PBO

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1 Global outlook 2023: Serious risks and challenges continue

The outlook for the global economy over the medium term does not seem very favourable as we approach the end of 2023. The main threat to the outlook is geopolitical conflict and threats to human rights and democratic institutions across the globe. Peace, respect for human rights and democracy all seem under attack across the world. This difficult situation puts pressure on the economic integration and networks that developed over the past three decades. The pandemic caused breakdowns in global value chains that caused shortages of all kinds of products. The war in Ukraine caused shortages and price increases in energy, fertiliser and food markets. The resulting inflation caused the cost-of-living crises in developed and middle-income countries and exacerbated the cost of living crises in countries with high poverty levels, such as South Africa. The associated hardship contributes to conflict and instability within countries. Central banks' efforts to reduce inflation by raising interest rates have worsened the negative impact of the cost-of-living crises and increased global inequality. This precarious situation is made even more precarious because of the damage and risks caused by global climate change, which seems to be worsening.

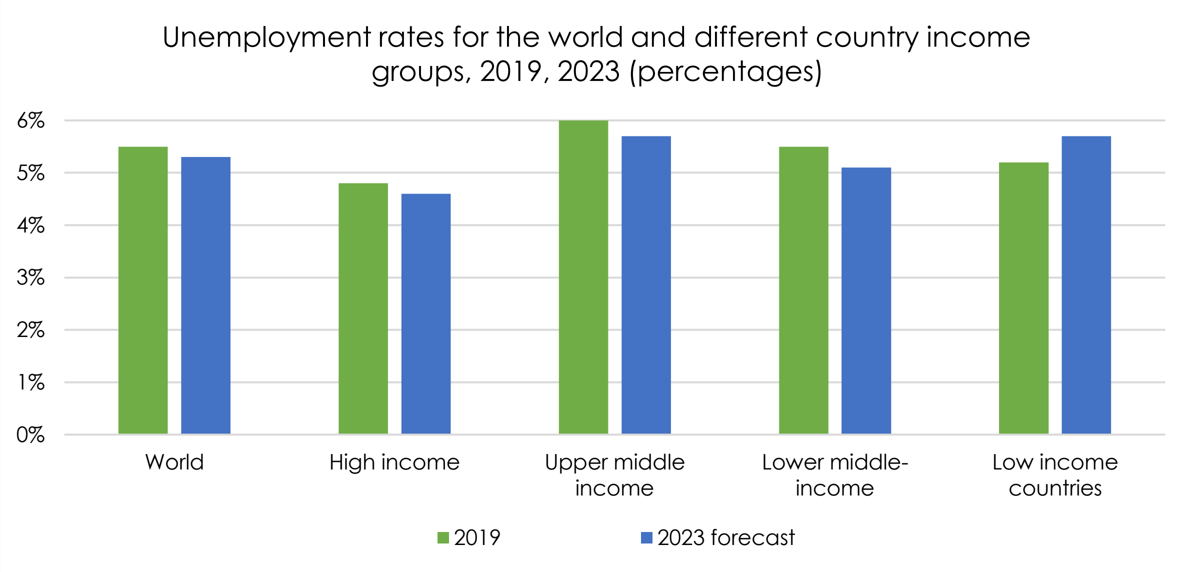
Political instability within countries and geopolitical tensions and conflicts are incredibly high. There have been over 30 coup de tat attempts across Africa since 2010. In 2023 there were attempted coups in Sierra Leone in July 2023, Burkina Faso in September 2023 and the conflict due to the coup in Sudan in April 2023 continues. There were successful coups in Niger in July 2023 and Gabon in August 2023. At a time when many African leaders point to the African Continental Free Trade Agreement (AfCFTA) as an important agreement to foster cooperation and growth in Africa, many countries across the Continent seem to be at risk of internal political instability or being drawn into regional conflicts. Harm to people, their ability to sustain their livelihoods, destruction to infrastructure and productive resources and the impact of people being displaced from their land may take several generations to repair.

The internal tensions within countries are not exclusive to Africa. The ongoing war by Russia in Ukraine is creating tensions within that region with increasing attacks on democratic institutions. There has also been a resurgence of right-wing and neo-fascist movements and political parties in Europe. In the USA, there are ongoing efforts to prosecute and punish people involved in the 6 January insurrection and trials of Donald Trump, the Republican Party's front-runner to challenge President Biden in the 2024 elections.

The recent attacks by Hamas on Israel and the brutal, collective punishment and destruction by Israel on the Palestinian people have unsettled the entire Middle East and North African Region. The impact of the conflict goes beyond the region with both the USA and China having sent battleships to the region. Chinese and US battleships are also in proximity in seas around Taiwan. These geopolitical conflicts are escalating at a time when citizens of both developed and developing countries struggle through the cost-of-living crises and the costs of central banks raising interest rates to fight inflation.

The impact of the Covid-19 pandemic has had a negative impact on employment and wage levels across the world. The International Labour Organisation (ILO) reported that rising inflation has meant negative growth in average real wages across the globe during 2022. This negative growth is the first since 2008. The ILO also points out that while employment has improved to pre-pandemic levels in developed countries, wages in most developed countries have not kept pace with productivity growth over the past few decades. Therefore, workers and the middle classes of developed countries have faced relatively severe cost of living crises. Unlike developed countries, employment in developing countries has not recovered to pre-Covid-19 pandemic levels. Most developing countries are still struggling to recover from the impact of the pandemic. Their inhabitants are even less resilient to the interrelated risks they now face, including the ongoing cost of living crisis, increased social unrest and the effects of flooding, fires and droughts caused by climate change.

Figure 1.1: Unemployment rates for the world and different country income groups, 2019, 2023 (percentages)



Source: International Labour Organisation, *ILO Monitor on Work*, 31 May 2023

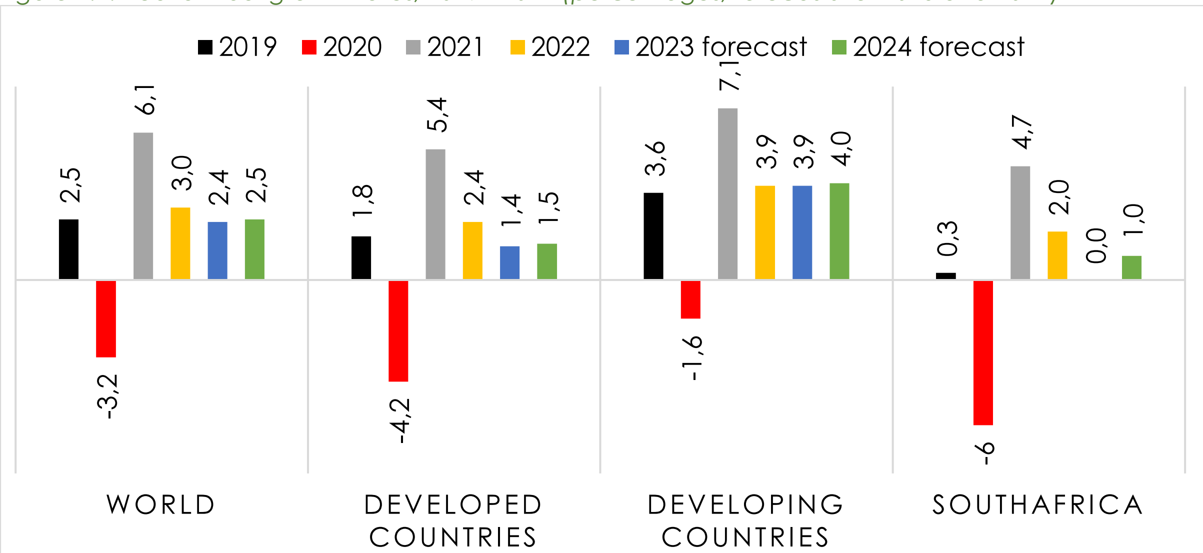
International organisations, including the World Bank and International Monetary Fund (IMF), and governments acknowledge that there have been important benefits to economic globalisation but there is an increasing awareness that the type of globalisation that occurred gave too much power to developed countries and their multinational corporations (MNCs). The result has been the rising market power of large corporations that has exacerbated the cost-of-living crisis and worsened global inequality. Globalisation occurred without sufficient regulation over large corporations and their ability to dominate global value chains and global markets. It is not only in the information technology and social media markets where a few very large multinational corporations visibly dominate global markets. There are high levels of concentration and market power in global energy and food markets too.

Since the pandemic, energy and food prices have increased due to value chain disruptions and the war in Ukraine. These factors caused inflation to increase rapidly. However, a large share of the increase in inflation around the world has been due to the ability of energy and food MNCs to raise prices. The United Nations Conference on Trade and Development (UNCTAD) reported that the combined profits of the 4 largest food global food trading companies more than doubled in real terms from US$6 billion in 2020 to over US$13 billion in 2022. They assert that the role of these large food trading corporations in the global economy should be investigated because their profits increase when food prices are volatile and during times of crisis.

Central banks have treated inflation as if it was caused by increased demand. The blunt instrument of raising interest rates by central banks around the world when faced with rising inflation has not curbed inflation by lowering economic growth and employment in developed countries. However, rising interest rates have put further upward pressure on prices and debt repayments while boosting the profits of banks. In developed countries, they have had the impact of worsening the cost-of-living crisis and inequalities.

The raising of interest rates in developed countries has been harmful to developing countries. Developing countries' central banks have implemented even larger increases in interest rates than developed countries because they have tried to stem the large withdrawal of foreign capital from their countries. Developing country governments now have higher interest rates on sovereign debt, which pressures them to cut government expenditure at a time when increased government expenditure to meet the sustainable development goals, invest in the just transition and respond to global climate change events require more nor less government spending. UNCTAD has found that there has been a decoupling of credit and investment across the globe as financial activity and financial assets have increased. South Africa has also had this problem where the financialisation of corporations has caused misallocation of finance to speculative activities rather than productive investment. We see that credit extension to the private sector has grown but that fixed investment levels have remained stagnant.

Figure 1.2: Real annual growth rates, 2019 - 2024 (percentages, forecasts for 2023 and 2024)



Source: UNCTAD, 2023 Trade and Development Report

The result of these interconnected factors and risks that increase economic hardship, particularly for less well-off people in the world, is that global economic growth rates are expected to be relatively poor across the globe. Even though inflation has peaked and seems to be declining, developed countries growth rates are expected to be relatively low and to drop below pre-Covid-19 levels. The billions of dollars in social grants and welfare support during and right after the pandemic in the USA and Europe helped to maintain high levels of employment and growth even in the face of rapid interest rate increases. Reduced fiscal support and the lagged effects of interest rate hikes may constrain growth in developed economies. The risk of more financial fragility in developed economies and China poses a serious concern for global economic activity and has already affected investment and trade in developed countries. The IMF recently reported in the 2023 World Economic Outlook that gross fixed capital formation and industrial production in developed countries slowed sharply or contracted, which has negatively affected international trade and manufacturing in emerging markets. Trade, investment and growth are all expected to weaken in the medium term.

Developing countries are expected to achieve average economic growth close to the pre-pandemic levels. However, economic growth rates for developing countries had been decreasing even before Covid-19. The level of economic growth expected of developing countries over the next few years reflects the ongoing impact of the pandemic, the poor state of the global economy, climate change events, fiscal tightening and higher interest rates.

Developing countries have had to increase their debt levels during the Covid-19 crisis. The cumulative impact of the global financial crisis, climate change extreme weather, increased domestic and geopolitical conflict and the Covid-19 pandemic have created an environment where several developing countries are debt-stressed. The current global financial architecture is harsh on developing countries that run into debt problems. International financial institutions and developed country governments are not doing enough to avert potential looming developing country debt crises and risks related to climate change. The choices to increase interest rates to rein in inflation by raising the cost of borrowing (including existing loans) and to constrain and even shrink economic growth, investment and employment further harm developing countries even more. Therefore, it is not surprising that the United Nations has proposed a “Rescue Plan for People and the Planet”. The solution is not to cut expenditure in the face of the ‘polycrisis’. Austerity and fiscal consolidation have hurt economic growth and caused debt to GDP levels to rise. Governments must adequately spend on building household resilience and through this spending turn the challenges that they face into opportunities to stimulate domestic demand-led economic growth and development.

2 2019-2024 MTSF Progress and Challenges

2.1. Purpose

The purpose of this brief is to provide Members of Parliament (MPs), specifically the Finance and Appropriations Committees, with an overview of the selected progress and challenges with the implementation of the 2019-2024 Medium Term Strategic Framework (MTSF).

Challenges with the implementation of the 2019-2024 MTSF, on a selection of indicators, are included to support the deliberations of the committees on the upcoming Medium - Term Budget Policy Statement (MTBPS), - Expenditure Framework (MTEF) followed by the development of the new MTSF. The challenges presented in this brief are based on the presentation by the Department of Planning Monitoring and Evaluation (DPME) to the Standing Committee on Appropriations on 13 September 2023.

2.2. Introduction and Background

The National Development Plan (NDP) Vision 2030 is the government's blueprint to unite all South Africans to address the triple challenges of unemployment, poverty, and inequality (UPI). Although the NDP is the government's long-term plan, they have identified several medium-term interventions towards achieving the longer-term goals.

The 2014–2019 MTSF was supposed to have been precise and clear in identifying indicators and targets to be achieved for the NDP outcomes. A Programme of Action (POA) report, published by the DPME, provided performance information on a quarterly basis on the targets set for the 2014–2019 MTSF. These reports provided an opportunity for analysts to evaluate performance and to identify obstacles for implementation.

The 2019-2024 MTSF is South Africa's second 5-year implementation plan for the NDP. The MTSF consists of 7 priorities, 80 outcomes, 337 interventions and 561 indicators. The 2019-2024 MTSF sets out the interventions per department or relevant government institution that will advance the seven priorities adopted by government, which include:

- Priority 1: Building a capable, ethical and developmental state
- Priority 2: Economic transformation and job creation
- Priority 3: Education, skills and health
- Priority 4: Consolidating the social wage through reliable and quality basic services
- Priority 5: Spatial integration, human settlements and local government
- Priority 6: Social cohesion and safe communities
- Priority 7: A better Africa and World

The focus of the current 2019-2024 MTSF is to facilitate greater institutionalisation, accountability, reporting and consequence management. The requirement for Director Generals and Senior Managers in the departments is to translate the priority action and targets at the operational level into a delivery plan that reflects operational implementation. These plans are meant to provide clear targets and specify the impact, outcomes and outputs to be achieved where they are to be achieved, who is involved and how those involved will go about achieving the priority. A report card on progress with the targets listed in the respective ministerial performance agreements, which are for the benefit of the President, will be used to assess the performance of Ministers, Deputy Ministers and Director Generals. The President will conduct performance assessments twice a year during POA Week.

The Parliamentary Budget Office (PBO) has provided Parliament with progress reports on the implementation of the NDP since the implementation of the 2014-2019 MTSF. The DPME publishes progress reports and presents their findings to Parliament. This brief includes an overview of the monitoring and evaluation of progress with the implementation of the 2019-2024 MTSF by the two oversight bodies.

2.3. Parliamentary Budget Office analysis

The monitoring and evaluation of the 2014-2019 MTSF provided results on the mid-term progress made and identified obstacles to the implementation of the NDP. This evaluation was also the main purpose of the analysis by the PBO of the 2019-2024 MTSF in 2022.

The analysis of the progress with the implementation of the 2019-2024 MTSF by the PBO showed that:

- Access to regular reporting on progress with the implementation of the 2019-2024 MTSF is a challenge
- APPs or quarterly performance reports on the APPs are the only official sources of information available on the targets set for the implementation of the NDP
- Despite provisions for the integration of the MTSF indicators in the strategic and annual performance plans (APPs) of departments only 65 per cent of indicators are reflected in APPs
- Reporting on the indicators is not always aligned to the target set
- Almost 50 per cent of indicators for priorities 2 to 6 are new indicators
- Targets are not set annually over the 5-year period
- In many instances targets are set only for 2023/24
- Due to the operational challenges regarding the implementation of the 2019-2024 MTSF it is not possible to provide a credible monitoring report on the progress made with the implementation of the NDP
- Progress is slow because of the operational challenges

2.4. Department of Planning Monitoring and Evaluation (DPME) analysis

The Department of Planning Monitoring and Evaluation presented a monitoring progress report on the 2019-2024 MTSF in September 2023. The report includes progress and challenges per priority on a selection of outcomes and indicators in the 2019-2024 MTSF. The PBO studied the report for further use by the Finance and Appropriations Committees, specifically during the MTBPS discussions. Comments on the progress and challenges are included below.

2.4.1. Progress

The DPME 2019-2024 progress report presented to the Standing Committee on Appropriations reported on:

- 24 per cent of the outcomes identified for the 7 priorities of the 2019-2024 MTSF
- Slow or no progress on targets
- The effect of low performance on targets, on the outcomes
- Programmes that continuously underperform (e.g., SETA and Funza Lushaka)
- Several institutions are responsible for the same services, which are not coordinated (SMME funding and Human settlements)
- Ad hoc outputs, which are not reflected in the MTSF

The report also identified several challenges that contributed to the slow performance. In addition to the challenges identified by DPME, the availability of performance information had a real effect on the completeness of the report on the progress made with the implementation of the interventions identified by the 2019-2024 MTSF. It has also been observed that several interventions are still in progress.

