Commission is a statutory body constituted in terms of the Competition Act, No 89 of 1998. In terms of the Act, the Commission has powers to investigate, control and evaluate restrictive business practices, abuse of dominance and powers to regulate mergers and acquisitions in order to ensure a healthy competitive environment in the South African economy.

For the year under review, the Competition Commission was allocated R117.6 million. Its total revenue was R161 million. The authority reports that it spent 87percent of the total revenue. The Commission under spent by 13 percent which is above National Treasury norm of at most 5percent under expenditure. A total R794 million was collected from 22 settlements reached in the year under review. The Commission reported a worrying precedent which had been set by the appeal court which had led to a number of its high profile cases being ruled against the Commission mainly based on the procedure rather than the merits of the cases. The Commission had since taken a decision to appeal some of those cases with the Constitutional Court for final clarity on the issues complained of by the Commission.

### 5.1.6 Competition tribunal

The Competition Tribunal has jurisdiction throughout South Africa and has a mandate to adjudicate competition matters as per the Competition Act. When a matter is referred to the tribunal, it may;

- Grant an exemption from a relevant provision of the Act
- Authorise a merger, with or without conditions or even prohibit the merger altogether.
- Adjudicate in relation to any conduct prohibited in terms of the Act by determining whether prohibited conduct has occurred, and if so, impose a remedy provided in the Act
- Grant an order for costs

In terms of reporting, the tribunal indicated that a total 116 cases were heard in the year under review. The tribunal further reported that it was proud to have managed an 86percent of hearings in large merger cases within 10 days of receipt of case. The reported administrative penalties imposed by the tribunal exceeded R787 million, up from R292 million in 2009/10 financial year.

- **Observations**
- ♦ There were seemingly high levels of staff leaving the competition authorities, particularly the Competition Tribunal
- ♦ The reasons attributed to employees leaving the employ of the competition authorities remained unknown.
- ♦ The concerns about office space needed to be articulated clearly as to what was needed and the plans of addressing such concerns already in place.

### 5.1.2 Khula Enterprise Finance Limited

Khula Enterprise Finance Limited (Khula) was established in 1996. Its vision is to be the development finance partner of first choice in Small Medium Enterprise (SME) development. The enterprise's mission is to provide finance, mentorship services and small business premises to SMEs through a network of partnerships and to encourage the sustainable development of SMEs whilst ensuring that Khula remains financially viable.

Khula's primary mandate is to facilitate access to finance for SME development. The three key focus areas of Khula's mandate are;

- Promote Access to finance through maximising financing for SMEs
- Impact Development through jobs, Black Economic Empowerment (BEE), rural development, women empowerment
- Ensure financial sustainability through inflationary rate of return

Khula's target market includes the following;

- Primarily black-owned & owner-managed formal SMEs
- SMEs requiring financial solutions between R10 000 and R3 million, with special emphasis on the underserved market segment of loans below R250 000
- Start-up and expansions of early stage businesses
- Focus on underserved provinces, rural areas and "urban poor" communities
- Focus on women-owned enterprises.

**Observations**

- ♦ Questions remained as to what impact the pending merger between Khula and Samaf was having on staff morale and productivity.
- ♦ It was not clear as to whether Khula used private equity funds to target key sectors such as those identified by the department of Trade and Industry.
- ♦ Concerns that a large segment of the population was unaware of assistance provided under Khula
- ♦ The total number of resignations in 2010 seemed to be high and the committee was keen to know what may have led to such.
- ♦ There was lack of clarity regarding break-down of beneficiaries in terms of race, gender and location

- Whether Khula had any plans of reviving and targeting factories that were operational during the apartheid era but which had since been neglected.
- It was concerning to realise that the provincial offices of Khula were located in Central Business Areas (CBD) rather that in the townships.

### 5.1.3 South African Micro-Finance Apex Fund

The South African Micro-Finance Apex Fund (Samaf) has been in operational since 2006. It was created to provide wholesale funding and capacity building support to on-lending financial intermediaries for the provision of affordable financial services to the enterprising poor in South Africa. Although in the process of merging with Khula, Samaf's role will remain relevant in the South African economic space as one of the tools to bring about economic freedom for many. A few issues are worth mentioning with regard to the Samaf annual report to the Committee;

- For the first time, Samaf did manage to provide an elaborate and well structured presentation on their annual report.
- It was noted that similar institutions to Samaf in other African countries had done well in terms of impact of the support given to emerging entrepreneurs. Kenya was cited as one country in which South Africa could learn from in terms of the positive impact made by institutions similar to Samaf.
- The Committee needed an explanation as to why the Department director general had condoned two incidents of irregular spending.
- The Committee was eager to learn what punitive or corrective measures had been taken against individuals who were responsible for such irregular spending practices
- The people living in rural areas were unaware of how they could benefit from funding provided by Samaf. A specific request was made to Samaf to devise a strategy of reaching out to the poor and the marginalised.
- It was however amazing to realise that Limpopo Province was doing well in terms of utilising funding from Samaf.
- After reporting that Samaf often outsourced an external auditing unit to scrutinise it books, the committee questioned the wisdom around that practice as opposed to appointing an internal auditing team.

