

② 061101 Joint Budget
② 061101 JC Subject

Presentation to the Joint Budget Committee

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Medium Term Budget Policy Statement (MTBPS)

- Increase in public infrastructure spending
- The construction sector has grown by 10,7% over the past two years.
- Investment in the development of skills.
- Increase investment in the built environment in the form of housing, electricity, water and sanitation and community facilities.
- Over R83bn set aside for investment in the built environment

Shared growth is about reinforcing some of these issues.



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ASGISA

- DPW a key player in public infrastructure spending included in the 370bn set aside for ASGISA.
- This suggests a 15% growth per annum in the public infrastructure spending.
- The expansion of infrastructure investment and sound management of public resources provide us with capacity and resources to improve service delivery and expand shared opportunities



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DPW's Policy Focus Areas

- Build capacity – lead to improve management of immovable assets, implement the EPWP;
- Regulate the construction and property industries
- Service Delivery Improvement/Zimisele
- Investment in maintenance
- Devolution of Budgets and introduction of user charges.



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Emerging Contractor Development Programme (ECDP)

- ECDP – targets contractors transacting up to R1m.
- Contractors captured in CIDB register of contractors – mostly in grade 1 and 2. To be developed to higher grades.
 - Training partnership with CETA established focusing on: specialist construction, managerial capacity, procurement, and financial management.
 - Enhance early payments.
 - Expand to include more women and organisations representing women.
 - Ensure steady workflow for emerging contractors
 - Updating and verification of databases.
 - Expand database to rural areas.



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Contractor Incubator Programme (CIP)

- Targeting contractors transacting over R1m.
- Have demonstrated success in running sustainable businesses.
- To benefit from the capital works and maintenance programme.
- Have registered with the CIDB.
- To accelerate their upward mobility in terms of grading in the CIDB register of contractors.



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BER Research

- An Evaluation of the Demand-Side Impacts of the department of Public Work's expenditure on the South African Economy.
- This chain of events is referred to in economic policy analysis terminology as the "backward linkage upstream knock-on multiplier effects of an exogenous change in final demand".



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Social Accounting Matrix

- The aim is to compute the direct and indirect effects of the DPW's expenditure on selective macro economic variables.
- The model used in the analysis only addresses the demand-side impacts of the Department's budget expenditure.
- Thus, it excludes supply-side impacts that could flow from expenditure programmes, such as productivity improvements in some sectors of the South African economy.



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Treasury/DPW's Input Data

- The data for modelling purposes was obtained from the 2005/06 NDPW budget vote.
- The Department also supplied additional information in respect of the breakdown of expenditure figures and employment by skills level.
- Based on the input data obtained, a model simulation was undertaken to compute the direct and indirect effects on a range of macro-economic variables flowing from the NDPW budget expenditure for the period 2001/02 - 2005/06.



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Gross Domestic Product (GDP)

- For the financial year 2004/05 the R5,2bn expenditure by the Department resulted in an R6,7bn or 0,5% contribution to Gross Domestic Product.
- This suggests that the GDP multiplier is about 1,3, that is, for every R1 billion expenditure by the DPW, GDP at factor cost will increase by R1,3 billion.



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Income Distribution

- In terms of income distribution, budget expenditures by NDPW mainly benefited rich households, defined as the top 40% of income earning households.
- This is due to the fact that the Department itself employs a relatively large number skilled staff and that it furthermore makes use of professional services that are relatively skills intensive.



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Balance of Payments (BOP)

- Expenditure by the NDPW has an impact on the balance of payments.
- Although budget expenditure on goods and services has a very limited direct impact (through its contribution to war graves maintenance), it has a more significant indirect impact on imports.
- Nevertheless, the overall effect is relatively small and is estimated to comprise less than one half a percentage point of total imports.
- The analysis excludes the impact of dollar denominated proceeds from foreign disposals.



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Number of Jobs

- The total number of jobs created by the NDPW budget expenditure is estimated to have increased from 17 000 in 2001/02 to approximately 22 800 in 2005/06.
- Given a staff complement at the NDPW of about 4 700, a further approximately 4 people are indirectly employed elsewhere in the South African economy related to its 2004/05 expenditure impact for every staff member in the NDPW.



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Expenditure Stimulus

- The comparative impact of an expenditure stimulus of similar magnitude between the NDPW and that of overall government were also analysed.
- As is to be expected, average government spending is spread over more sectors compared to the “bill of goods” that was constructed for the NDPW.
- Most of the NDPW’s expenditure is in the construction industry and business services.
- The greater spread of overall government spending, however, allows it to stimulate other industries with higher multipliers, thus leading to larger effects across the board.



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...Expenditure Stimulus

- The GDP multiplier of overall government is about 1,5 compared to the 1,3 in the case of the NDPW.
- The impact on government revenue is more or less of a similar magnitude.
- Households gain more from the benchmark spending of overall government compared to that of the NDPW.
- However, the indirect impact on employment of the Department’s spending is comparatively higher than in the case of the overall government as its spending is more directed at labour intensive sectors.



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Conclusion

- Adequate maintenance and construction of new infrastructure results in sustained service delivery, growth and employment creation.
- The above programmes are a key element of the realization of ASGISA and EPWP objectives
- ASGISA recognises the need to simultaneously address backlogs for investment and maintenance and new infrastructure.
- To this end DPW will optimally utilise capital works, maintenance and RKTP programmes to achieve ASGISA objectives.



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EXPANDED PUBLIC WORKS PROGRAMME
Creating opportunities towards human fulfilment

**The role of EPWP in achieving Employment and
Economic Development in South Africa**

Expanded Public Works Programme – An Overview

- The has a target of providing employment opportunities and training to **at least one million targeted unemployed people in its first five years (2004/05 – 2008/09)**. The Programme aims to ensure a beneficiary composition of: 40% women, 30% youth and 2% disabled.
- The programme covers all spheres of government and state-owned enterprises (SOE's). In other words, the entire South African Government will use **public sector budgets** to create the 1 million work opportunities. **The EPWP approach involves re-orientating line function budgets and conditional grants (PIG and MIG) so that government expenditure at all levels, results in more work opportunities, particularly for unskilled labour. It is a stringent requirement that EPWPs do not displace existing permanent jobs, and that they are based on real demand for services.**



EPWP Sectoral Objectives

- The EPWP focuses on creating work opportunities in either the labour or entrepreneurial markets through 4 clearly defined sectors, namely: **infrastructure, environment and culture, social and economic.**
- **Work opportunities will be created in the following ways:**
 - **Infrastructure:** Increasing the labour intensity of government-funded infrastructure projects.
 - **Environmental and Culture:** Creating work opportunities in public environmental programmes (e.g. Working for Water)
 - **Social:** Creating work opportunities in public social programmes such as HCBC and ECD by implementing targeted skills programmes and learnerships.
 - **Economic:** Creating small businesses through utilising general government expenditure on goods and services to provide the work experience component for small enterprise learnership and incubation programmes.



**EPWP Gross Work Opportunities: Yr 1 (2004/05),
Yr 2 (2005/06) & 1st quarter of Yr 3 (2006/07)**

SECTORS	EPWP LOG FRAME TARGET	YEAR 1 (2004-05)	YEAR 2 (2005-06)	1ST QUARTER (2006/07)
Infrastructure	750,000	158,277	110,637	6,878
Environment & Culture	200,000	58,796	81,186	4,215
Social	150,000	1,650	18,308	2,466
Economic	12,000	4,687	1,833	15
TOTAL	1,112,000	223,410	211,964	13,574



Environmental training
City Parks

June 16 Memorial in Jabavu
GPTRWs