2.5. Challenges

The challenges identified, per priority of the 2019-2024 MTSF, indicate the status of government services and point to the areas that require intervention. Not all the interventions require additional funding. Achieving this intervention could be addressed through reprioritisation, consolidation, cooperation, and proper management systems including monitoring.

The challenges identified by the DPME for making progress towards priority 1: A Capable, Ethical and Developmental State should be regarded as cross-cutting areas that require urgent prioritisation. These challenges include:

- Ineffectiveness/unproductiveness that have hampered progress
- Lack of horizontal and vertical integration, co-ordination and prioritisation
- Instability at top administrative leadership leading to loss of organisational knowledge compromising service delivery
- Progress on the implementation of previous Cabinet decisions is taking a long time because the majority of them focus on legislative and regulatory amendments
- Pace of the repurposing of Public Entities remains slow and their performance is not improving at the rate required
- Weaknesses within the state procurement system
- Government spending is failing to stimulate economic growth and transformation
- Findings from the Government Communication Information System Tracker reveal a high level of cynicism amongst citizens about the direction in which the country is headed

Other cross-cutting challenges identified include the lack of:

- Funding
- Human resources
- Infrastructure
- Vehicles

- Tools of trade
- Coordination
- Inefficiencies

The details of the challenges, as set out by the DPME, is in the annexure attached to the brief.

2.6. Conclusion

The limitation of reporting on progress with the implementation of the NDP has been demonstrated by assessments from several institutions responsible for doing oversight of the implementation of the NDP. The technical, administrative/operational and strategic challenges experienced since 2014 have to be addressed to improve the quality and system for the implementation of the NDP.

The detailed report on the challenges per priority/department/sector should guide Parliamentary Committees with their deliberations and recommendations on funding reprioritisation, prioritisation and/or additional support to institutions over the MTEF and MTSF.

Annexure: Summary of DPME challenges based on the performance assessment on the2019-2024 MTSF

Priority 2: Economic Transformation and Job Creation

Supply of energy secured

- The energy crisis has had a negative impact on SA's economic growth
- Costs are transferred to consumers, ultimately driving up prices
- Small businesses are affected the most, with 60 per cent of township small businesses not doing business during loadshedding

Quality and quantum of infrastructure investment to support growth and job creation improved

- SA is underperforming on investment targets as a share of GDP far below the NDP target of 30 per cent growth in investment by 2030
- For the NDP targets to be met, public-sector investment in infrastructure would need to grow from 3.8 per cent of GDP in 2021 to 10 per cent of GDP by 2030
- Gross fixed capital formation (GFCF) has been on a downward trend since 2010, but the decline accelerated at a faster pace from 2016 at 17.5 per cent of GDP reaching 14.1 per cent of GDP in 2021, with a slight growth reaching 14.6 per cent of GDP in Q3 of 2022/23
- Public sector capital spending has been on a constant decline since 2010. Currently, the private sector accounts for the bulk of fixed investment in SA in comparison to government and SOEs

Efficient and Reliable Transport

- Road and rail infrastructure is generally under-maintained and lacks strategic management and maintenance systems, and subsequent funding
- Theft and vandalism impact negatively on all Transnet & PRASA infrastructure
- Provincial and local government is challenged by non-spending of grant transfers
- The Department of Transport to develop a strategy for the devolution of provincial roads to SANRAL to deal with urgent road maintenance

Industrialisation through Masterplans and Industrial Parks Revitilisation

- Reporting on outcomes of Masterplans remains a challenge because masterplans do not have indicators to measure the outputs and impact
- Industrial Parks have not resulted in major changes in terms of jobs, investment or regional industrialisation
- Some of the enterprises employ mostly foreign nationals rather than prioritising people from the local communities – this has sparked unrests in local area

The DTIC is currently remodelling its Industrial Park strategy

Localisation and Expanded Small Business Sector

- Non-financial and financial support for SMMEs remains inadequate
- Lack of coordination and integration of government support across the entities, including lack of support at a local level

- Implementation of reforms by government to remove red tape that impedes ease of doing business for SMMEs remain slow i.e. delays in issuing Tourism Transport Operator Licenses and Water Use Licenses

Priority 3: Basic Education, Skills and Health

Education

- The number of learners enrolled in Science, technology, engineering, and mathematics (STEM) is not enough to support the knowledge economy
- Number of learners dropping out without matric equivalent qualification
- Low throughput at TVET make them unattractive
- Inefficiencies in the system increase cost of training
- Declining number of Funza Lushaka being placed for experiential learning, threatening the 90 per cent target, in 2022 only 68 per cent were placed by the end of the year
- Decline in number of learners reading for meaning (Pirls)

Health

Universal health coverage for all South Africans achieved by 2030

- The National Health Insurance Fund has not yet been established and purchasing of services has not yet commenced
- The MTSF target that 25 per cent of health sector facilities should be accredited for NHI by 2024 is unlikely to be met

Priority 4: Consolidating the social wage through reliable and quality basic services

- **Social Welfare Practitioners:** NDP – 55 000 social welfare practitioners needed; target for this MTSF Period is 31 744; only 18 300 currently in the system. Over 8 873 social workers are trained but are unemployed.
- **ECD:** R6.1 billion per year to expand subsidy coverage up to grade RR participation of 95 per cent
- To increase the attractiveness of a career as an ECD practitioner, salaries should increase by 25 per cent from R31 000 to R40 000. This increase will cost R820 million per year
- **Gap in coverage for the 18 – 59:** There are no provisions to address the plight of individuals who have no income but do not meet the means test criteria to receive social grants
- **SASSA/SAPO payment of grants:** The payment system is still unreliable and often offline and is still vulnerable to massive fraud and corruption
- **Older people:** Organisations providing social care services across South Africa are struggling financially. Subsidies have been cut and there is a shortage of nursing staff

Priority 5: Spatial integration, human settlements

- Demand for housing is increasing due to urbanisation rate, growing population, coupled with capacity constraints in delivery of housing opportunities
- Lack of access to well-located land for upgrade
- State has lost control on land invasion despite Municipal by-laws in place

- New informal settlements established almost every day in some instances on unsafe land
- Social housing delivery – system of funding and delivering is fragmented

Priority 6: Social cohesion and safe communities

- South Africa is challenged by high levels of crime, especially serious and violent crimes, including Gender Based Violence and Femicide (GBVF)
- The rule of law is undermined by corruption within the public and private sectors impeding government's efforts to achieve socio-economic development and service delivery objectives
- There is a continuous increase in contact crimes. Partly due to lack of intelligence to guide operations, lack of human resources, and station intelligence profiles that are not updated regularly to guide stations when planning operations
- Socio-economic conditions coupled with environmental design factors, especially in informal settlement areas, which are scattered all over the country, renders every plan ineffective
- Inadequate infrastructure, tools of trade like IT equipment, security equipment and vehicles are challenges within police stations, ports of entry and correctional services

Priority 7: A Better Africa and World

- Finalisation of a consolidated SACU offer towards a 90 per cent tariff offer.
- Finalisation of outstanding Rules of Origin to facilitate preferential trade on tariff lines
- Persisting socio-economic challenges in the SADC region, increasing one-directional migration to South Africa
- The South African National Defense Force is under resourced, and this will compromise any future SANDF deployments

3 Households and social reproduction – building resilience through fiscal policy

3.1 Introduction

Fiscal consolidation worsens the socioeconomic conditions of households over time and further erodes household resilience. The provision of public basic services is critical to how social reproduction takes place. Women and girls undertake unpaid work on vital household duties, which is not included in Gross Domestic Product (GDP) calculations. It is not counted, and therefore goes unrecognised, in GDP. The injustice of this feature of GDP is that vital unpaid work that is essential for the health and productivity of household members and communities is treated as without value in the country's national accounts and by implication is generally perceived by the users of economic statistics, including the government, as being valueless to society.

This incorrect treatment of unpaid work for household reproduction and community building means that it is also incorrectly undervalued in the government's budgeting process and allocations. Put differently, the gender discrimination and exploitation of women that undervalues their work (whether paid or unpaid) is perpetuated within official measures and statistics of economic activity and, unfortunately, has also seemed to continually be unvalued or undervalued within the government's approach to public finances. Insufficient and poor-quality basic services mean that women and girls spend more time on these duties. Stephanie Seguino shows how gender inequalities perpetuated by the crisis of social reproduction – such as in health, education and unpaid labour – have substantial detrimental economy-wide effects. The inequalities "threaten …to destabilise the very reproductive processes and capacities that capital – and the rest of us – need". Put simply, inadequate social welfare provisions in a society with deeply ingrained structural unemployment stresses and harms the very people who maintain the households and community institutions necessary for the survival of the workers who keep the economy going.

Expenditure on social grants, basic services, and community and social expenditure are generally narrowly treated as consumption expenditure by the government. As a result, the actual economic contribution of this expenditure to society is undervalued. It is generally labelled as government consumption expenditure when in fact it is an important investment into the economy and society as a whole (not just the low-income communities). Within an economy where there are deep structural reasons underpinning the economy's inability to provide work to a very large proportion of the working-age population (millions of people who want to work), the government's social expenditure is an important complement to the unpaid work not only for households and communities suffering with high levels of poverty but for the health and operation of the entire economy and stability of society. Simply put, the broader socio-economic impact and multipliers of unpaid work within low-income households and communities and the government's social spending do not feature in the accounts and calculations of the profits of firms and the national accounts. As a result, they are undervalued in the government's calculation of how it should spend and where expenditure will have the most impact on the economy. To make matters worse, the perception and attitude that lead to undervaluation of the work of women and girls in households, communities and societies translate into inadequate social spending which increases the need for unpaid reproductive work in households and communities. South Africa has an obscene level of inequality, which means that those who own more and have higher incomes gain disproportionately from the benefits that accrue to the economy and society from the extra burden of unpaid work pushed onto women because of inadequate government expenditure.

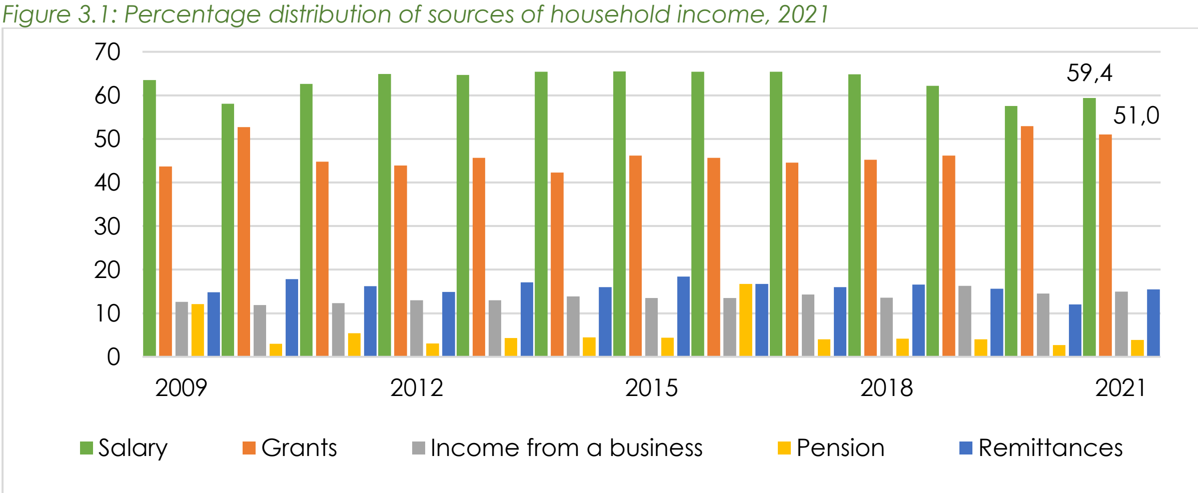
The National Development Plan 2030 aims to eliminate poverty and reduce inequality by 2030. According to the NDP, "part of our approach to social protection is through a social wage, which includes no-fee schools, free basic services and subsidised public transport" (p.43). However, since at least 2012, South Africa has explicitly implemented a fiscal consolidation approach. The government through its continued imposition of fiscal consolidation has caused reductions in real per capita expenditure on health, education, and other sectors critical to the basic survival of the majority who rely on public services.

Households face many dangers associated with wars, pandemics, climate change and many other risks in the world and domestically. The term used to describe the current global situation is "polycrisis", which refers to the simultaneous occurrence of multiple, interconnected crises or risks we face today. This calls for a more proactive approach to fiscal policy rather than a reactive one. The remainder of this brief delves into the polycrisis faced by households.

3.2 Cost of living crisis

There has been an ongoing intense cost of living crisis in South Africa since before 1994 that has had long-term, cumulative negative impacts on households. Underpinning this crisis is the failure to address unemployment, poverty and inequality. The majority of households rely on government support to secure their livelihoods. The government has acknowledged that the provision of services and grants has been the most effective means by which the post-apartheid government has been able to fight poverty and its effects. The COVID-19 pandemic affirmed this reality. Since the pandemic (and the introduction of the SRD), more than a quarter of all households received grants as their main source of income. According to Stats SA's General Household Survey 2021, 51.1 per cent of households had grants as their main source of income (See Figure 3.1). The report also revealed that grants are vital for poverty and hunger reduction, especially in the poorest and most rural provinces such as the Eastern Cape and Limpopo.

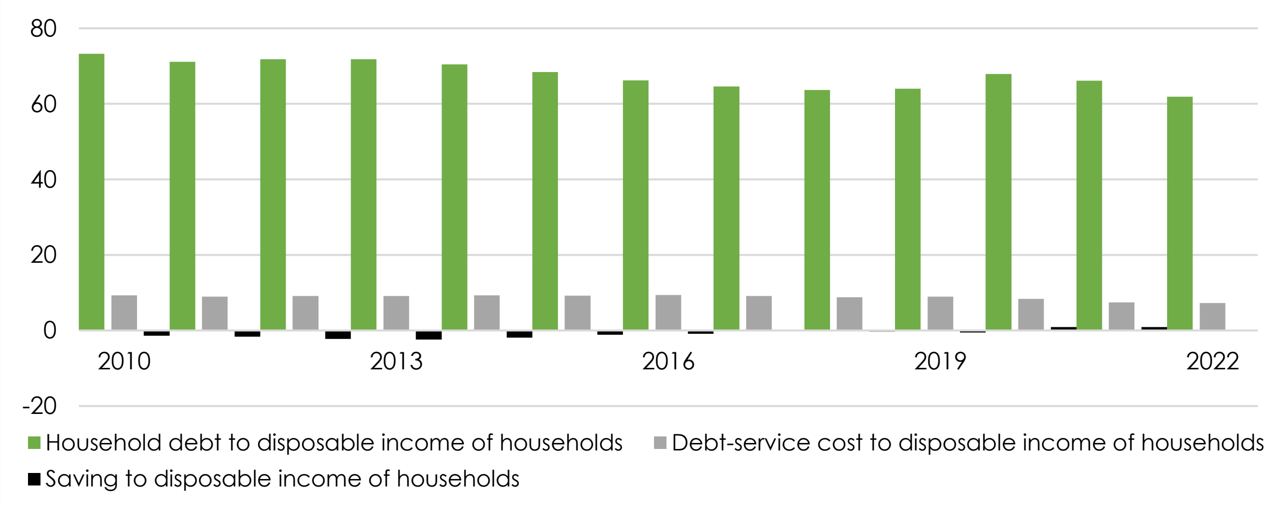
Figure 3.1: Percentage distribution of sources of household income, 2021



Source: Stats SA

From 2003 to 2008, household consumption in the top income quintile, which includes public sector workers, experienced substantial growth driven primarily by a significant increase in debt. However, since that period, household expenditure has been considerably constrained. As of the end of 2022, the aggregate household debt as a percentage of income for all South Africans remained notably high at 62 per cent (refer to Figure 3.2). The high level of debt service costs has also led to limited savings, thus negatively impacting households' capacity to absorb various economic shocks. It's worth noting that household consumption, which accounts for approximately 60 per cent of South Africa's GDP, plays a pivotal role in the growth of investment and GDP.