### Observations

- There were concerns about inconsistencies from Financial Services Co-operatives in different provinces that were charging end-users exorbitant interests which as a result discouraged many from utilising the opportunities provided by Samaf
- Samaf was urged to investigate the concern of high interests charged by FSCs and if possible encourage the use of the model used in the Limpopo Province, which was viewed by many as an example of best practice in the disbursement of funding.
- The funding model implemented in the Limpopo Province seemed to be yielding good results and Samaf was urged to consider replicating it in other provinces.

- There was a plea for more visibility of the entity particularly in provinces such as the Eastern Cape

### 5.1.4 International Trade Administration Commission of South Africa

The International Trade Administration Commission of South Africa (ITAC) comprises three core business units, namely tariff investigations, trade remedy investigations and import and export control. During the year under review, ITAC reported that it investigated and considered eight applications for tariff increases, of which six were favorably considered.

Other highlights of ITAC investigations included anti-dumping investigations as well as six sunset reviews of existing anti-dumping duties. A further investigation was initiated against Indian manufacturers and exporters but that investigation was terminated without imposing any anti-dumping measures.

**Observations**

- The enormous increase in the issuing of export certificates, particularly for copper waste was deemed as a cause of concern as this practice had led to high levels of stolen copper being exported, causing harm to the economy.
- The Committee was concerned that dumping was still continuing in South Africa in spite of ITAC's investigations and penalties imposed.
- A challenge existed wherein prohibited products from countries such as China found their way into the South African market via neighbouring countries after disguised re-branding.

### 5.1.5 Industrial Development Corporation

The Industrial Development Corporation (IDC) is a self-financing, national development finance institution. Its mandate extends to the rest of the African continent and the institution operates in a broad spectrum of industries and can offer financial assistance to a wide variety of individuals.

For the year under review the IDC states that it achieved the following;

- Net funding approvals for South African (SA) based-development of R8.4 billion.
- Improved impact on SA job creation with approvals during the year expected to create 19 650 full-time jobs and save an additional 11650, thus impacting 31 300 jobs in total. An additional 8100 jobs are expected to be created through direct linkages to activities in the informal economy.
- Alignment of the operations with the New Growth Path and the establishment of Green Industries Business Unit.
- Success with sourcing alternative funding which entails;

- R1.5 billion approved to companies through R2 billion UIF fund, creating and saving 17 000 jobs of the 31 300 mentioned earlier.
- Low cost funding secured for the promotion of energy efficiency-initiatives
- Successful interventions in manufacturing to sustain and increase job creation and in this regard,
- R539 million approved for businesses in the clothing and textiles industry to curb job losses and increase competitiveness.
- R648 million approved for schemes managed on behalf of the Department of Trade and Industry (Dti)
- R1.7 billion approved investment in the motor vehicle industry covering areas which were in distress among others.

**Observations**

- The efforts to encourage people with disabilities to utilise funding from the IDC to finance their businesses were not yielding any positive results.
- The Committee requested an update from the IDC regarding their feasibility studies with regards to the financing of green economy activities.
- The Committee observed that the IDC did not mention any working relations with the Higher Education Department and the Science and Technology Department, particularly with regards to aligning and coordinating cross-cutting activities.
- The project of funding green economy activities had not been fully addressed by the Industrial Development Corporation and yet this was one of the activities in which the Committee took keen interest.
- The Industrial Development Corporation was praised for its successes in implementing its mandate. Specifically with regards to the rollout of Solar Water Heaters, the Committee felt the project could have a major impact if it was evenly distributed.
- The Committee was keen to learn of the measures which had been taken by the Industrial Development Corporation to ensure that funds allocated from its distress fund were utilised for the actual purpose intended.
- The Committee, after noting that the Industrial Development Corporation had made huge investments outside the borders of South Africa, was interested on the impact of such investments on job creation in those particular countries.

