Fiscal pressure on industrial policy programmes

The 2016/17-2018/19 Medium Term Expenditure Framework (MTEF) is the product of a difficult economic climate. As a slowing global economy and depressed commodity prices put pressure on the budget, key government departments will have to grapple with the dual challenge of constrained fiscal conditions and the ever more pressing need to boost economic growth. One result is a cut in the Department of Trade and Industry's (the dti's) budget in nominal terms, with a particularly sharp impact on incentives for business and funds for Industrial Development Corporation (IDC) programmes.

The dti plays a crucial role in facilitating and supporting economic activity and employment in South Africa. Key departmental functions include increased investment facilitation, manufacturing incentives, supporting exports and industrial spatial development. Of the MTEF budgeted expenditure, the dti has been allocated just over R28 billion over the medium term (to 2018/19). That means the dti's budget will decrease by an estimated 3,1% annually for the next three years (versus overall budgetary growth of 7,5% p.a.) from R10,3 billion in 2016 to R8,6 billion in 2018.

The cuts will mostly affect three key programme areas of the dti: support to industrial development programmes, trade and exports, and incentives.

Two dti branches support manufacturing and industrial development directly – the Industrial Development Division (IDD) and the Incentive Development and Administration Division (IDAD).

IDAD is responsible for facilitating the development of sustainable and competitive firms through the provision of effective and accessible manufacturing (and services) incentives such as the Manufacturing Competitiveness Enhancement Programme (MCEP), Automotive Investment Scheme (AIS), Critical Infrastructure Programme (CIP), Export Marketing and Investment Assistance (EMIA) and industrial infrastructure support to Special Economic Zones (SEZs)

IDAD will suffer the most drastic budget reductions of all the dti divisions. It receives 63% of the dti's budget, amounting to R17,8 billion over the MTEF. According to the latest MTEF, it will decline in nominal rand by an annual average of 4,4% from R6,9 billion in 2016 to just over R5 billion in 2018. Manufacturing and services investment incentives will be most affected. The manufacturing incentive budget will decrease from R4,5 billion in 2016 to R2,7 billion in 2018 (averaging just under 12% decline per annum).

IDD houses the Industrial Competitiveness and Customised Sector Programmes, which promote policies and strategies to create jobs, increase value addition and improve firm competitiveness. A significant portion of the funds in this division aim to strengthen technical regulatory and research capabilities, through transfers to agencies such as the South African Bureau of Standards (SABS), the Council for Scientific and Industrial Research (CSIR) and the National Regulator of Consumer Specifications (NRCS). However, the bulk (over R750 million – which represents 43% of the division's budget), is a transfer to the IDC. In nominal terms, this transfer will decrease by over 7% to just under R700 million by 2018.

Two strategic themes emerge.

- First, there is a clear move away from generic incentives such as MCEP to more sector-specific programmes in priority (and distressed) sectors.
- Second, the evolution of incentives is premised on the need for the dti to focus on job creation and other conditions for incentive programmes. These developments have implications for industrial development and growth in South Africa especially around productivity growth, competitiveness improvement, and investment leveraging and crowding in, especially given the end of MCEP.

Given the stress on the budget, it will be incumbent on both the dti and the private sector to demonstrate the importance of industrial policy interventions – and the associated resources – for achieving a more dynamic and inclusive economy. Otherwise incentives and transfers to boost industrialisation may look like an easy target for fiscal authorities anxious to find programmes that are relatively easy to cut because their funds are not tied up in existing projects and employment contracts.