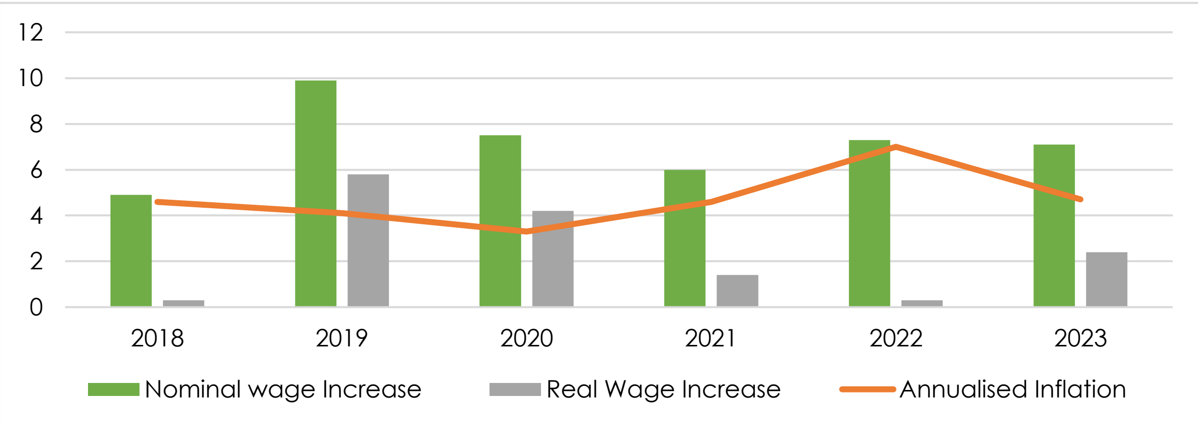
Figure 3.2: Household debt, debt service costs and savings as percentages of household disposable income



Source: Stats SA

Given the low level of aggregate savings and the fact that a substantial portion of households have relatively low incomes and limited access to credit, it becomes imperative for the government to provide enhanced fiscal support aimed at boosting the consumption of these economically disadvantaged households. The financial resilience of households is important for macroeconomic and financial stability.

Figure 3.3: Average nominal and real wage increases (percentages)



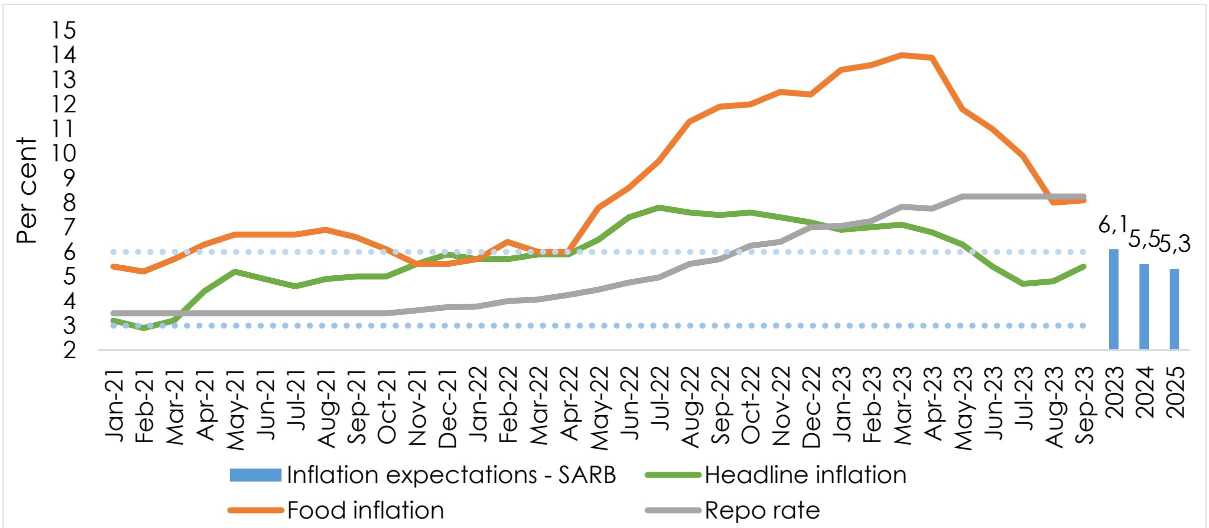
Source: LRS Actual Wage Rates Database

South Africa's cost of living crisis has been largely driven by low wage growth. Over the past decade, the country has experienced sluggish real wage growth. According to the South African Reserve Bank, real wage growth (adjusted for inflation) has remained low, leading to stagnation in the purchasing power of many workers. Amid stagnant wage growth and below-inflation social grant increases (in some years), the escalating cost of goods and services has eroded the incomes of households. A recent study by Nedbank shows that 76 per cent of South

Africans say their expenses increased in the past 12 months, while 62 per cent say their spending equals or exceeds their income.

Household budgets remain under pressure as the cost of essential items, such as fuel, food, healthcare, and education has risen. Headline consumer price inflation (CPI) has increased since the onset of the pandemic. Some common factors that have contributed to inflation in South Africa include the Russia-Ukraine war, supply chain disruptions, high interest rates, loadshedding, corporate profiteering and exchange rate fluctuations.

Figure 3.4: Food prices and borrowing costs remain high

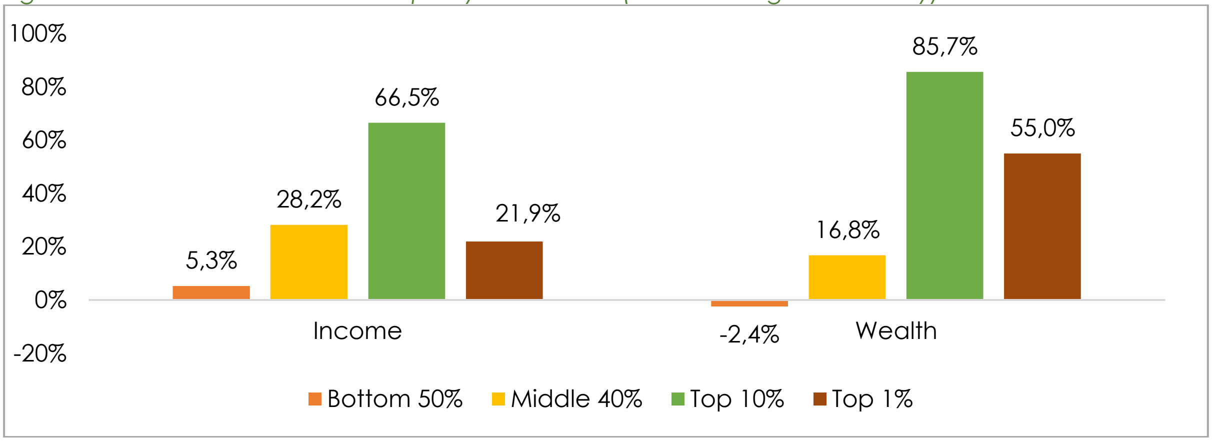


Source: Stats SA

Borrowing costs are now at their highest level in 14 years, straining household budgets. The cumulative 475 basis points increase in the repurchase rate since November 2021 is going to further weaken an already struggling economy. The PBO has cautioned that Interest rates are a blunt tool to employ when much of the current inflation is driven by supply-side factors. As such, monetary policy should be complemented by fiscal and industrial policy interventions to effectively address these supply-side risks to inflation and to shelter the poor.

The high level of structural unemployment and inequality also puts a huge burden on social, economic and political stability in South African society and reduces the resilience of the majority of the population to crises. The level of unemployment grew during the pandemic. The levels of unemployment also demonstrated the gendered, racialised and geographic vulnerabilities that certain demographic groups (particularly Black African and Coloured, youth, and women amongst other intersections) experience in the labour market. As of the second quarter of 2023, the official unemployment rate stood at 32.6 per cent. During the same period, the expanded unemployment rate (which includes individuals who desire employment regardless of whether they actively seek work) increased to 40.2 per cent. Youth in South Africa continue to suffer in the labour market with an unemployment rate higher than the national average. According to the Quarterly Labour Force Survey (QLFS), South African Youth aged 15-24 years and 25-34 years recorded the highest unemployment rates of 60.7 per cent and 39.8 per cent respectively, while the current official national rate stands at 34.5 per cent.

Figure 3.5: South Africa income inequality and wealth (in Purchasing Power Parity)



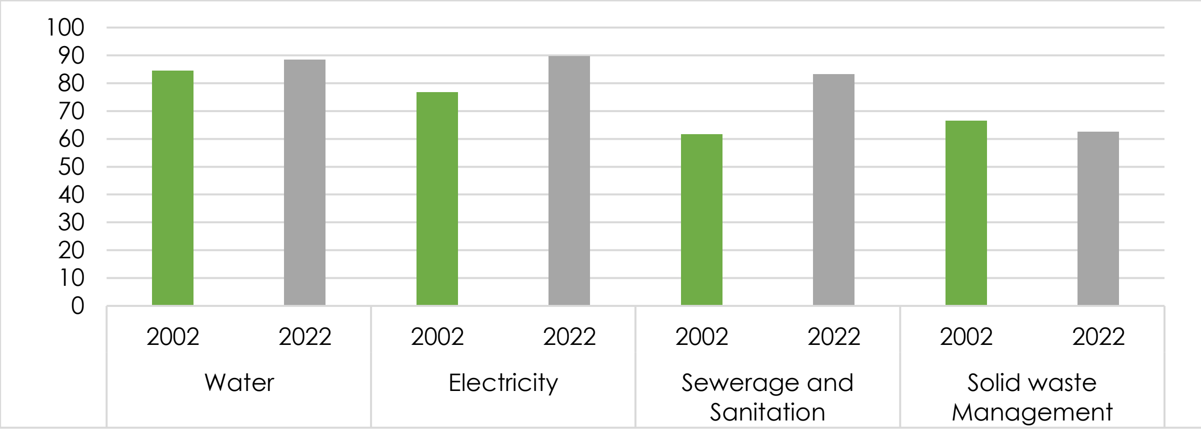
Source: Stats SA

The extraordinarily high levels of inequality in South Africa and its negative impact on society and economic development should not be taken lightly. Figure 3.5 shows the spread of income inequality and wealth in South Africa. The bottom 50 per cent (approximately 30 million people) of the South African population has negative wealth (i.e., more liabilities than assets). The middle 40 per cent has only 16.8 per cent of the wealth while the top 1 per cent (approximately 600 000) own 55 per cent of the wealth. The consequence of this wealth inequality is that the bottom 50 per cent earn only about 5 per cent of national income, the bottom 90 per cent earn only approximately one-third of the income generated, while the top 10 per cent capture two-thirds of the total income. Wealth and income inequality remain concentrated along race and gender lines.

3.3 Basic public services and the cost-of-living crisis

Basic public services play a critical role in household social reproduction and in building resilience to disasters like the COVID-19 pandemic, natural disasters and economic downturns. Municipal services should be seen as a tool to reduce poverty and inequality, raise living standards and facilitate economic opportunities. The government has made significant progress in terms of providing access to important services (see Figure 3.6). However, the quality, adequacy and affordability of these services remain of great concern. Historical spatial apartheid and the lack of redistribution mean that there is inequitable access to basic services. The results are that there is inequity in the quality of life and the cost of living. While the 1998 White Paper on Local Government emphasised the importance of ensuring that basic services are affordable, it did not clearly define the level at which service tariffs are, in fact, affordable or unaffordable. Across the board, municipal services have increased in price well above the rate of consumer price inflation over the last 10 years.

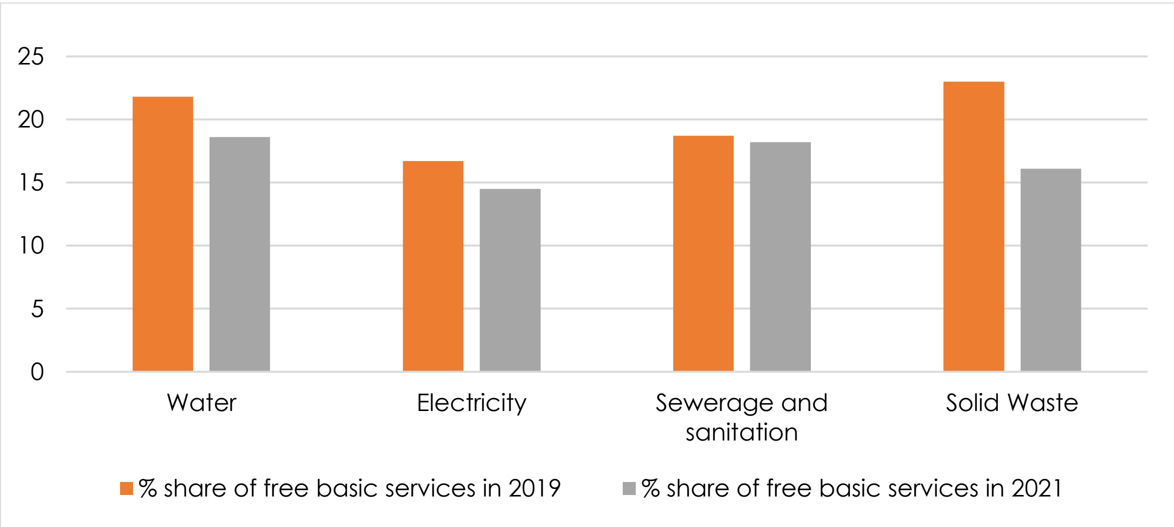
Figure 3.6: Percentage of households with access to basic services



Source: Stats SA

According to the South African Reserve Bank, there were huge increases in municipal services costs from 2010 to 2020: rates and taxes increased by 118 per cent, electricity tariffs increased by 177 per cent and water tariffs increased by 213 per cent. Research by the Public Affairs Research Institute indicates that most income-poor households are expected to allocate about one-quarter of their total income towards payment of municipal services. Millions of households are forced to choose between feeding their children and paying for municipal services. The government's policies to offer restricted free basic services, such as electricity, water, and sanitation to indigent households are having a minimal impact on affordability. Millions of households that are eligible for free services do not get them due to a dysfunctional system for the registration of indigent households. Only a small fraction of income-poor households receive any benefits under these policies.

Figure 3.7: Percentage of households receiving free basic services in 2019 versus 2021



Source: Stats SA

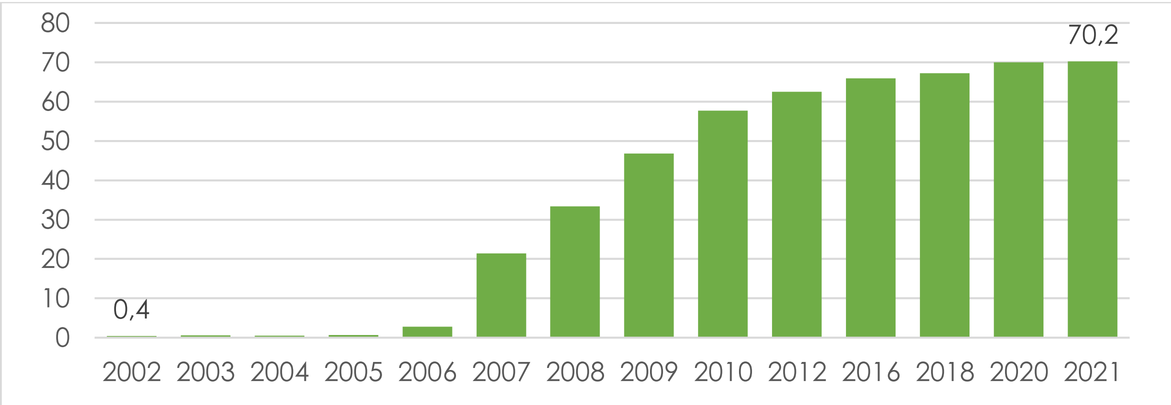
Figure 3.7, derived from the latest Non-Financial Census of Municipalities (NFCS), shows that fewer consumer units received free basic services in 2019 than in 2021. This is in contrast to the increasing numbers of households that fell into poverty as a result of the pandemic. The free electricity and water utilities available to households are also insufficient to meet their basic needs. For example, according to Eskom, the average household consumes around 200 kilowatt-hour (kWh) of electricity, while the free quota is 50 kWh. Likewise, the 10 Kilolitres (Kl) of free water is only around two-thirds of what is required by the average South African household (Water Research Commission, 2021).

Local government relies on property rates, taxes, and service charges on electricity and water as their main source of revenue. These revenues are meant to fund nearly three-quarters of all operating expenditure requirements. The Public Affairs Research Institute has critiqued the funding model assumptions made in the White Paper on Local Government. They argued that the White Paper assumed that municipalities could set service tariffs at levels that would be affordable for all households and still be able to generate sufficient revenue to ensure the financial sustainability of the municipalities. The reality is that municipalities have not been able to fulfil the conflicting objectives of financial viability through self-financing and service delivery. The fact that households cannot afford the ever-increasing municipal tariffs means that the financial viability of municipalities will always be threatened.

3.4 The provision of education

Universal access to basic education is a fundamental right provided for in section 29 of the Constitution of South Africa. Extensive gains have been made in terms of the number of people accessing basic education since 1994. The percentage of individuals aged 5 years and older who attended schools and did not pay tuition fees significantly increased from 0.4 per cent in 2002 to 70.2 per cent in 2021(see Figure 3.8).