## 6. Consideration of Other Sources of Information

## SUMMARY OF AUDITOR GENERAL'S FINDINGS

| ENTITY | STATUS | MATTERS OF EMPHASIS |
|---|---|---|
| **Economic Development** | Unqualified | HR planning did not adhere to Public Service Regulations |
| | | Non-compliance with Treasury regulations on payroll report |
| | | Lack of evidence regarding 30 day payment to creditors |
| | | Instances of non-disclosure by senior managers |
| | | Financials statements not prepared according to recognised accounting principles |
| | | Insufficient procedures for completion of accurate and complete financials |
| **Competition Commission** | Unqualified | Error discovered in the financial statements |
| | | Financials not prepared according to generally recognised accounting practice |
| | | Deviation from National Treasury practice - no reasons were recorded and approved by accounting authority |
| | | Payments were made to suppliers who did not submit disclosure forms (non-disclosure) |
| | | Accounting authority's failure to take adequate steps to prevent irregular expenditure |
| | | Accounting authority's failure to exercise effective oversight in ensuring compliance with relevant legislation |
| | | |
| **Competition Tribunal** | Unqualified | Non-compliance with procurement regulations regarding transactions with value between R10 000-R500 000 (no reasons provided) |
| | | Accounting authority did not take appropriate steps to prevent irregular expenditure |
| | | Non compliance could have been prevented if monitoring controls were in place |
| | | |
| **ITAC** | Unqualified | Deficiencies in relation to inconsistent reporting of objectives, indicators - not well defined and verifiable and targets |

| | | |
|---|---|---|
| | | Non-compliance with procurement regulations in relation to R97 104 and no reasons provided for deviation |
| | | Awards made to service providers who did not submit relevant procurement forms |
| | | Failure to take effective steps to prevent irregular expenditure of R97 104 |
| | | Lack of sufficient monitoring controls to ensure proper planning, implementation and reporting of performance |
| | | |
| **IDC** | Unqualified | No material findings identified by KPMG and Sizwe Ntsaluba VSP |
| | | |
| **Khula** | Unqualified | No deficiencies identified by Sizwe Ntsaluba VSP, AB Mthimunye |
| | | |
| **Department** | Unqualified | Errors discovered in 2010 financial statements |
| | | Uncertainty in relation to going concern |
| | | Material losses of R 1.04 million |
| | | Material impairments of R4.79 million |
| | | Deficiencies in relation to usefulness of information - inaccuracy in reported figures and incomplete performance information |
| | | 50percent of indicators were inaccurate |
| | | Misstatements with regards to grants, interest income, accruals, loan impairments and expenditure were corrected |
| | | Non-compliance with procurement procedure for transactions worth between R10 000 and R500 000 |
| | | Leadership failed to ensure that reporting framework was complied with regarding financial reporting |
| | | Leadership did not ensure that predetermined objectives were well defined, accurate and complete |
| | | Lack of adequate controls for ensuring accuracy, completeness and proper adoption of financials |
| | | Inadequate controls for IT high risk areas |

NB: Adapted from Auditor General's Presentation to the Portfolio Committee

## 7. Committee's Observations

Having received the presentations and engaged the Department and its entities, the Committee made the following observations;

- The Committee was concerned with slow pace of filling vacant posts within the Department of Economic Development.
- Priority on creating Jobs and opportunities in former homelands had not been thoroughly given adequate attention by the Department and its entities.
- Clarity on the future role of bio-fuels and funding of such activities remained unclear
- It remained unclear as to why the Department had lost some of its employees since there was no exit form that leaving employees completed.
- For such an important and strategic Department, there was no departmental website to provide the public and stakeholders with information about critical activities of the Department.
- Merger implications of Samaf and KHULA on staff morale needed to be addressed lest they affect service delivery

## 8.1 Key Issues for Consideration by Parliament

Since 2011 has been declared a year of job creation through meaningful economic transformation and inclusive growth, it is imperative that the Parliament of the Republic of South Africa conducts its oversight function with due diligence in ensuring the achievement of the above declaration. With the New Growth Path in place serving as a guide to overarching documents helping in transforming our economic landscape, there is a vital role that Parliament can play in assisting to fast track its successful implementation.

Parliament should be guided by the following:-

- **Number of jobs created/reducing unemployment** – Parliament should ensure that the New Growth Path guides the work of the relevant Departments in achieving the set goals and work within the premise that the creation of decent work is at the centre of the country's economic policies. In addition, Parliament should urge every sector (including both public and private and economic sectors regardless of size and location in order to focus on job creation.

- **GDP growth** – despite South Africa's economic growth experienced in the past 10 years, it has lagged behind its peers, running at just over 1 percent a year. Therefore, in this regard Parliament should ensure that components of growth such as sound fiscal policies are in place. In addition, Parliament should support policies that encourage private sector competition, infrastructure, and human capital development and promote simple, transparent, and stable tax policies in order to further boost growth. Policies that promote Small Medium and Micro

- Enterprises (SMMEs) including the cooperatives, should not be neglected as these may be significant engines for economic growth and creation of jobs that will help in alleviating poverty and malnutrition.

