2061101 Jesubget

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.



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



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.



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.



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.



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 knockon multiplier effects of an exogenous change in final demand".



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.



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.



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 R1billion expenditure by the DPW, GDP at factor cost will increase by R1, 3 billion.



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.



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.



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.



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.



...Expenditure Stimulus

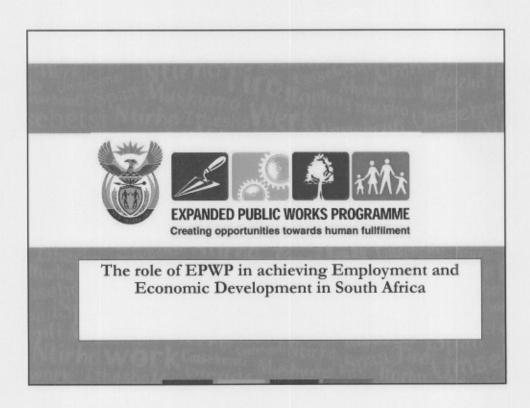
- The GDP multiplier of overall government is about 1,5 compared to the 1,3 in the case of the NDPW.
- The impact on government revenue is more or less of a similar magnitude.
- Households gain more from the benchmark spending of overall government compared to that of the NDPW.
- However, the indirect 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.



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 adrress backlogs for investment and maintenance and new infrastructure.
- To this end DPW well optimally utilise capital works, maintenance and RKTP programmes to achieve ASGISA objectives.





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.

EXPANDED PUBLIC WORKS PRO

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:
 - <u>Infrastructure</u>: Increasing the labour intensity of government-funded infrastructure projects.
 - <u>Environmental and Culture</u>: 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.
 - <u>Economic</u>: 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)

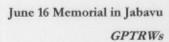
SECTORS	EPWP LOG FRAME TARGET	YEAR 1 (2004-05)	YEAR 2 (2005-06)	1ST QUARTER (2006/07)
Infrastructure	750,000	158,277	110,637	6,878
Environment & Culture	200,000	58,796	81,186	4,215
Social	150,000	1,650	18,308	2,466
Economic	12,000	4,687	1,833	15
TOTAL	1,112,000	223,410	211,964	13,574





Environmental training

City Parks



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