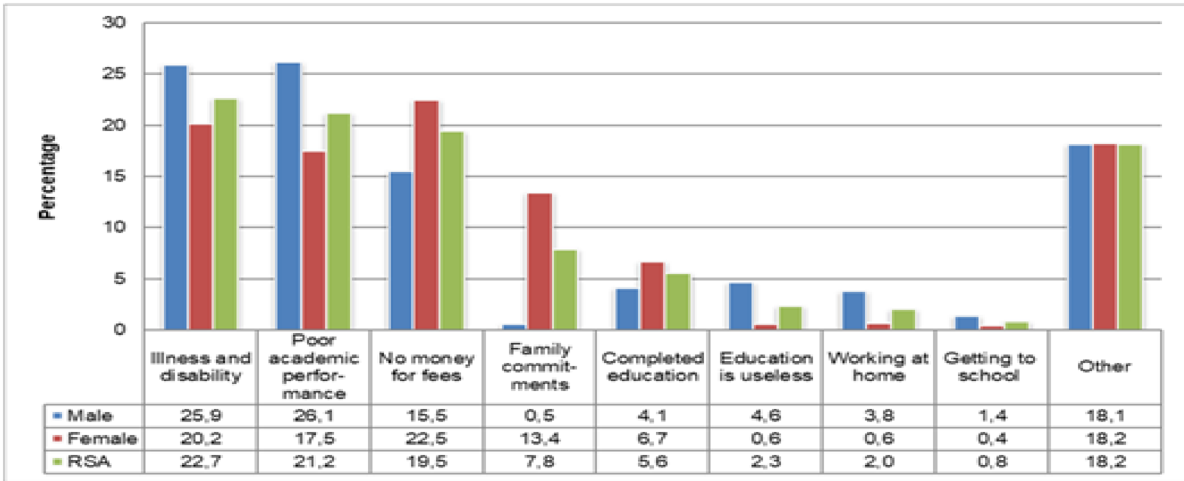
Figure 3.8: Percentage of individuals aged 5 years and older who attended schools and who do not pay tuition fees, 2002–2021



Source: Stats SA

Although the percentage of individuals attending no-fee-paying schools has increased, socioeconomic background remains a significant determinant of educational attainment. According to Stats SA, in 2021 the percentage of individuals aged 18-24 years who were still attending secondary school was higher for households in poorer income groups than households in higher income groups. Approximately 22.5 per cent of females and 15.5 per cent of males between the ages of 7-18 years stated that they have not been able to attend an educational institution because they do not have money for fees (see Figure 3.9). Young people aged 18-24 years from the highest income households are more likely to attend university than those in lower quintile groups. Despite this, budgets have not been designed to address the inequalities. In the 2021 Budget, the National Treasury acknowledged the low growth, which, in compensation for early retirement, "will reduce the number of available teachers. This, coupled with a rising number of learners, implies larger class sizes, especially in no-fee schools, which is expected to negatively affect learning outcomes".

Figure 3.9: Reasons for individuals aged 7 to 18 years not attending an educational institution, by sex, 2021



	Illness and disability	Poor academic perfor-mance	No money for fees	Family commit-ments	Completed education	Education is useless	Working at home	Getting to school	Other
Male	25,9	26,1	15,5	0,5	4,1	4,6	3,8	1,4	18,1
Female	20,2	17,5	22,5	13,4	6,7	0,6	0,6	0,4	18,2
RSA	22,7	21,2	19,5	7,8	5,6	2,3	2,0	0,8	18,2

Source: Stats SA

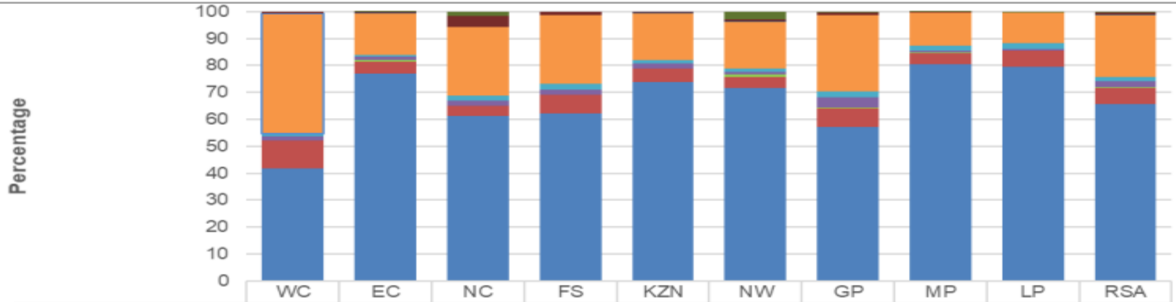
South Africa has also faced significant challenges in early childhood development (ECD), including issues related to access to quality ECD services, nutrition, and child well-being. Despite efforts by the government to improve ECD through various policies and initiatives, progress has been slow and uneven. Children from poorer households are more likely to stay at home with parents or guardians than attend ECD centres. According to Stats SA, there was a decline from 36.8 per cent in 2019 to 28.5 per cent in 2021 in children aged 0 to 4 who attended Grade R and pre-school. A report commissioned by the Department of Basic Education showed that there were approximately 1 660 316 children enrolled in only 42 420 Early Learning Programmes (ELPs). These figures translated into 6.2 ECD programmes per 1000 children being made available nationwide to young learners between 0-5 years old. It is thus important to note that a significant number of children remained unregistered in ECD centres and these numbers continue to be unknown.

3.5 The provision of healthcare

Despite the gains made since 1994, the healthcare system in South Africa is overstretched, highly unequal and severely underfunded. South Africa is facing a quadruple burden of disease and this strains the health care system. According to the South African Nursing Council, the current nurse-to-patient ratio is 1:218 patients while the ideal ratio is 1:16. In March 2022, Health Minister Joe Phaahla revealed that there were 10 831 vacancies in state hospitals citing budget cuts as a significant challenge. The Minister also highlighted that the doctor-to-patient ratio was 0.79 doctors per 1000 patients (1 doctor for 1 266 patients).

While the public healthcare system caters to 84 per cent of the population that does not have medical aid, as a percentage of GDP, the government spends the same amount equivalent to the private sector spends on 16 per cent of the population that has medical aid. There are even economic and racial disparities in private healthcare access, with the white population enjoying the bulk of medical aid coverage. According to Stats SA, 77.7 per cent of white individuals were members of a medical aid scheme compared to 45.1 per cent of Indian/Asian individuals, 19.9 per cent of coloureds and 9.3 per cent of black Africans. Figure 3.10 presents the type of healthcare facility that households generally visit first when household members fall ill or have accidents. Nationally, 71.9 per cent of households said that they would first go to public clinics, hospitals or other public institutions. In comparison, 27.0 per cent of households said that they would first consult a private doctor, private clinic or hospital.

Figure 3.10: Percentage distribution of the type of healthcare facility consulted first by households when members fall ill or get injured by province, 2021

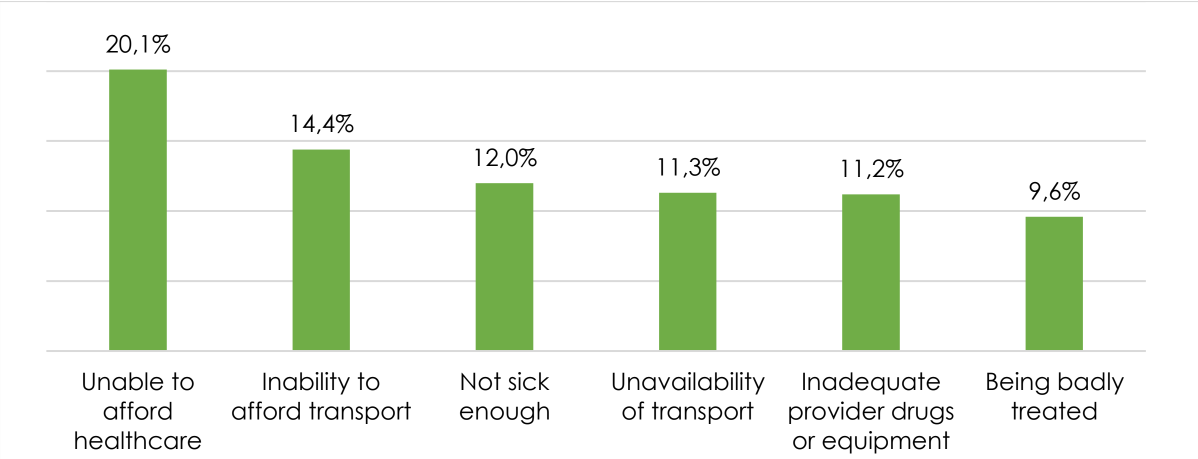


	WC	EC	NC	FS	KZN	NW	GP	MP	LP	RSA
Other	0,0	0,1	1,5	0,0	0,0	2,8	0,2	0,2	0,2	0,4
Pharmacy	0,7	0,4	4,1	1,3	0,5	0,7	1,2	0,2	0,0	0,8
Traditional healer	0,0	0,1	0,0	0,0	0,1	0,5	0,0	0,1	0,1	0,1
Private doctor	44,8	15,6	25,7	25,5	17,5	17,4	28,2	12,4	11,2	23,2
Private clinic	0,7	0,4	1,6	2,0	1,1	1,2	2,3	1,6	2,5	1,6
Private hospital	1,8	1,4	1,9	2,2	2,1	0,9	3,9	0,9	0,6	2,2
Other public institution	0,0	0,7	0,0	0,0	0,0	1,0	0,1	0,2	0,0	0,2
Public hospital	10,4	4,4	3,8	6,7	4,9	3,9	6,9	4,2	5,8	6,1
Public clinic	41,7	77,0	61,4	62,3	73,9	71,7	57,2	80,4	79,6	65,6

Source: Stats SA

A study by Gordon (2020) found that socio-economically disadvantaged households were more likely to postpone seeking healthcare compared to those at an advantage. Relatively wealthy households were more likely to be located within a 10 km radius of a healthcare facility in comparison to relatively poorer households. The most common reason households postponed obtaining healthcare was because they could not afford care, followed by high transportation costs (see Figure 3.11).

Figure 3.11: Reasons for households postponing healthcare



Source: Stats SA

In 2023/24, healthcare expenditure constituted 12 per cent of the budget expenditure, a slow increase from 11.5 per cent in 2011/12. South Africa has failed to realise the government's 2001 commitment in the Abuja Declaration, which is allocating 15 per cent of budget expenditure to the health function. Universal access to healthcare is a fundamental right provided for in section 27(1)(a) of the Constitution of South Africa. Section 27(1)(b) provides for the State to "take reasonable legislative and other measures, within its available resources to achieve the progressive realisation of the right." Thus government must demonstrate progress when allocating available resources to progressively realise this right.

3.6 Conclusion

The PBO's consistent concern has been the austerity mindset of the government, which has led to a prolonged period of fiscal consolidation while at the same time undervaluing the contribution of social grants and welfare services to household resilience, economic well-being and growth. By the government's own admission, we are unlikely to realise many of the NDP outcomes. Given the deep structural challenges that hamper investment and growth in the economy, an important strategy to kick-start economic activity in the face of these problems is to build household resilience through fiscal expansion on services, grants and infrastructure investment.

Fiscal policy is a vital tool for the redistribution of income and wealth, it becomes even more important when there is extreme structural inequality. Fiscal policy plays an important role in supporting aggregate economic demand, growth, investment and employment. Fiscal policy and the budget should take into account the regenerative interaction between public investment, labour productivity, socioeconomic development, rights, and equity. There is also a need to understand public basic services within their modes of production and reproduction.

4 Investment, capital stock and industrial development

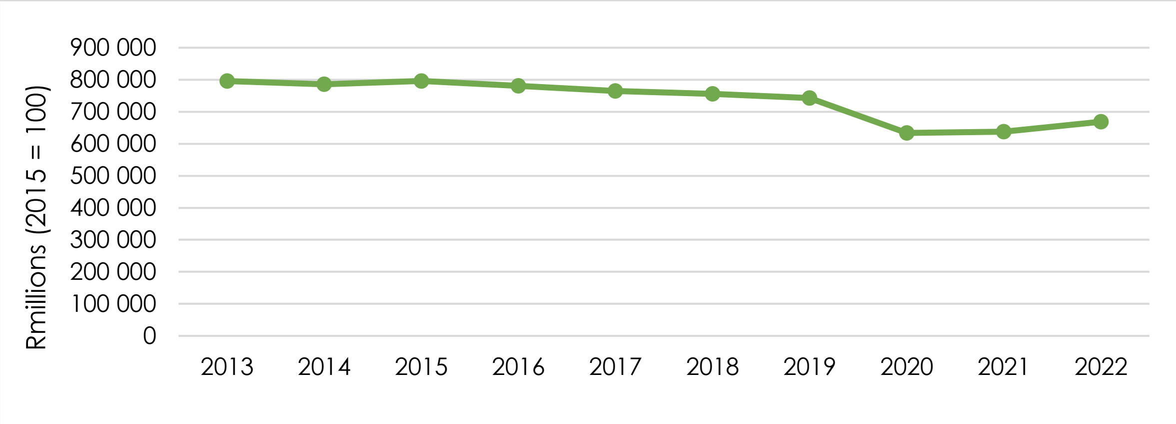
4.1. Introduction

According to data from the International Monetary Fund (IMF), covering the period from 2013 to 2022 (not illustrated), the average real GDP growth rate for developing economies stood at 4.06 per cent. However, in the case of South Africa, the average real GDP growth rate was a mere 0.96 per cent over the same period. To make matters worse, the IMF anticipates South Africa's GDP growth rate to be even lower in 2023. This somber forecast is not the only cause for concern; a closer examination of gross fixed capital formation (GFCF) and capital stock data from the same period reveals deeper issues.

GFCF, often referred to as "investment", measures the increase in new capital assets. As one of the components of the expenditure method used to calculate GDP, GFCF stands as one of the most important indicators of future economic performance since today's investment contributes to the stock of capital that yields tomorrow's products. One of the key factors contributing to the suboptimal growth rates in the South African economy is declining GFCF (i.e., investment).

4.2. Real Gross Fixed Capital Formation (GFCF)

Figure 4.1: Real gross fixed capital formation (GFCF) in Rmillions (2015 = 100)

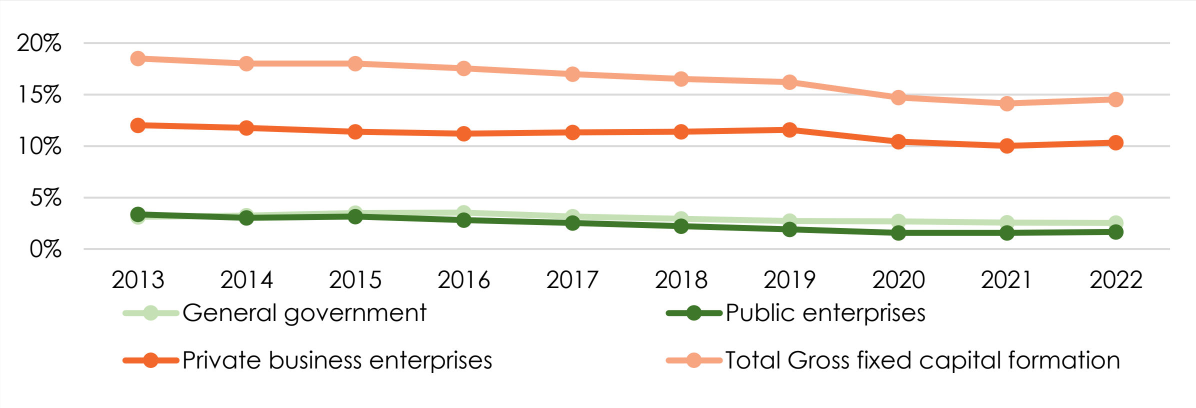


Source: Stats SA

Figure 4.1 provides an aggregate overview of real GFCF spanning the past decade. Between 2000 and 2012 (not depicted in Figure 4.1), real GFCF grew by 106.3 per cent increasing from R366.3 billion in 2000 to R755.5 billion in 2012. However, over the past decade, there was a stark decline with real GFCF decreasing by 16.0 per cent from R796.0 billion in 2013 to R668.5 billion in 2022. During this period, approximately 678 363 jobs were created[1].

[1] Based on data obtained from Statistics South Africa's (Stats SA) Quarterly Labour Force Survey (QLFS), the sector-wise breakdown of this figure is as follows: An increase of 123 222 jobs in the formal sector (non-agriculture), increase of 561 685 jobs in the informal sector (non-agriculture), an increase of 122 809 jobs in agriculture industry and a loss of 129 354 jobs for people working in private households.

Figure 4.2: Real gross fixed capital formation (GFCF) by type of organisation as a per cent of GDP



Source: SARB and Stats SA

The contraction of GFCF since 2013 is evident in the reduction of real GFCF across all three institutional sectors: general government, public enterprises, and private business enterprises. The ratio of real GFCF to real GDP decreased from 3.1 per cent in 2013 (R134 billion) to 2.5 per cent in 2022 (R116 billion) for general government, from 3.4 per cent in 2013 (R144 billion) to 1.7 per cent in 2022 (R76 billion) for public enterprises and from 12.0 per cent in 2013 (R796 billion) to 10.3 per cent in 2022 (R476 billion) for private businesses enterprises.