- **Employment ratio or absorption rate** – this indicator for employment cuts across various sectors. Education may be used as an indicator for measuring skills. However, it is not a sufficient indicator by itself. Parliament in this regard should also take into consideration other facets to skills development such as on the job training; the quality of education received and the Recognition of Prior Learning (RPL) in addressing high unemployment levels. The recent amendments to the labour Act should not be neglected in this regard. The Skills Accord must be implemented without failure if we are to see skills gaps being closed.

- **Distribution of earned income** – the country's creation of wealth will depend, to an extent, on its economic structure or system, history, ongoing or past wars, and differences in individuals' abilities to create wealth. The apartheid era contributed adversely to the inequality that South Africa currently experiences. In addressing the situation, the role that Parliament can play is critical and may have to focus on a number of cross cutting issues. These include a re-look at the labour market, globalisation (economic neo-liberal policies), education, wealth condensation, race, gender, culture, and innate ability.

- **Households in poverty** – there are quite a number of people in South Africa who still lack the basic human resources/needs. These include clean and fresh water, nutrition, health care, education, clothing, and shelter. The lack thereof may be attributed to the inability to afford such basic needs. Parliament should ensure that more and better jobs are created in the identified sectors and must strive for improved alignment of economic policies within the spheres of government, especially rural development policy with particular emphasis on income generating projects for the rural poor.

## 10. Recommendations

The recommendations made by the Portfolio Committee on Economic Development have been divided into those that are directed to the work of the Department of Economic Development, its entities and to the National Treasury.

### 10.1 The Economic Development Department

The Department of Economic Development should:

- Play an active role in the co-ordination of the Department's activities and that of its entities in order to ensure that the vision of job creation and vacancy closure is realised;

- Consider finding ways of gathering information as to what led to employee resignations. This could be done through for example an exit form that every leaving employee completes.
- Ensure that its website is fully operational and efficient so that Parliament and the public could be kept abreast with activities of the Department;
- Ensure that the revival of the clothing and textile sector needed is given priority, including cotton farming;
- Consider setting up Business Assessment Centres (BACs) or multi-purpose centres on a public-private partnership basis;
- Develop a monitoring and evaluation tool to ensure growth and sustainability.
- Focus strongly on institutional sustainability and put emphasis on quick turnaround times;
- Consider conducting workshops for communities on how to complete the prescribed National Treasury forms in order to be registered in the database;
- Provide Small, Medium and Micro-sized Enterprises with research and development support, and technical advice to mitigate lending risk – similar to Taiwan which regards research and development as important to understanding the needs of International Trade Administration Commission of South Africa;
- Ensure that the State partners with the private sector (including banks) to reach small businesses through innovative methods and the structure of financing needs to be simplified;
- Consider establishing a centre of excellence, which would create a forum for the country's best thinkers, together with stakeholders from the public and private sector, and International Trade Administration Commission of South Africa themselves, to engage on best practices;
- Consider the need to reform the legal and regulatory framework which impacts negatively on International Trade Administration Commission of South Africa development;
- Ensure that its recruitment policy caters for people with disabilities in order to improve the existing situation with regard to employees with disabilities;
- Play a leading role in coordinating efforts by different government departments in the green economy initiatives that are aimed at contributing to job creation.
- Certify that all employees on the payroll report are entitled to payments in accordance with National Treasury Regulations to avoid payments to ghost employees; and
- Ensure that payments are made within 30 days after the presentation of an invoice by service providers.
- Brief the committee on the utilisation of revenues by various entities such as the Industrial Development Cooperation, the International Trade Administration Commission of South Africa and South African Micro-Finance Apex Fund. This is in light of the fact that other entities were allowed by the National Treasury to utilise the revenue they generated while others could not.

### 10.2 Development Finance Institutions

The Department of Economic Development should ensure that the Development Finance Institutions (DFIs), which include the Industrial Development Corporation, South African Micro-Finance Apex Fund and Khula Enterprise Finance Limited and the International Trade Administration Commission of South Africa do the following:

- Accelerate initiatives to make Development Finance Institutions more accessible.
- The Industrial Development Corporation was urged to encourage and support agro-processing businesses and particularly promote rural industrialisation.
- Ensure that Development Finance Institutions are more flexible in allocating appropriate start-up capital;
- Establish a Small, Medium and Micro-sized Enterprises database which would be useful for promoting Small, Medium and Micro Enterprises business opportunities and facilitating interaction between Development Finance Institutions and Small, Medium and Micro Enterprises;
- Create networking platforms and provide Small, Medium and Micro Enterprises with working capital, as well as start-up finance;
- Align incentives for Small, Medium and Micro Enterprises financing with other policy objectives e.g. youth employment initiatives.
- Establish one stop centres for Small, Medium and Micro-sized Enterprises specialists who will empower entrepreneurs with the required skills.
- Ensure that Khula consider the usage of private equity funds which target key sectors such as those that have been identified by the Department of Trade and Industry;
- Consider educating business owners about generally acceptable business practices.
- Device a plan for aggressive marketing to focus on small business development and ensure less red tape when these businesses need assistance to register or seek advice.
- Place strong emphasis on credit risk management, close monitoring of client default data and ease of access by Small, Medium and Micro-sized Enterprises through an extensive network of branches.
- Ensure that adequacy of staff resources, staff knowledge and ongoing training feature prominently in Small, Medium and Micro-sized Enterprises institutions.
- Ensure that law enforcement agencies work together (rather than leaving it for the International Trade Administration Commission) in order to tackle the challenge of fraudulent and illegal imports into the country.
- The International Trade Administration Commission should devise a sound communication strategy as most people were not informed about what International Trade Administration Commission of South Africa can offer to the South African consumers.
- Address remuneration challenges of the commissioner's and deputy commissioners.