Table 4.1: The value of announced projects by organisation (R billion in constant 2023 prices)

Year	Private sector	General government	Public corporations	Total
2013	R321.9bn	R45.3bn	R168.6bn	**R535.8bn**
2014	R83.5bn	R22.1bn	R18.9bn	**R124.5bn**
2015	R200.1bn	R18.3bn	R27.5bn	**R245.9bn**
2016	R91.1bn	R91.8bn	R25.3bn	**R208.1bn**
2017	R135.5bn	R39.9bn	R1.6bn	**R177.1bn**
2018	R159.7bn	R9.5bn	R25.2bn	**R194.4bn**
2019	R117.8bn	R19.7bn	R50.8bn	**R188.3bn**
2020	R89.1bn	R473.2bn	R1.1bn	**R563.4bn**
2021	R150.8bn	R41.8bn	R293.0bn	**R485.5bn**
2022	R209.3bn	R21.6bn	R37.7bn	**R268.6bn**
2023 (until June)	R69.8bn	R103.4bn	R0bn	**R173.1bn**

Source: Nedbank, Capital Expenditure Project Listing, 2023

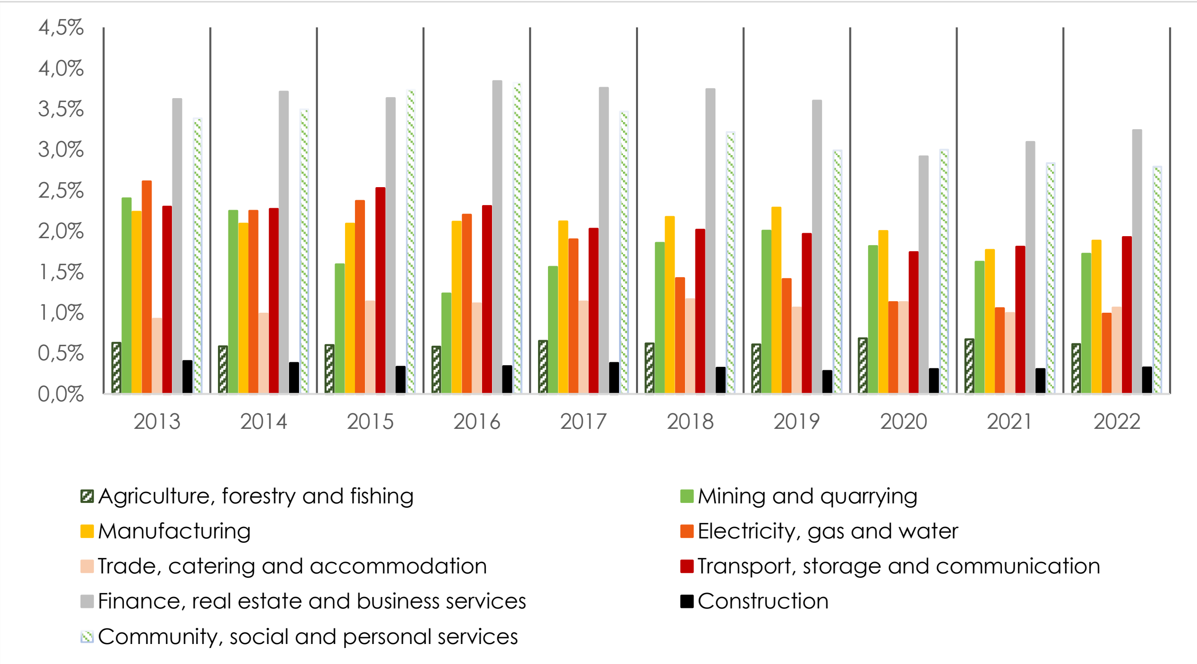
In the first half of 2023, the value of planned new projects announced by the government increased from R21.6 billion to R103.4 billion, as shown in the table above. This public investment constitutes 59.7 per cent of the total value of new projects announced. These announced government projects are primarily the upgrading physical infrastructure and include an allocation of R45 billion for upgrading wastewater and sewers infrastructure, R3.8 billion towards the construction of bridges in rural areas and R2.4 billion allocated for a solar plant and a hydro pump storage scheme which seeks to mitigate up to two stages of load shedding.

Notably, public corporations did not announce any new projects following the considerable project announcements made in 2021 by Eskom, the Passenger Rail Agency of South Africa (PRASA) and the South African National Roads Agency (SANRAL) that are underway.

Projects announced by the private sector decreased to R69.8 billion from R193.6 billion, making up 40.3 per cent of the total value of announced projects. Among the projects unveiled by the private sector, a notable portion is within the electricity, gas, and water industry, such as a R5.1 billion construction of three solar power plants to be in the Western Cape province and another R1.56 billion construction of solar power plant to be built in Lephalale, Limpopo province. Investing in the electricity, gas, and water sector is essential for economic development, improving the quality of life and a foundation for effective poverty eradication. Government is responsible for ensuring the delivery of basic services from this sector including safe water supply and reliable electricity reaches communities as stipulated in the South African Constitution Act No. 108 of 1996 (ss 153).

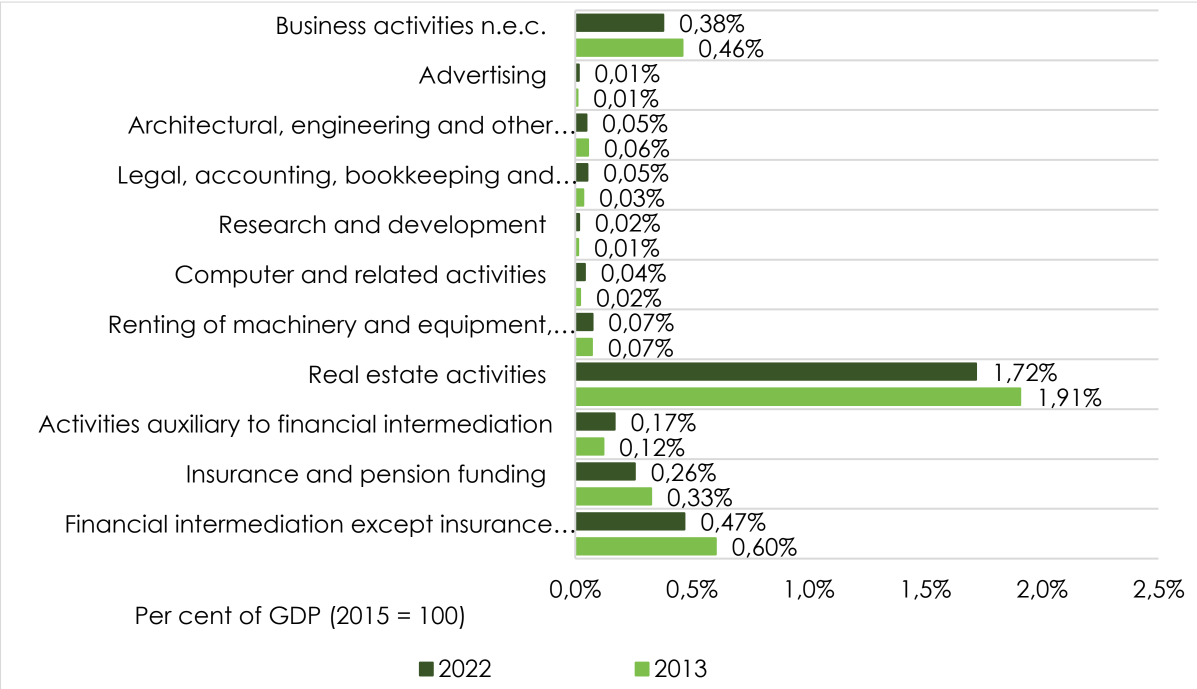
Real GFCF has exhibited a declining trend over the past decade, as indicated in Figure 4.1. However, it is not just the level of investment that is important but also where the investments are made too. The sectors where investments are made indicate where the savings and borrowings are being allocated. It also gives one an indication of where capital stock is being built up within the economy, which provides an indication of the future potential growth trajectory of the economy. Most investments within the South African economy have been in services sectors. The largest investment has been in the financial intermediation, insurance, real estate and business services sectors (FIIRE) of the economy. The largest recipient of investment in the FIIREBS sector has been real estate services an indication that much of the investment in South Africa may be allocated towards non-productive activities and possibly speculation in property. Investment in this sector includes projects in the commercial real estate market (although there were market disruptions resulting from COVID-19, which reduced the demand for office space), as shown in Figures 4.3 and 4.4 below.

Figure 4.3: Real Gross Fixed Capital Formation (GFCF) by sector as a per cent of GDP (2015 = 100)



Source: Stats SA

Figure 4.4: Real gross fixed capital formation (GFCF) for finance, insurance, real estate, and business services as a per cent of GDP



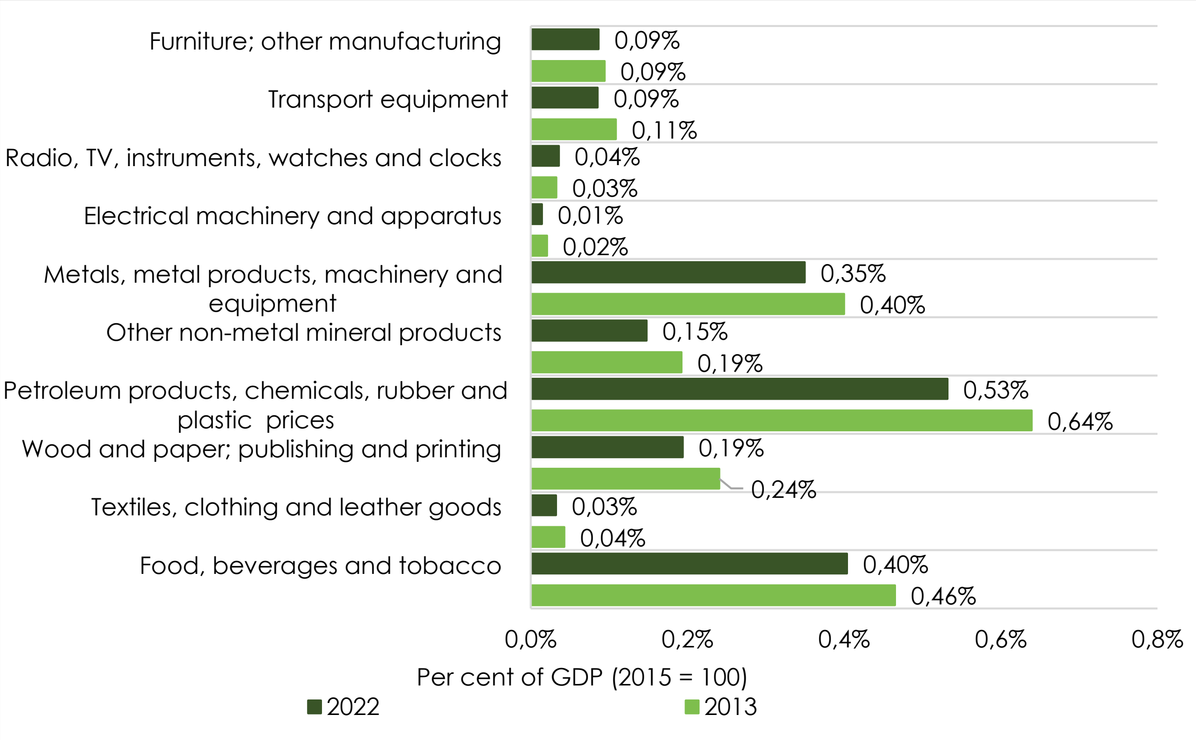
Source: Quantec

It is particularly concerning that investment in manufacturing has been relatively low. Manufacturing may be described as an engine for growth and development. International experience and empirical evidence supports the argument made by development economists, notably Nicholas Kaldor and Anthony Thirlwall, that manufacturing generates higher growth and employment creation than other economic sectors because the higher value-adding activities of manufacturing require greater upstream and downstream linkages between businesses within manufacturing and other economic sectors. These high number of linkages means that production within manufacturing supports increased activity in many other sectors of the economy in general, manufacturing outpaces primary and tertiary sectors in this respect.

This characteristic of manufacturing implies that it is generally considered to be the core driver of GDP growth and employment, while other sectors are likely to grow on the basis of the growing demand resulting from an increasing GDP (Zalk, 2014)[2]. Manufacturing investment as a per cent of GDP decreased from 2.2 per cent in 2013 (amounting to R96.2 billion) to 1.9 per cent in 2022 (amounting to R86.5 billion), as shown in Figure 3. It has remained below the levels of the 2000 to 2009 period, which poses challenges to the advancement of industrialisation and faster economic growth and job creation within the country. Figure 4.5 shows that the largest growth in manufacturing investment has been in sectors such as petroleum products, chemicals, rubber and plastic products, food beverages and tobacco and metals, metal products machinery and equipment. In general, these are capital and energy intensive, processing sectors of manufacturing where products have lower levels of value added and job creation may be lower.

[2] Dr Nimrod Zalk, *what is the role of manufacturing in boosting economic growth and employment in South Africa?*

Figure 4.5: Real Gross Fixed Capital Formation (GFCF) for manufacturing as a per cent of GDP



Source: Quantec

Investment as a percentage of GDP in the electricity, gas and water sector of the economy declined since the investment in new coal fired power stations. The lower level of investment in this sector is now largely as a result of investment in renewable energy projects (see Table 4.2 below). The increase in renewable investments can be largely attributed to the ongoing power crises that has impacted the appetite for other types of capital projects.

Table 4.2: Announced projects by electricity, gas, and water, 2022

Project name	Estimated value (R million)	Percentage of total
Green hydrogen plant	75 000	48.5%
Round 5 - Renewable Energy Independent Power Producer Procurement Programme (REIPPPP)	34 300	22.2%
Round 6 - Renewable Energy Independent Power Producer Procurement Programme (REIPPPP)	12 100	7.8%
Seriti coal mine windfarm project	12 000	7.8%
Komati power station repurposing project	9 000	5.8%
Soetwater Wind Farm	3 500	2.3%
Earth & Wire independent renewable-energy company	3 500	2.3%
Virginia Gas Project	1 000	0.6%
Nersa's own and commercial use generation facilities project (includes an solar photovoltaic facility)	3 650	2.4%
Jane Furse wastewater treatment works	352	0.2%
KwaDukuza wastewater treatment works	159	0.1%
Maphumulo wastewater treatment works and sewer reticulation project	76	0%
Estimated total	154 637	

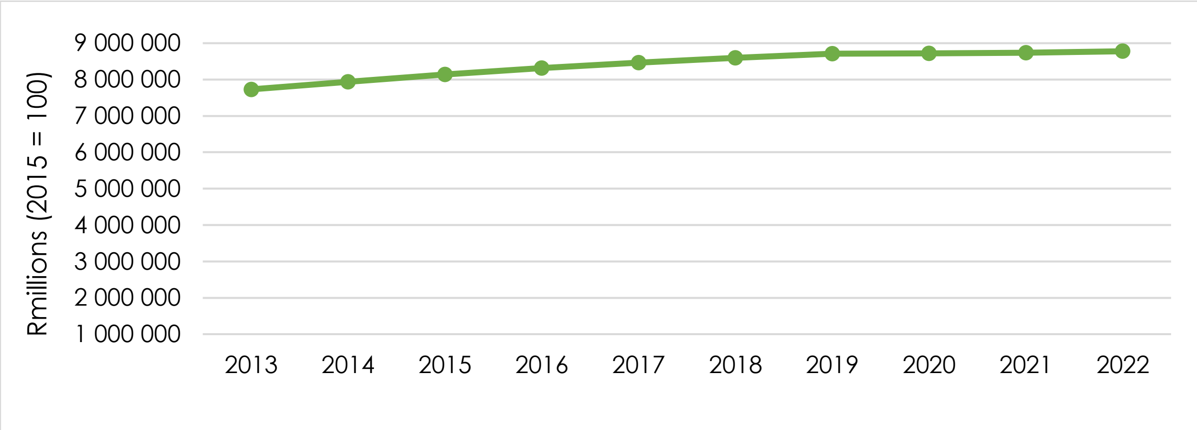
Source: Nedbank, Capital Expenditure Project Listing, 202 and H1 2023

Note: The estimated value of the project presented in the table above is preliminary and subject to further interrogation. Detailed analysis and additional data are necessary to ensure accuracy.

4.3. Capital Stock

Economies are path-dependent, and the formation of physical and human capital requires cumulative effort and investment over time. Examining the current level and type of capital stock formation in a country provides an important indication of what may be expected with regard to its level and type of economic activity in the future. South Africa has had slow real of capital stock since 2013. Public sector fixed capital stock as a percentage of GDP has lagged not only the BRIC economies[3] but also in successful East Asian economies, along with select African countries such as Rwanda and Ethiopia. This poor performance raises long-term concerns with regard to the production capability, economic growth and employment.