### 10.3 The Competition Commission

The Department of Economic Development should ensure that the Competition Commission:

- Make proposals and submissions on how Parliament could intervene in terms of strengthening laws or closing the gaps which hindered progress in terms of the work of the Commission;
- Provide demographic details of their staff compliment, namely race, gender, skill and position held;
- Furnish the Committee with a progress report on the issue of inadequate office space; and
- Find means of reducing low staff turnover.

### 10.4 The Competition Tribunal

The Department of Economic Development should ensure that the Competition Tribunal:

- Find means of partnering with universities in order to recruit requisite skill that will remain within the employ of the Tribunal for a long period of time. This might require entering into employment contracts that will ensure longer service by those recruited under the programme.
- The Competition Tribunal provide the Committee with a break down of its staff component in terms of race, gender etc.
- Engage with the Competition tribunals to ascertain if there is a need to secure additional space for the Tribunal to do its work.
- Ensure adequate measures to correct the 19 per cent reported under-expenditure which is more than the 5 per cent recommended by the National Treasury

### 10.5 National Treasury

The National Treasury should:

- Consider reviewing tendering processes to, among other things, exclude politicians from being awarded government tenders.
- Consider allocating additional funding towards the work of the Competition Commission.
- Ensure that people who do business with government are not black-listed by the National Treasury.
- Create conditions that are conducive for venture capital development, and consider using tax incentives to encourage risk taking.

## 11. Conclusion

The Portfolio Committee on Economic Development is of the view that the Department of Economic Development, working together with its entities, has a massive role to play in the government's target of creating 5 million jobs by 2020. The Department is strongly urged to review its recruitment

strategy in order to lead by example in as far as filling of government vacancies is concerned.

The Industrial Development Corporation in particular was singled out as one of the institutions that have the potential, through its programmes, to make a very meaningful contribution to job creation.

Regarding financial matters, the Committee was pleased with the manner in which the Department and its entities had reported on its financial matters which resulted in the Auditor-General not having any adverse findings against either the Department or its entities.

The Portfolio Committee table the report to be considered.

2. Report of the Standing Committee on Finance on the 2011 Revised Fiscal Framework, dated 04 November 2011

   The Standing Committee on Finance, having considered the 2011 Revised Fiscal Framework, reports as follows:

## 1. Introduction

Section 12(3) of the Money Bills Amendment Procedure and Related Matters Act, Act No. 9 of 2009 (the Money Bills Act) requires that the Minister of Finance tables a revised fiscal framework with the national adjustments budget if the adjustments budget effects changes to the fiscal framework. Furthermore, section 12(5) of the Money Bills Act requires that the revised fiscal framework be referred to a joint sitting of the Committees on Finance for consideration and report.

The 2011 revised fiscal framework, as part of the 2011 Medium Term Budget Policy Statement (MTBPS), was tabled in the National Assembly of Parliament by the Minister of Finance on 25 October 2011. The Standing and Select Committees on Finance (the Committees) invited public submissions using print media. The following stakeholders made their submission to the Committees: Financial and Fiscal Commission (FFC), Business Unity South Africa (BUSA), and People's Budget Coalition (PBC).

## 2. The 2011 Revised Fiscal Framework

### 2.1 Revenue

The 2011 MTBPS indicates that in the 2007/08 financial year, gross revenue tax increased by 15.6 per cent, reflecting strong economic conditions. This rate of increase slowed during the 2008/09 financial year to 9.1 per cent. Following the recession in 2009, gross tax revenue declined by 4.2 per cent. This highlighted the fact that tax revenue responds to changes in the economic cycle. A sharp fall in Corporate Income Tax (CIT), Value

Added Tax (VAT), Secondary Tax on Companies (STC) and customs duty revenue led to this decline. However, the conditions improved during the 2010/11 financial year, whereby nominal gross tax revenue grew by 12.6 per cent on a year-on-year comparison basis -with significant increases in Personal Income Tax (PIT), VAT and, customs duty and fuel levy revenues.

The projected revised estimates of the total tax revenue for the 2011/12 financial year amounts to R728.6 billion, while the total budget revenue amount to R814.2 billion. The PIT, CIT and VAT make up 34.7 per cent, 19.8 per cent, and 25.7 per cent, respectively, of the total tax revenue. The gross tax revenue is projected to increase by 8.1 per cent in nominal terms during the 2011/12 financial year. Compared to the 2011 National Budget's estimates, the estimated gross tax revenue is revised downward by R13.0 billion to R728.6 billion. The 2011 MTBPS indicates that this has been mainly as a result of downward revision of VAT receipts to R187.5 billion. Furthermore, the revenue collection for the 2011/12 financial year and the forecast for the 2012/13 financial year reflect weaker economic conditions. The overall budget has been revised downwards by R10.3 billion in the 2011/12 financial year and by R18.8 billion in the 2012/13 financial year.

## 2.2 Expenditure

As indicated in section 2.1 above, the projected revenue for the 2011/12 financial year amounts to R814.2 billion, which is 7.4 per cent higher compared to the 2010/11 outcome of R758.4 billion and 27.3 per cent as a percentage of 2011/12 gross domestic product (GDP). The 2011/12 government expenditure is projected to amount to R978.8 billion. Therefore, the expenditure is projected to exceed revenue by R164.6 billion -creating a budget deficit of 5.5 per cent as a percentage of GDP. The government debt cost is projected to rise to R76.9 billion, which is 2.6 per cent of GDP and 7.9 per cent of the total projected expenditure. Nevertheless, the consolidated budget deficit is projected, in the medium term, to decrease from 5.5 per cent in the 2011/12 financial year to 3.3 per cent in the 2014/15 financial year.

According to the 2011 MTBPS, government spending will continue to grow moderately in real terms. The proposed fiscal framework makes R1.1 trillion available for spending in the 2012/13 financial year in order to support key spending priorities including: job creation, maintain the real value of the social wage, and support economic transformation along the New Growth Path (NGP).

The 2011 MTBPS stipulates that, over the Medium Term Expenditure Framework (MTEF) period, national departments and public entities must reprioritise and realign their budget baselines to use resources more effectively. The focus, amongst other things, will be on investment in new buildings and fixed structures, as well as maintenance of existing structures.

The budget for public sector infrastructure is projected to be R232.9 billion for the 2011/12 financial year, which consists of the following: economic

services to the amount of R197.3 billion; social services amounting to R26.6 billion; central government and administrative services amounting to R4.2 billion; justice and protection services amounting to R4.1 billion; and financial services amounting to R0.7 billion. A projected R71 billion will be spent on health and education infrastructure over the MTEF period; and more specifically with education estimated to spend R32.2 billion and health R38.8 billion.

### 2.3 Debt Financing

In the 2011 MTBPS, it was reported that the South African bond market, which will be the primary source of financing over the medium term, remains liquid. The debt issuance over the medium term will be maintained at existing levels by drawing on cash balances and exchanging debt maturing within the next few years for debt with a longer term to maturity. The total net loan debt is projected to amount to R1.006 trillion in the 2011/12 financial year.

While revenue, as a percentage to GDP, has declined when compared to the previous years, government spending has been increasing on the other hand. This is indicative of the fact that part of the amount spent by government during this period has been borrowed. This is indicated by the budget deficit which started increasing from the 2010/11 financial year until the 2012/13 financial year. The increase in the budget deficit may actually cause the government to borrow more in order to finance the deficit. This move is likely to affect the future generation to come negatively. The projected tax revenue has increased between 2010/11 until 2012/13. However, revenue, as a percentage of the GDP, has declined quite drastically over the same period. In the 2011/12 financial year, the budget deficit, as a percentage of the GDP, is projected to be 5.5 per cent -increasing from 4.6 per cent in the 2010/11 financial year. The increase in the budget deficit is as a result of borrowings because revenue is less than spending. Furthermore, state debt costs are the fastest growing expenditure component in government spending, followed by spending on infrastructure.

The proposed increase in government expenditure on education, social protection, local government and, housing and health services does not include rural development as part of government's policy priorities.