Figure 4.6: Real capital stock in Rmillions (2015 = 100)



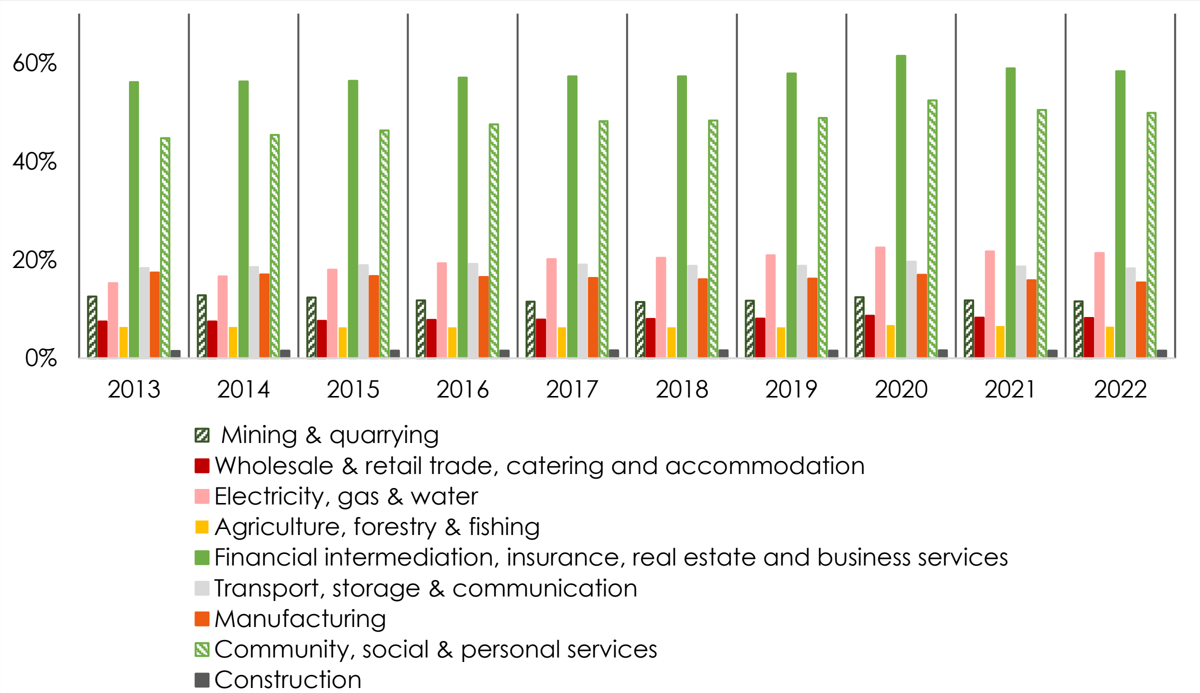
Source: SARB

Changes in real GFCF coincide with changes in real fixed capital stocks, as increases in investments will typically lift capital stocks. Real fixed capital stock increased by 13.5 per cent, rising from R7.73 trillion in 2013 to R8.78 trillion in 2022. A closer analysis of real GFCF as classified by asset type for 2023, provides insights into capital stock trends. Investment activity by asset type remains below pre-COVID pandemic levels of R189.5 billion in the first quarter of 2013 and R191.5 billion in the second quarter of 2013. This can be attributed to weak business sentiments, exacerbated by persistent power outages, escalating operating costs, deteriorating local infrastructure, and weaker global growth prospects[4] coupled with tight financial conditions. These challenges collectively hinder a robust economic recovery, creating a challenging environment.

Much like the real GFCF, the principal drivers to changes in South African capital stock over the past decade emanate from finance, intermediation, insurance, real estate and business services (see figure 4.8), community, social and personal services and electricity, gas and water sectors of the economy as demonstrated in figure 4.7 below.

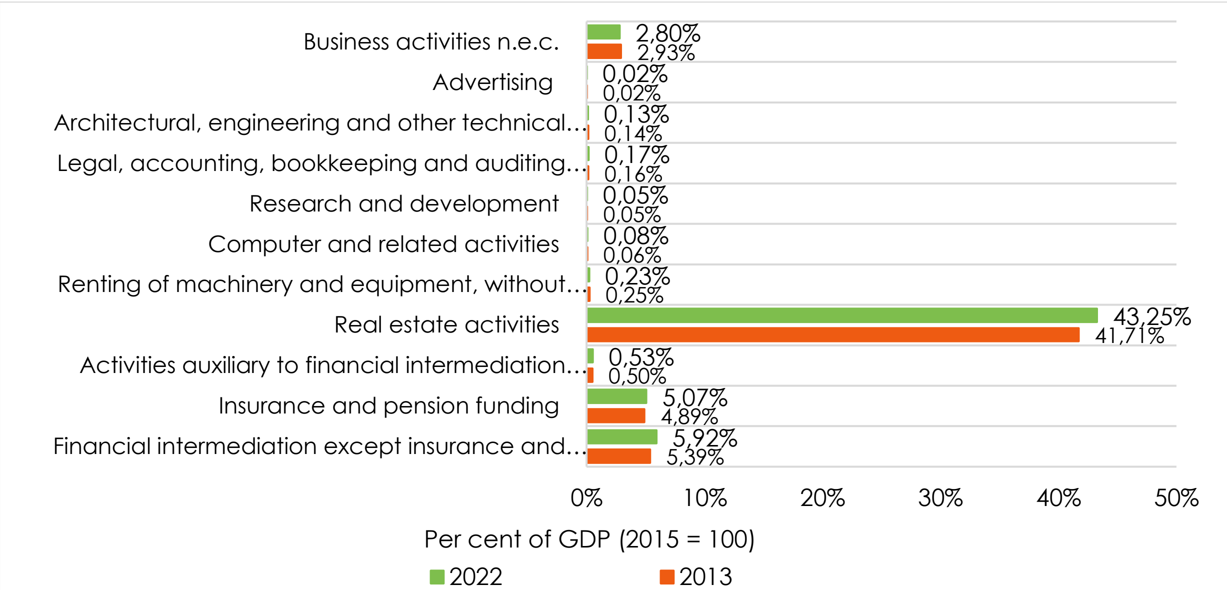
[3] According to the International Monetary Fund's (IMF) Investment and Capital Stock Dataset in 2019 (the latest), public capital stock as percentage of GDP for South Africa was 47.4 per cent, Brazil was 82.0 per cent, Russia was 63.3 per cent, India was 59.4 per cent, China was 167.5 per cent, Rwanda was 58.8 per cent and Ethiopia was 66.7 per cent.
[4] According to the IMF global GDP is expected to decline from 3.0 per cent in 2022 to 2.9 per cent in 2023

Figure 4.7: Real capital stock by sector as a per cent of GDP



Source: Stats SA and SARB

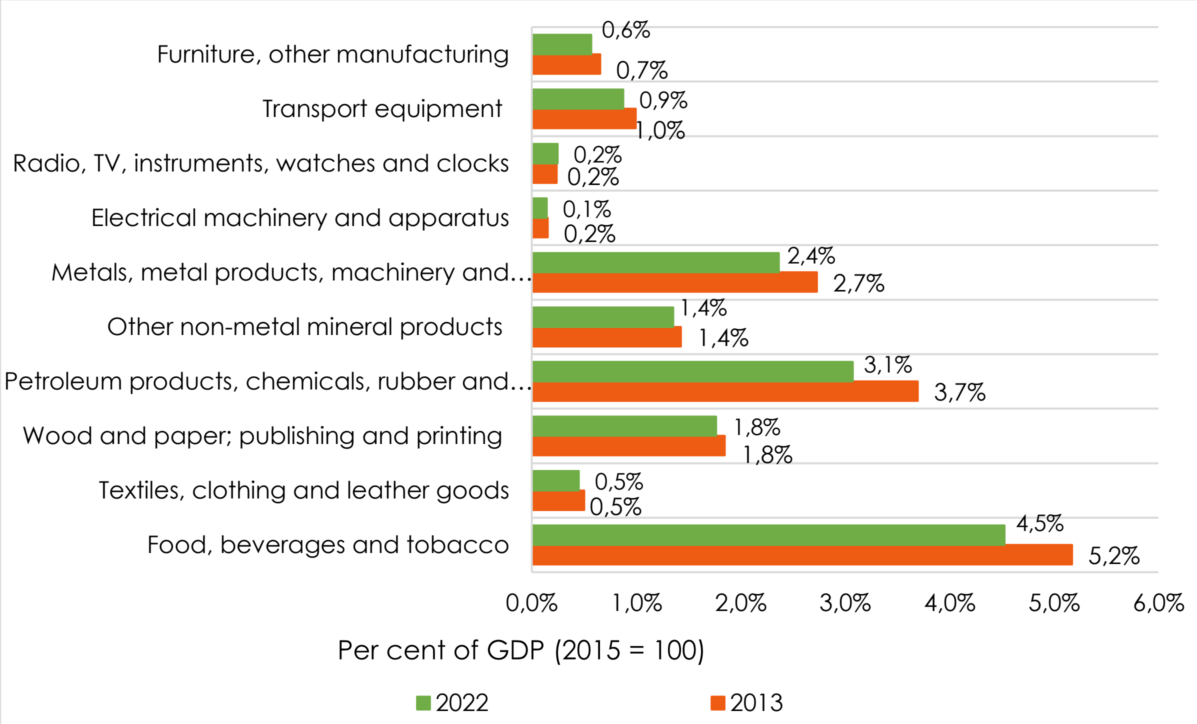
Figure 4.8: Real Capital stock for finance, insurance, real estate, and business services as a per cent of GDP



Source: Quantec

A concerning trend of a decline in real stock of capital in manufacturing emerges as shown in Figure 4.7. This decline indicates that South Africa has less capacity particularly in terms of machinery and equipment when it comes to manufacturing. In essence, we are not growing our potential engine of growth and employment.

Figure 4.9: Real Capital Stock for manufacturing as a per cent of GDP



Source: Quantec

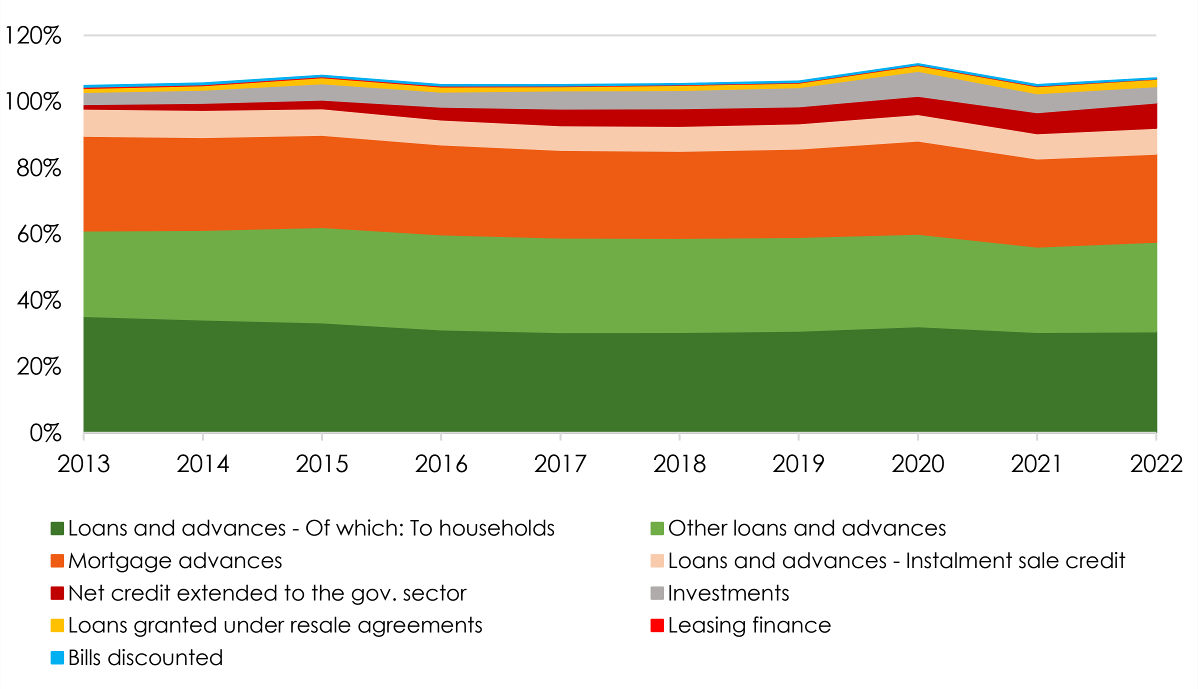
4.1 Credit extension

Over the past decade, the extension of credit has undergone changes across multiple categories. Increasingly, a notable portion of credit is extended to non-productive services sectors, which includes loans and advances (i.e. credit card and other short-term unsecured debt) and credit extended in the form of mortgage advances (i.e. real estate).

Consequently, a smaller share is extended towards investment, as shown in Figure 4.10. South Africa's financial and banking sector has been influenced by the Anglo-American system of capital-market based finance, where firms tend to obtain investment finance through equity offerings in stock exchanges or through issuing bonds rather than the German-type of universal banking where commercial banks play a greater role at all stages in the process of firm investment (Akyuz and Held, 1993)[5]. The German system of bank-based finance has historically led to a tighter nexus between industrial entities and financial institutions where banks were more attuned to the sustainability of industries. Critics of the Anglo-American system argue that this approach more generally misallocates credit towards speculative activities rather than productive investment, employment and economic growth in the long-term.

[5] Yilmaz Akyuz, Gunther Held, Finance and the real economy, 1993.

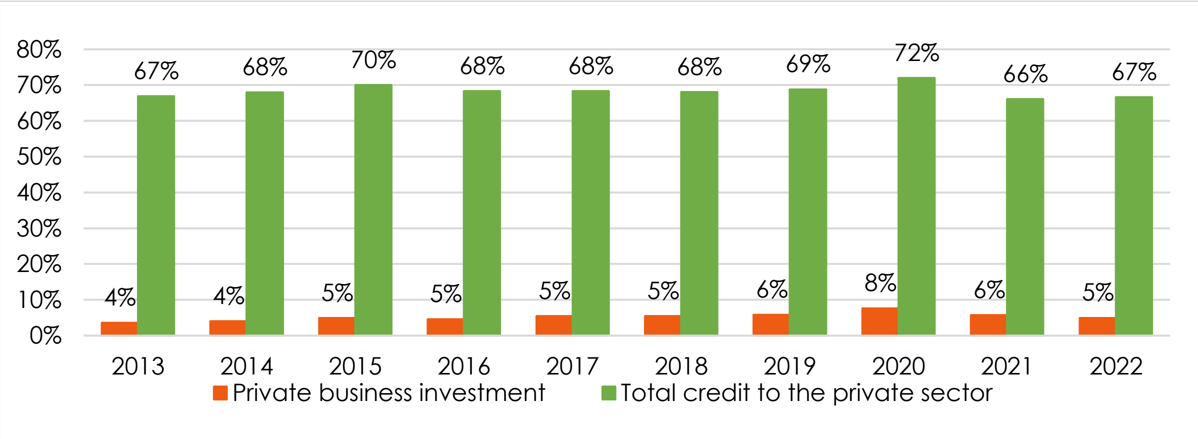
Figure 4.10: Credit extension by all monetary institutions as percentages of GDP



Source: SARB and Stats SA

Note: Lending to households is also included in other categories such as credit extended in the form of other loans and advances

Figure 4.11: Credit extension to the private sector and private business investment as percentages of GDP



Source: SARB and Stats SA

The extension of credit in the private sector as a percentage of GDP has been around 70 per cent over the past decade (as shown in Figure 10). However, private business investment has remained relatively low (around 5 to 6 per cent over the period), which indicates that a considerable proportion of the credit extended to the private sector does not go towards investment in South Africa. This graph further substantiates the view that capital is misallocated away from productive sectors. The "tail wagging the dog" idiom may be beneficial to use to describe this situation. Finance and financial motives (the tail) unduly influence the broader economy (the body of the dog). If the incentives and motives behind managerial decisions are centered on maximising short-term shareholder returns rather than supporting the relatively slow growth of productive, job creating manufacturing enterprises, it is generally more likely that finance will be misallocated away from productive economic sectors, such as manufacturing.

5. The fiscal framework

5.1. Fiscal policy position

5.1.1. Fiscal framework

Lower tax revenue and higher expenditure have contributed to a higher budget deficit and slightly more government debt contrary to the projections of the National Treasury (NT) in the 2023 Budget Review. National Treasury data[6] for April to August 2023 show that gross tax revenue increased by only 2.6 per cent on a year-on-year basis. The NT forecast in the February 2023 Budget Review was that gross tax revenue would increase by 5.6 per cent for the entire 2023/24 fiscal year. If the current underperformance of tax receipts continues through the fiscal year, it would mean an expected tax revenue shortfall of R53 billion relative to budget forecasts. Most of the revenue shortfall is due to lower corporate income tax collection, specifically from mining companies following the recent decline in commodity prices.

The main budget expenditure increased by 9.1 per cent year-on-year in the current five months of the 2023/24 financial year. The NT had pencilled in an unrealistic expenditure growth of only 1.5 per cent in the 2023 Budget for the 2023/24 fiscal year. The increase in expenditure was largely caused by higher-than-projected compensation of employees[7]. Rising debt-service costs amid higher long-term global and domestic interest rates have also contributed to the increase.

Table 5.1: 2023/24 First five months selected tax revenue outcomes

	2023 Budget Review Estimates		Actual collection against target: Apr-Aug 23			Actual collection against target: Apr-Aug 22		
R million	**R billion**	**Y-on-Y % change**	**R billion**	**YTD Collection rate (%)**	**Y-on-Y % change**	**R billion**	**YTD Collection rate (%)**	**Y-on-Y % change**
Personal Income Tax	640 300	6.4	248 987	38.8	7.9	230 581	39%	8.4
Value Added Tax	471 477	10.6	168 587	35.7	5.5	159 700	36%	11.8
Corporate Income Tax	336 119	-2.5	121 403	36.1	-15.0	142 938	53%	14.7
Fuel Levy	90 408	14.2	37 324	41.2	35.0	27 643	31%	-24.8
Dividend tax	39 731	3.4	14 475	36.4	-7.8	15 703	52%	25.7
Custom Duties	65 385	0.0	23 628	36.1	-10.0	26 276	42%	42.5
Specific Excise Duties	8 836	0.2	2 268	25.6	-88.2	19 380	37%	32.4
Skills Dev Levy	23 027	8.4	9 084	39.4	9.6	8 283	40%	8.5
Ad-valorem	4 699	5.3	3 557	75.6	61.9	2 196	50%	-13.3
Gross Tax Revenue	**1 787 457**	**5.6**	**668 039**	**37.3**	**2.5**	**651 411**	**41%**	**10.5**

Source: National Treasury 2023

5.1.2. Credibility and sustainability of the fiscal framework

Debt-to-GDP ratios and budget deficits have increased, even though, the National Treasury has remained committed to fiscal consolidation, which was introduced as a temporary measure, since 2012 (see Figure 5.1). Despite this failure of fiscal consolidation to achieve the goal of reducing the deficit and debt over a decade, the government chose to continue with fiscal consolidation in the 2023 Budget by reducing government consumption spending. The 2023 Budget projected that fiscal consolidation would produce a primary fiscal surplus. The

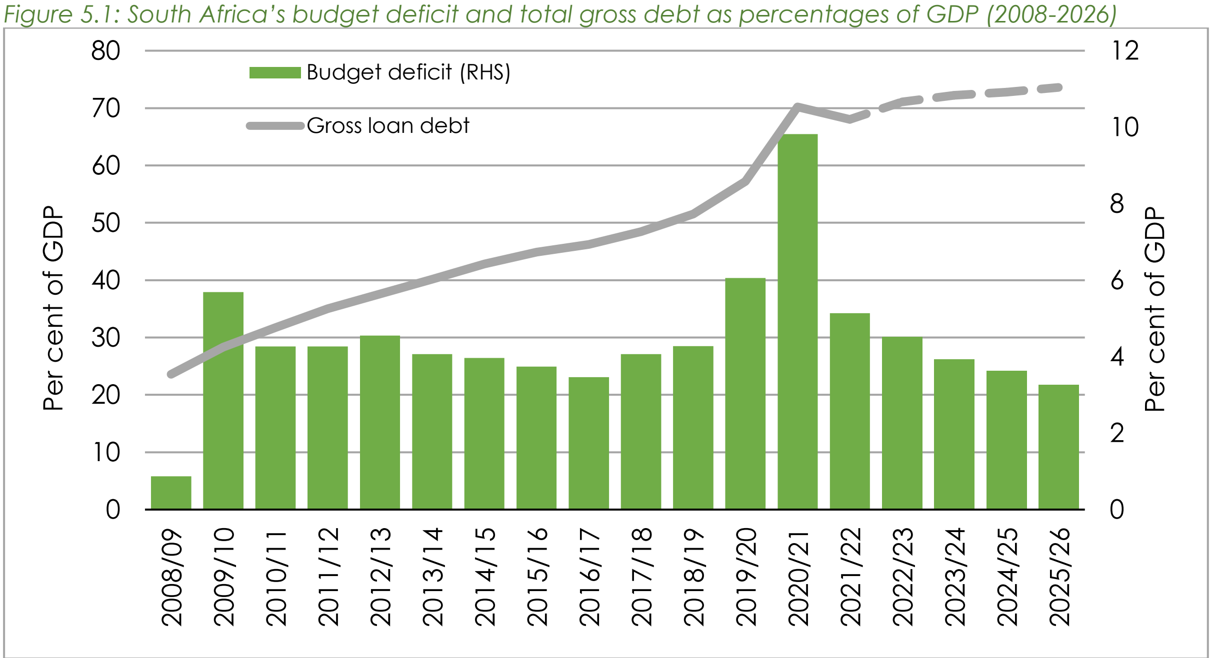
[6] Statement of the National Revenue, Expenditure and Borrowing as from April 2023 to August 2023

[7] National Treasury budgeted for only a 1.6 per cent wage increase compared to the 7.5 per cent wage hike that was implemented from 1 April 2023. This means government will have to spend R37.5 billion more on the wage bill.

PBO argued that given the current realities, the government would be unlikely to achieve a budget surplus in the current fiscal year and over the MTEF.

According to the National Treasury, the surplus was a "critical policy stance" to stabilise debt and improve market sentiment. The PBO argued that the budget would likely hurt the real economy, erode the state's capacity to deliver services and in so doing put the government at risk of ending up with even higher debt. The risks associated with higher government debt levels voiced by the NT pale in contrast to potentially dangerous and destructive socio-economic risks that stem from not adequately investing in society given the cost of living crisis and the risks faced by the local economy. There are huge costs associated with the extraordinarily high levels of unemployment, poverty and inequality in South Africa. There is insufficient resilience within households and businesses to domestic social and political instability, climate change events, the lasting effects of COVID-19 and possible future pandemics, geopolitical conflicts, and economic and financial instability. Reducing expenditure without taking into account these interrelated risks not only undermines the credibility of the fiscal policy framework but also potentially threatens democratic institutions.

Figure 5.1: South Africa's budget deficit and total gross debt as percentages of GDP (2008-2026)



Source: National Treasury 2023 Budget Review

In contrast to the prevailing narrative suggesting that South Africa is facing a fiscal crisis, the PBO contends that the government has viable alternative policy and budget options at its disposal. The government has the potential to steer the current fiscal and economic growth trajectory in a different direction. The budget could contribute towards achieving lasting fiscal sustainability by directing more resources towards social welfare, public services, and infrastructure development in pursuit of a new demand-led growth trajectory. The NT's supply-side fiscal policy presumption that businesses will respond positively to fiscal consolidation and promises of a lower debt-to-GDP ratio has been shown to be incorrect over the past decade. Moreover, the supply-side structural reforms proposed by the NT are inadequate for stimulating investment and economic growth in a nation that has serious demand-side constraints due to structural poverty and unemployment. South Africa's historical track record in fixed investment, both in the public and private sectors, has been notably poor.[8]

Structural economic transformation rather than a narrow view of structural reform is required to tackle the high levels of unemployment, poverty and inequality, which are constraining aggregate demand in the economy. Economic policy, particularly macroeconomic policy, must take into account the economic context. The South African economy remains extremely concentrated (both in terms of market share and wealth) with a high level of financialisation[9]. In the long run, debt stabilisation or fiscal sustainability may be achieved only through pro-growth demand and supply measures that build resilience and productivity in households and businesses, particularly small and medium businesses. Debt becomes manageable when economies grow not though austerity measures, such as fiscal consolidation, that have been shown to reduce growth and contribute to higher debt to GDP levels (which has been the experience of South Africa over the past decade as well).

There is a realisation that markets alone cannot be relied upon given the severity of the world's challenges and risks. South Africa will require a developmental state, particularly given the scale of unemployment, poverty and inequality while at the same time taking into account climate change and a just transition. Therefore, the budget has to support and enhance state capacity that empowers a developmental state to address these key socio-economic challenges in support of structural economic transformation.

On the revenue side, the Treasury had projected that the commodity cycle was always going to be temporary (i.e., that prices of the mined products we export would decline, which would mean that tax revenues from mining would decline). However, they neglected to propose alternative sources and means to improve revenue mobilisation. It will be imperative to establish a robust fiscal framework encompassing both tax and non-tax revenue sources. Improved revenue mobilisation will contribute to building resilience against future shocks and help the government to meet its constitutional obligations. Domestic resource mobilisation efforts need to be undertaken through progressive tax reforms, leveraging development finance, and monetary policy reforms amongst others to diversify and build resilience in public financing. Taxes serve a dual purpose from a developmental perspective. They can be harnessed as a strategic instrument to redirect production and resources, while simultaneously shaping the desired distribution of income.[10]

It is important to note that the current fiscal context is a result of cumulative decisions that have been made in economic policymaking. UNCTAD notes that “fiscal space cannot be identified as a predetermined level of resources in any economy. Rather, it depends on past and current fiscal policy choices, such as the extent of the government’s spending, its savings and the level of its debt relative to GDP. What matters most is the flow of revenue that accrues to the government over a period as a result of tax and expenditure changes and their subsequent impact on GDP through the fiscal multipliers”. The choice to mainly manage debt by cutting expenditure has not taken into account the regenerative interaction between public investment, labour productivity, social and economic development, rights, and equity.

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8 Refer to section on Gross Fixed Capital Formation (GFCF) in this brief.

9 Wealthy individuals, institutional investors (such as pension funds) and financialised nonfinancial corporations are not adequately allocating money towards real sector investment and job creation but to financial activities inside and outside SA.

10 ILO. 2022. Towards a transformative macroeconomic policy framework for employment generation in Africa. https://www.ilo.org/africa/information-resources/publications/WCMS_830222/lang--en/index.htm

5.2. Risks to the fiscal framework: State Owned Entities and Contingent liabilities

Many State-Owned Enterprises (SOEs) continue to face significant challenges in adequately financing their operations and servicing their debts, let alone making optimal investments in critical infrastructure. There is within South Africa widespread frustration and deep-seated concerns related to corruption, inefficiency, mounting debts, contingent liabilities, and government bailouts of SOEs. The poor governance and performance of these SOEs have tangible economic and quality-of-life ramifications for both households and businesses. The 2023 Budget underscores this reality by highlighting the substantial reliance of the two largest SOEs, Eskom, and Transnet, on ongoing state support to sustain their operations and meet their financial obligations. Additionally, the need for substantial investments in the port and rail infrastructure of Transnet is underscored, owing to a history of inadequate funding and development in this vital sector.

As outlined in Schedule 2 of the Public Finance Management Act (1999), significant public entities are mandated to function as self-sustaining, profit-generating enterprises that rely on the soundness of their financial positions to secure borrowing. The National Treasury has raised concerns regarding the debt levels and government bailouts provided to State-Owned Enterprises (SOEs), which are seen as potential threats to the fiscal framework. Consequently, the National Treasury has embarked on the development of a novel framework designed to manage SOE bailouts more effectively. This framework aims to mitigate fiscal risks and stimulate much-needed reforms within the SOE sector.

These recent developments give rise to significant questions, particularly in light of the adverse consequences associated with an austerity-oriented approach to broader socio-economic outcomes. Is it appropriate to label a fiscal policy framework as "credible" when it appears to favour short-term goals of achieving a budget surplus and reducing debt, potentially at the expense of providing sufficient resources to critical state-owned enterprises (SOEs) and safeguarding their short-term stability and long-term viability?

The experience of Eskom serves as a pertinent example, prompting us to ponder whether more substantial, targeted, and conditionally structured financial support from the government, if provided several years ago, could have averted prolonged load shedding and the necessity for the extensive debt relief measures now in place. Furthermore, it raises the question of whether the Public Finance Management Act (PFMA) should be revisited. Specifically, should it continue to mandate that Schedule 2 public entities operate as self-sustaining, profit-generating enterprises that rely solely on the strength of their balance sheets? This query arises in light of the challenges faced by critical SOEs and the socio-economic costs associated with their poor performance and mounting debt burdens. In addition, there is a concern about the National Treasury's capacity to comprehensively assess various SOEs' intricate and distinctive operations. This prompts us to consider whether the National Treasury possesses the specialized expertise required to formulate detailed guidelines and requirements that would enable these SOEs to enhance their operational efficiency and financial performance effectively.

In summary, these developments compel the government to re-evaluate fiscal policy, government support for SOEs, the regulatory framework governing public entities, and the expertise available within the National Treasury. The aim is to ensure that government policies and actions align with the broader socio-economic well-being and the unique needs of critical state-owned enterprises.

6. Assessment of the implementation of the Social Relief of Distress Grant

6.1. Introduction – Socal Relief of Distress Grants

South Africans are experiencing a heightened cost of living crisis (as demonstrated in section 3). Large proportions of the South African population are subject to debilitating poverty and unemployment and institutional support is inadequate. While South Africa has one of the most expansive social grant systems in the world (47 per cent of the population benefit from monthly grants), there has been a long-standing gap in social protection for the 18 to 59 age group. In 2022, President Cyril Ramaphosa highlighted that "African women are the face of poverty".[11] According to Stats SA, in 2021 the profile of a subjectively poor household in South Africa is one typically:[12]

- headed by a black African female who is younger than 35,
- residing in a rural area that is located in a rural-based province and who has lower levels of education,
- In these households it is more likely that all economically active individuals (age 15 years and above) are unemployed. On the income distribution, this household is located in the lower quintiles.

The introduction of the COVID-19 Special Social Relief of Distress (SRD) grant and the extension of the SRD (post the national state of emergency) has partially addressed this gap in social protection. While not reaching the food poverty line (R760.00), the SRD grant has made an impact on household consumption.

6.2. Social protection in the context of austerity

The approach to the COVID-19 and SRD-350 has been in a stop–start manner with Treasury continuously noting that there is no 'fiscal room' to commit to long-term support for households. The COVID-19 SRD grant was initially implemented between May 2020 and October 2020 and further extended to April 2021. The COVID-19 SRD grant was only introduced after the first hard lockdown when many households were already feeling the economic impacts of the supply and demand shocks induced by the pandemic. During its implementation, and following its termination in April 2021, many civil society organisations and analysts (including the PBO) called for its reinstatement, increase, and expansion of the criteria which had excluded many vulnerable groups. Government did not yield to these calls despite a looming third wave of the pandemic which would bring about additional lockdown measures. Visagie and Turok (2020) warn that temporary grants may create vulnerabilities in poor communities if they are withdrawn prematurely which was likely the case when the grants were ended in April 2021.[13]

[11] Presidency. (2022). Remarks by President Cyril Ramaphosa at the 2nd Women Economic Assembly, OR Tambo Building, Tshwane.
[12] Stats SA, General Household Survey 2021
[13] Visagie, J., & Turok, I. (2020). The Uneven Geography of the COVID-19 Crisis (Wave 2). National Income Dynamics Study (NIDS) – Coronavirus Rapid Mobile Survey (CRAM)

Table 6.1: The Social Relief of Distress Grants

Special COVID-19 Social Relief of Distress	**Special Covid-19 SRD Grant (6 Months) from 01 May 2020 to 31 October 2020**
	The Special Covid-19 SRD grant was extended for 3 months from 1 November 2020 to 31 January 2021
	The grant was thereafter extended for a further three months from 1 February 2021 to 30 April 2021
R350 Social Relief of Distress Grant	The grant was re-introduced after 3 months from 1 August 2021 to 31 March 2022
	The Grant was extended from 1 April 2022 to 31 March 2023
	The Minister of Finance announced another extension of this grant in the 2023 budget which commenced on the 1st of April 2023 and will end on the 31st of March 20234

Source: Department of Social Development

The President of the Republic of South Africa announced the extension of the grant for a further period from April 2022 to March 2023 in the State of Nation address in February. The regulatory framework for the granting of this grant, however, had to change with the lifting of the national state of disaster, as it could no longer be provided under the Disaster Management Act. The grant was brought in under the Regulations to the Social Assistance Act, of 2004. These amended Regulations were published on 22 April 2022. [14]

6.3. The underspending of the SRD grant

The government allocated R44 billion (bn) to the Department of Social Development (DSD) in the 2022 Budget to support 10.5 million people until the end of March 2023. This allocation is insufficient for the 10.9 million people whom the DSD indicated qualified for the SRD grant. Moreover, DSD has had to exclude applicants to remain within the budget allocation by introducing additional qualifying criteria for the grant. One critical change was the introduction of a means test of R350, resulting in the exclusion of a significant number of applicants. The 6.5 million applications approved in June 2022 are substantially lower than the 10.9 million people initially identified as beneficiaries of the programme by DSD.

The change in qualifying criteria to enable DSD to meet its budget led to low approval rates and payments being delayed. Taking the figures from April to June 2022, the payments made to approved applicants also declined this year, while as of August 2022, only 63 per cent of approved payments had been made to beneficiaries. On 16 August 2022, the DSD published amended regulations for the SRD grant. Notably, the means test threshold was increased from R350 to R624. The new level is in line with the estimated Food Poverty Line for 2022. In August 2022, the DSD reported that 7.5 million people were receiving the benefit monthly. Even with the amendments, it was clear that DSD was likely to underspend in the 2022/23 fiscal year. In the 2022 MTBPS, R5.5 billion was shifted away from the DSD as shown in *Table 6.1*.