## 3. Committee Observations

Having considered the 2011 MTBPS and public submissions, the Committees observed the following:

- The 2011 MTBPS sets out a fiscal framework that is projected to narrow the gap between government spending and revenue, while providing support to the economy and strengthening infrastructure investment for sustainable long-term growth. National Treasury indicated that South Africa's financial institutions are well capitalized and government debt is moderate as compared with European countries, and that slower economic growth, falling tax

revenue and uncertain financial conditions confront many of South Africa's trading partners and other developing economies;

- The GDP growth is lower than the 2011 National Budget forecast and is expected to remain moderate; it is thus expected to be 3.1 per cent in the 2011/12 financial year and 3.4 per cent in the 2012/13 financial year. Furthermore, the Committees observed that revenue collection has not yet recovered and the economic outlook is uncertain. The deficit of 5.5 per cent of GDP projected for this year, moderating at about 3.3 per cent over the MTEF;
- Government debt is projected to stabilize to approximately 40 per cent of the GDP in the 2015/16 financial year;
- The Committee observed with concern the increase in the State Wage Bill from 31 to 42 per cent in the previous four-year period. This is a concern for the Committees on Finance since this has resulted in higher cost of production and low growth in job creation;
- Government has been the main employer and there is a need for a firm commitment by the business sector with regard to job creation in order to realize the ultimate goal of creating 5 million jobs by 2020;
- Young people and the less skilled have yet to see economic recovery translate into jobs, which does not address government priorities on the creation of decent work and sustainable livelihoods;
- The Committee welcomes the allocations of the R25 billion increase to the economic stimulus;
- Under-spending on infrastructure has been an ongoing problem and the key challenge has been the shortage of relevant skills; and
- A shift in government expenditure is welcome and more emphasis should be on bulk infrastructure development.

Given these observations, the Committees report as follows:

- There is a need for savings by all government departments, with a need to focus on the composition of spending and addressing inefficiency, extravagance and waste. The Committee further expressed its support on the comment made by the Minister of Finance that government departments need to identify and report on savings initiatives;
- There is a further need to ensure that Parliament plays an effective oversight over the executive in order to improve operational and financial excellence in government departments and its entities; and
- The Fiscal Framework must be aligned to the New Growth Path (NGP) among other objectives.

## 4. Conclusion

Fiscal policy will support the recovery by allowing the deficit to widen in the short term, and government will implement a series of measures to support economic growth and competitiveness.

Over the medium term, government spending continues to grow, but at a more moderate pace than in most recent years. Over the longer term, government will reduce debt and restore sustainability. To consider more rigorously the intergenerational consequences of government's revenue and spending choices, the Committees are looking forward to National Treasury publishing the long-term fiscal report in 2012.

## 5. Recommendations

Having considered the revised fiscal framework and public submissions in accordance with sections 59 and 72 of the Constitution, the Standing Committee on Finance recommends as follows:

5.1 National Treasury should launch a campaign to educate the nation about the importance of saving and the broad implication both on their lives and the economy in general;

5.2 More support, including relaxation and/or reviewing of constraining laws should be given to small business enterprises to create jobs;

5.3 National Treasury should expedite infrastructural development through partnerships with the private sector. These partnerships will also require the review of the Public Private Partnerships (PPP's) in its current form;

5.4 National Treasury and Parliament Committees should place greater emphasis on budget performance to achieve the targeted growth rate;

5.5 Government wage bill and recurrent expenditure should be closely monitored, controlled and all stakeholders, particularly the unions, and National Economic Development and Labour Council (NEDLAC), be engaged to come up with a lasting and sustainable solution. The Committee supports the initiative by National Treasury to reduce the wage bill from 42 per cent to an acceptable ratio in the MTEF period;

5.6 National Treasury should intensify its monitoring of borrowed monies for infrastructure development, and ensure it is spent on infrastructure investment;

5.7 The proposed fiscal framework should take into account the need to shift the creation of economic activities to rural communities as part of the rural development strategy;

5.8 The department of PW should ensure competitive pricing when entering to lease or rental agreements on behalf of the state, considering the inclusion of no cost escalation' clause for the first three years of the lease term;

5.9 National Treasury should advise the Department of Public Works to minimise any escalation clauses in new building contracts and ensure that professional fees are negotiated down to the minimum level;

5.10 While growth is expected to pick up over the medium term, structural reforms are required to set the economy on a different trajectory that increases labour absorption, raises competitiveness and ensures that the benefits of growth are shared;

5.11 Government should ensure that fiscal support for lower wage employees and new entrants in the labour market is strengthened, including the introduction of the youth wage subsidy as announced by the Minister;

5.12 Community work programmes over the medium term should support low income households and bring more people into the labour market, and this should be strengthened;

5.13 The Minister of Finance should provide the Committee with a detailed report on plans to eliminate wasteful and irregular expenditure from the public finance system; and

5.14 The House **accepts** the report on the 2011 Revised Fiscal Framework.

Report to be considered.

## National Council of Provinces

1. Report of the Select Committee on Finance on the 2011 Revised Fiscal Framework, dated 04 November 2011

   The Select Committee on Finance, having considered the 2011 Revised Fiscal Framework, reports as follows:

### 1. Introduction

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**3. Committee Observations**

Having considered the 2011 MTBPS and public submissions, the Committees observed the following:

- The 2011 MTBPS sets out a fiscal framework that is projected to narrow the gap between government spending and revenue, while providing support to the economy and strengthening infrastructure investment for sustainable long-term growth. National Treasury indicated that South Africa's financial institutions are well capitalized and government debt is moderate as compared with European countries, and that slower economic growth, falling tax revenue and uncertain financial conditions confront many of South Africa's trading partners and other developing economies;

- The GDP growth is lower than the 2011 National Budget forecast and is expected to remain moderate; it is thus expected to be 3.1 per cent in the 2011/12 financial year and 3.4 per cent in the 2012/13 financial year. Furthermore, the Committees observed that revenue collection has not yet recovered and the economic outlook is uncertain. The deficit of 5.5 per cent of GDP projected for this year, moderating at about 3.3 per cent over the MTEF;
- Government debt is projected to stabilize to approximately 40 per cent of the GDP in the 2015/16 financial year;
- The Committee observed with concern the increase in the State Wage Bill from 31 to 42 per cent in the previous four-year period. This is a concern for the Committees on Finance since this has resulted in higher cost of production and low growth in job creation;
- Government has been the main employer and there is a need for a firm commitment by the business sector with regard to job creation in order to realize the ultimate goal of creating 5 million jobs by 2020;
- Young people and the less skilled have yet to see economic recovery translate into jobs, which does not address government priorities on the creation of decent work and sustainable livelihoods;
- The Committee welcomes the allocations of the R25 billion increase to the economic stimulus;
- Under-spending on infrastructure has been an ongoing problem and the key challenge has been the shortage of relevant skills; and
- A shift in government expenditure is welcome and more emphasis should be on bulk infrastructure development.

Given these observations, the Committees report as follows:

- There is a need for savings by all government departments, with a need to focus on the composition of spending and addressing

- inefficiency, extravagance and waste. The Committee further expressed its support on the comment made by the Minister of Finance that government departments need to identify and report on savings initiatives;
- There is a further need to ensure that Parliament plays an effective oversight over the executive in order to improve operational and financial excellence in government departments and its entities; and
- The Fiscal Framework must be aligned to the New Growth Path (NGP) among other objectives.

**4. Conclusion**

Fiscal policy will support the recovery by allowing the deficit to widen in the short term, and government will implement a series of measures to support economic growth and competitiveness.

Over the medium term, government spending continues to grow, but at a more moderate pace than in most recent years. Over the longer term, government will reduce debt and restore sustainability. To consider more rigorously the intergenerational consequences of government's revenue and spending choices, the Committees are looking forward to National Treasury publishing the long-term fiscal report in 2012.

**5. Recommendations**

Having considered the revised fiscal framework and public submissions in accordance with sections 59 and 72 of the Constitution, the Select Committee on Finance recommends as follows:

5.5 National Treasury should launch a campaign to educate the nation about the importance of saving and the broad implication both on their lives and the economy in general;

5.6 More support, including relaxation and/or reviewing of constraining laws should be given to small business enterprises to create jobs;

5.7 National Treasury should expedite infrastructural development through partnerships with the private sector. These partnerships will also require the review of the Public Private Partnerships (PPP's) in its current form;

5.8 National Treasury and Parliament Committees should place greater emphasis on budget performance to achieve the targeted growth rate;

5.5 Government wage bill and recurrent expenditure should be closely monitored, controlled and all stakeholders, particularly the unions, and National Economic Development and Labour Council (NEDLAC), be engaged to come up with a lasting and sustainable

solution. The Committee supports the initiative by National Treasury to reduce the wage bill from 42 per cent to an acceptable ratio in the MTEF period;

5.6 National Treasury should intensify its monitoring of borrowed monies for infrastructure development, and ensure it is spent on infrastructure investment;

5.7 The proposed fiscal framework should take into account the need to shift the creation of economic activities to rural communities as part of the rural development strategy;

5.8 The department of PW should ensure competitive pricing when entering to lease or rental agreements on behalf of the state, considering the inclusion of no cost escalation' clause for the first three years of the lease term;

5.9 National Treasury should advise the Department of Public Works to minimise any escalation clauses in new building contracts and ensure that professional fees are negotiated down to the minimum level;

5.10 While growth is expected to pick up over the medium term, structural reforms are required to set the economy on a different trajectory that increases labour absorption, raises competitiveness and ensures that the benefits of growth are shared;

5.11 Government should ensure that fiscal support for lower wage employees and new entrants in the labour market is strengthened, including the introduction of the youth wage subsidy as announced by the Minister;

5.12 Community work programmes over the medium term should support low income households and bring more people into the labour market, and this should be strengthened;

5.13 The Minister of Finance should provide the Committee with a detailed report on plans to eliminate wasteful and irregular expenditure from the public finance system; and

5.14 The House **accepts** the report on the 2011 Revised Fiscal Framework.

Report to be considered.