Table 6.1: MTBPS 2022 Summary of Adjustments in Social Development

Shifting of funds between votes	R3.7 billion
Declared unspent funds and projected underspending	R1.8 billion
The total amount shifted away from the Department of Social Development	R5.5 billion

[14] Parliamentary Monitoring Group. 2022. Portfolio Committee on Social Development: Briefing by Dsd and Sassa On Covid-19 SRD Regulations And Implementation. [Online]. Available from: https://pmg.org.za/committee-meeting/35125/. {Accessed September 2023].

Source: National Treasury

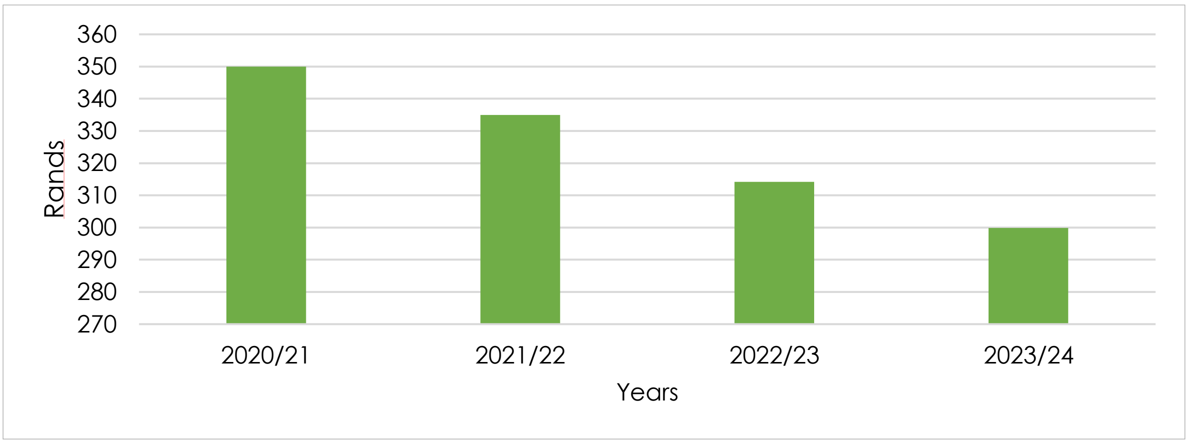
According to Minister Zulu, her department declared R9.2bn in savings in the 2022/23 fiscal year. These should not be considered as savings. Funds were shifted away from DSD, and the SRD grant specifically, while people are experiencing an ongoing and intense long-term cost-of-living crisis. Vulnerability to hunger has increased. The overall number of people with limited access to food increased from 19.5 per cent in 2019 to 23.8 per cent in 2021. The eligibility criteria led to the exclusion of millions of needy people who fall below the upper-bound poverty line.

The 2023 Budget estimated the number of beneficiaries for 2023/24 to be 8.5 million. Approvals for the grant remain low and payments continue to be delayed. More than 13 million people applied for the grant in January 2023. On average, the DSD has approved between 5 and 7.8 million recipients each month. The exclusion criteria mean that between 3.1 and 5.9 million people in the target group (of 10.9 million) identified by the DSD in February 2022 are not receiving the grant.

6.4. The erosion of the grant

Since its introduction in 2020, the COVID-19 SRD grant has not been adjusted for inflation. In 2023, the grant is worth R300 (R289 when deflated by GDP).

Figure 6.3: Value of the COVID-19 SRD in real terms (2020=100)

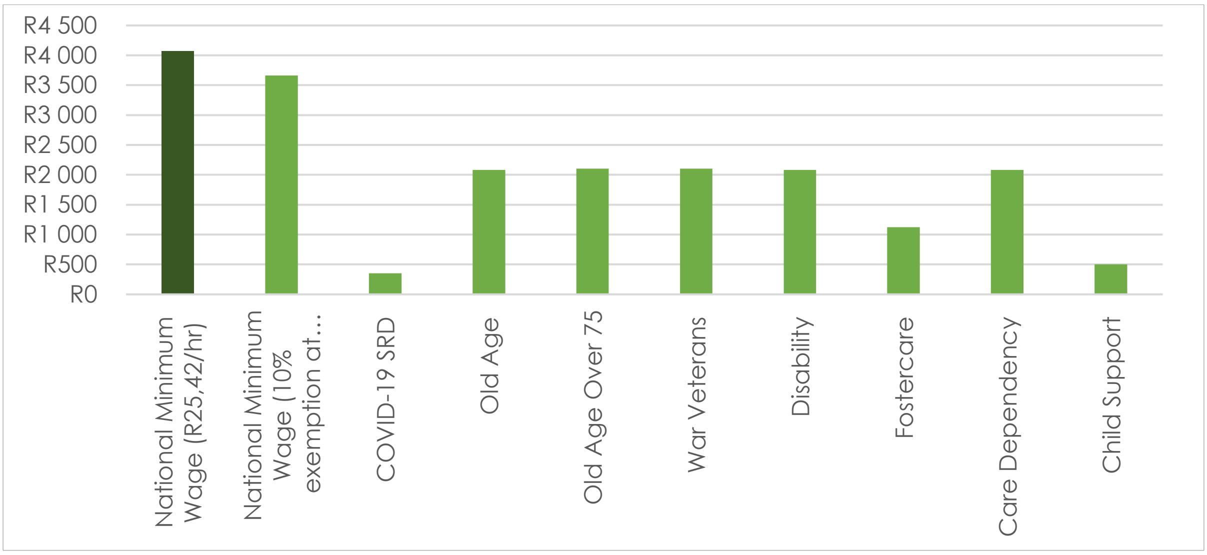


Source: PBO calculations based on National Treasury Budget 2023 data

The grant also remains insufficient to adequately build household resilience. Figure 6.4 6.2 shows grant levels and the national minimum wage relative to the average cost of a food basket in South Africa as calculated by the Pietermaritzburg Economic Justice & Dignity Group.[15] The minimum wage falls below the average Household Food Basket (R5 155,77 a month). With an average of one waged worker in a household per four individuals, all members of the household would fall below the upper-bound poverty line (R1 558 in May 2023 prices). Additional sources of income, such as grants, therefore, play an important in helping households to secure their basic needs.

[15] The Household Food Basket in the Household Affordability Index has been designed together with women living on low incomes in Johannesburg, Durban, Springbok, Cape Town and Pietermaritzburg. The basket includes the foods and the volumes of these foods which women living in a family of seven members (an average low-income household size)

Figure 6.4: Average food basket against the National Minimum wage and social grants (as of September 2023)



Source: PMBEJD September Index, Budget Review 2023

6.5. Conclusion

The uncertainty associated of not knowing whether the grant will be further extended in March 2024 could lead to high levels of anxiety and potential instability within communities. It must be asked whether we can afford not to spend more to address ongoing risks to livelihoods and the economy at large. Grants have been shown to have made a significant impact on poverty and hunger in South Africa. A study by Kohler and Bhorat (2021) on the fiscal incidence of the COVID-19 SRD grant suggests the grant reduced poverty by 5.3 per cent amongst the poorest households, and household income inequality by 1.3 - 6.3 per cent depending on the measure in 2020.[16]

The PBO remains concerned about proposals put forward to replace the SRD in the future. Robust discussions on social security must continue. The Constitutional mandate is that "everyone has the right to have access to social security, including, if they are unable to support themselves and their dependents". The following questions should be asked taking into consideration the impact of long-term structural unemployment:

- What will happen to the millions who will remain vulnerable to poverty and hunger after 2024?
- What is happening to those who are being excluded from the current grant?
- How much hardship and instability will result from not continuing with the grant or similar social support to adults?
- Have the socioeconomic risks been adequately considered and addressed?
- Beyond cost, on what basis are the caregiver and job-seeker grants better alternatives to UBIG or other forms of grants?
- Has substantive research been conducted on the success and failures of the grants initially proposed?
- What measures need to be in place to progressively realise the Constitutional obligations of the state to provide social security for all?

[16] Köhler, T & Bhorat,H. 2021. "Can cash transfers aid labour market recovery? Evidence from South Africa's special COVID-19 grant," Working Papers 202108, University of Cape Town, Development Policy Research Unit.

7. Policy implementation framework

7.1. Purpose

The purpose of this brief is to provide Members of Parliament (MPs), specifically in the Finance and Appropriations Committees, with an overview of the policy implementation framework of the South African Government. This brief aims to emphasise the importance of the implementation framework for the success of policy implementation, specifically the National Development Plan (NDP), vision 2030.

7.2. Introduction and Background

Despite the introduction of a variety of administrative reforms and policies, South Africa remains a highly unequal society where too many people live in poverty and too few have jobs. The introduction of the long-term NDP in 2012, was meant to foster change required to address high levels of unemployment, poverty and inequality. It also came with an expectation that implementing the NDP would stimulate economic growth and increase trust in the government to deliver.

The government argued that successful implementation of the NDP would be vital for reducing unemployment and eradicating poverty and inequality. Although some government reviews provide a perspective of the overall performance to achieving the NDP's policy goals and outcomes, most reviews fall short in offering recommendations for improved implementation of the NDP by all government departments and entities.

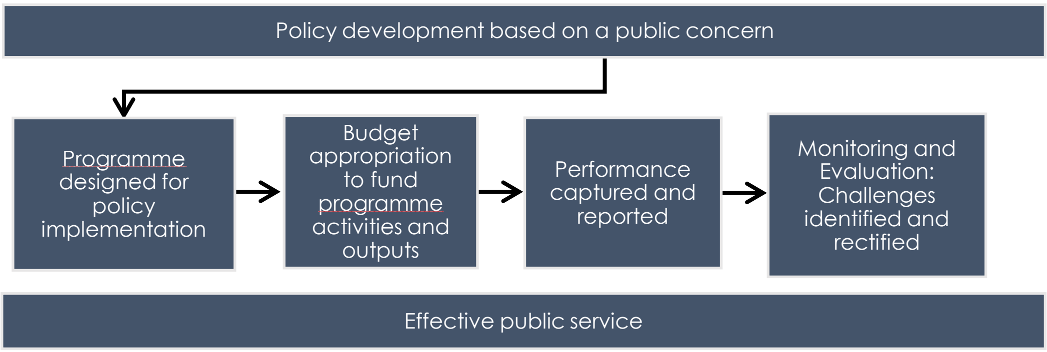
This brief gives an overview of the adopted mechanisms, frameworks and guidelines available for planning, budgeting, policy implementation, monitoring and evaluation as well as oversight to ensure the implementation of the administrative mechanisms that support policy implementation.

7.3. Policy implementation framework in South Africa

In 2008, Gumede (2008:15)[17] speculated whether frameworks are sufficient to support policy implementation. A further question arises about how the government could ensure that the existing administrative, organisational and budget structures and processes support the implementation of the NDP. Diagram 1 shows a streamlined version of the policy implementation framework for the government-wide monitoring and evaluation system that has been adopted by the government.

[17] Gumede, V. 2008. Public policy making in a post-apartheid South Africa: A preliminary perspective. Africanus, Volume 38, No. 2, January 2008, pp.7-23. Published by Sabinet.

Figure 7.1: Policy implementation framework



Source: Own, adapted from the Framework for Managing Programme Performance Information, National Treasury, 2007

The diagram demonstrates the sequence of events required for effective policy implementation. Researchers believe that the effective implementation of this system could ensure successful policy implementation. Specific elements of the policy implementation framework are defined below.

7.4. Programme performance budgeting

Comprehensive public financial management reforms in South Africa, in accordance with the Public Finance Management Act (PFMA), 1999 (Act no.1 of 1999), include structural changes in the government. Budget process reforms include the introduction of a medium-term expenditure framework (MTEF), the publication of budget documentation including performance information, and the strengthening of performance evaluation.

In addition to the introduction of the MTEF, the government adopted a programme performance-based budgeting system. According to Robinson (2013:1)[18], programme budgeting is the most widespread form of performance budgeting. This form of budgeting is also the most applicable to government budgets. The main characteristic of programme budgeting is the programme classification, which also classifies expenditure according to public policy objectives and legislative mandates.

Chowdhary (2006: 2516)[19] explains that performance-based budgeting is an instrument to realise a government's vision through clearly defined outcomes. Performance budgeting provides more detailed information about progress towards meeting the executive's spending priorities. The direct relationships of inputs to outputs through activities is assessed to further establish whether the spending of a specific quantum of inputs is worth the outputs directly resulting from it. Performance-based management also involves reporting, monitoring, and evaluation on results through the development and provision of integrated financial and non-financial information.

7.5. Outcomes based performance management

In addition to the budgeting reforms, government, through an outcomes-based approach, also intended to measure the various elements of the performance management system.

[18] Robinson, M. 2013. Program Classification of Performance Budgeting: How to Structure Budgets to Enable the Use of Evidence. Independence Evaluation Group (IEG). The World Bank, 1818 H Street NW, Washington D.C., 20433

[19] Chowdhary, H. 2006. Outcome Budgeting: Moving beyond Rhetoric? Economic and Political Weekly, Vol. 41, No. 25, June, 2006, pp. 2515-2518.

These elements range from planning to budgeting, outputs, outcomes and personal performance. The outcomes-based approach further seeks to advance the implementation and assessment of various policies, including the NDP.

The government acknowledges that the NDP proposals must be incorporated into existing activities of departments and broken down into the medium- and short-term plans of the government at national, provincial and municipal levels. The NDP outcomes should guide resource allocation over the period until 2030. As a result, prioritised allocations should grow faster than other parts of the budget (RSA, 2013b:2-3)[20].

7.6. Monitoring, evaluation and oversight

Comparing what has been done with the stated goal and expected outcome of a project is an act of monitoring. The determination of the reasons for any differences between what was expected and what was realised is an act of evaluation. Evaluation provides an opportunity to find out what works, what you do not need, and what needs modification.

There are numerous oversight bodies within the public sector at the national, provincial, and municipal levels, which each are meant to play a role in ensuring that public policies are implemented. The importance of strong oversight processes has been illustrated in recent times not only by several cases where weak oversight resulted in adverse consequences, but also the slow progress with the implementation of NDP goals.

7.7. Implementation failures

A recent analysis of the progress with implementation of the NDP identified challenges with key factors that determine successful policy implementation, namely the:

- Content of the 5-year implementation plans for the NDP, which relates to:
    - Compliance to guidelines
    - Lack of communication between the planning institutions and the executive
    - Non-adherence to recommendations from the planning institutions by the executive
    - Lack of coordination between the budgeting and planning institutions
- Causality/Connection if the 5-year implementation plans of the NDP are not incorporated into the existing policy implementation mechanisms of government
    - This phenomenon is purely a non-compliance matter to the requirements for the implementation of the NDP
- Context in terms of support, reporting, monitoring and evaluation
    - In most instances the legal structures in terms of budget programmes are available to support the implementation of the NDP
    - Systems for reporting are available
    - Reporting on targets are not specific
    - Monitoring and evaluation are in several instances not possible due to the challenges with the content and non-compliance to government directives guiding the administrative mechanisms available for policy implementation
- Communication and outside coalitions

[20] The National Development Plan unpacked report

- The outsourcing of services to other institutions leads to public sector spending outside of government accountability and governance structures
- Poor communication and coordination lead to inefficiencies and ineffective service delivery

7.8. What is required to ensure successful policy implementation?

Cerna (2013:17)[21] argues that successful policy implementation implies compliance to government directives, oversight in terms of monitoring performance on targets and goals, adequate capacity, and resources, as well as clear performance concepts. Not acknowledging the context can also lead to incoherent efforts. In support of Cerna (2013:17), Gao (2015:94)[22] believes that performance improvement requires more than the implementation of a performance measurement system if the basics are not in place. Despite evidence that goal clarity is important for improving organisational performance, context always matters.

Oversight is required over the entire policy implementation process, starting with the content, incorporation of the policy into the mechanisms available for policy implementation and the broader context to ensure that institutions are capacitated, and that a proper reporting and monitoring and evaluation system is in place. The use of outside coalitions requires oversight over oversight bodies. Oversight bodies is also responsible to monitoring the correction of challenges within the entire policy implementation system.

7.9. Conclusion

Despite the reforms and frameworks, policy implementation remains a challenge. The assessment of the four elements of the policy implementation framework shows that the administrative mechanisms for policy implementation are available. The findings from the analysis of the progress made with implementation of the NDP shows that the existing administrative, organisational and budget structures and processes support the implementation of the NDP. Technically the slow progress is a matter of non-compliance to the guidelines, frameworks and regulations as well as oversight over outside coalitions.

On a strategic level the question is whether the NDP implementation plans are not missing key elements of macro -and socioeconomic policies? The state must play a developmental role that requires a stronger state and more regulation of finance, for example, including state allocation of finance to support industrial policies, and macroeconomic policies that support state expenditure and efforts to develop and industrialise. The implementation plans of the NDP should for example look at how to ensure that finance is the servant of private industry and productive enterprises and that it supports industrial and economic development.

[21] Cerna, L. 2013. The Nature of Policy Change and Implementation: A Review of different Theoretical Approaches. Organisation for Economic Co-operation and Development (OECD).

[22] Gao, J. 2015. Performance measurement and management in the public sector: some lessons from research evidence. Public Administration and Development Volume 35, 2015, pp.86–96. Available: doi: 10.1002/pad.1704. Accessed: 27/09/2019.