



**national planning  
commission**

Department:  
The Presidency  
REPUBLIC OF SOUTH AFRICA

## **ECONOMICS WORKSTREAM**

### **PROPOSAL TO THE NATIONAL PLANNING COMMISSION FOR A POLICY ADVISORY ON CRITICAL ACTIONS 1 AND 2 OF THE NDP**

*26/04/2024*

#### **1 Introduction**

##### **1.1 Overview**

The document provides a diagnostic describing the current trends and profile of the poorest 40% of the South African population who are the focus of Critical Actions 1 and 2 of the National Development Plan (NDP). This is followed by an assessment of what is known concerning the contribution of different economic sectors towards the target of increasing the share of income earned by the poorest 40%, and the multiplier effects of government social spending. The document reports on the contribution of small and micro-enterprises (SMMEs) located in the informal sector, and that which is made directly through job creation programs. Finally, the document proposes components of a policy advisory concerning Objective Six of Chapter Three of the NDP.

##### **1.2 Inequality in South Africa**

International evidence shows that South Africa is the most unequal society in the world, both in terms of income and wealth (World Bank, 2018). In addition to the social tensions that extreme inequality generates, inequality of this scale hinders economic growth and the reduction of poverty (IMF, 2015). Economic inequalities are also highly correlated with social inequities: inequalities in social outcomes such as life expectancy, health status, and educational attainment that are unjust, unfair, unnecessary and avoidable (Feachem, 2002).

Inequality is exacerbated by the impact of climate and other rapid global change, with water scarcity and food insecurity posing the most immediate threats for the vulnerable. The digital divide also contributes to inequality, as made evident in education, health care and entrepreneurship during the Covid pandemic. Finally, extreme inequality exacerbates structural poverty: poverty that persists over time and across generations.

In the case of South Africa, almost all forms of inequality are highly correlated with race and with location. Those who are poor largely being black Africans living in the former townships, shack settlements and homelands established during the era of colonialism and Apartheid. Women, youth and disabled people are especially vulnerable. (World Bank, 2018)

Responding to this, the National Development Plan (NDP) aims to eliminate poverty and reduce inequality by 2030, setting these as the two . The Plan set a target for the reduction

of the Gini coefficient to fall from 0.69 in 2010 to 0.60 in 2030. More usefully given the shortcomings of this measure of inequality, the NDP proposed a modest increase by 4 percentage points in the share of national income that is earned by the poorest 40% of the population through economic activity, to reach a target of 10%. This is in addition to the existing transfers of income through taxation, grants and subsidies under the blanket of the social wage.

The NDP does not detail as to how this target is to be achieved other than mentioning the role of some economic sectors; the multipliers from some forms of public expenditure; and the contribution of enterprises in the SMME economy. However, as is implicit throughout the NDP, the key driver is assumed to be economic growth, the generation of new employment opportunities, and the manner in which the benefits of these changes can be directed by an efficient developmental state. Specifically, the expectation was an improvement in the employment ratio (the number of people currently employed as a share of the total working-age population) from 41.3% in 2010 to 61% by 2030.

### **1.3 Progress towards Objective Six of Chapter Three**

The 10 Year Review of the NDP shows that progress towards reducing some forms of inequality have been made in terms of the level and access to social grants, access to all levels of education, the provision of health services, and access to housing and basic services. However, the failure to significantly grow the size of the South African economy, the increase in the size of the unemployed population, and the post-COVID context have meant that South Africa is off-track in terms of many NDP targets. Critically the 10 Year Review shows that the employment ratio has not increased, but fell to 43.3% in 2017, and to 38.7% in the second quarter of 2022. This means that the ambition of increasing the income of the poorest 40% to 10% of national income reached less than half of the target in the first 10 years of the NDP. Any gains that may have been made since the Covid pandemic are unknown due the lack of data.

## **2 Diagnostic**

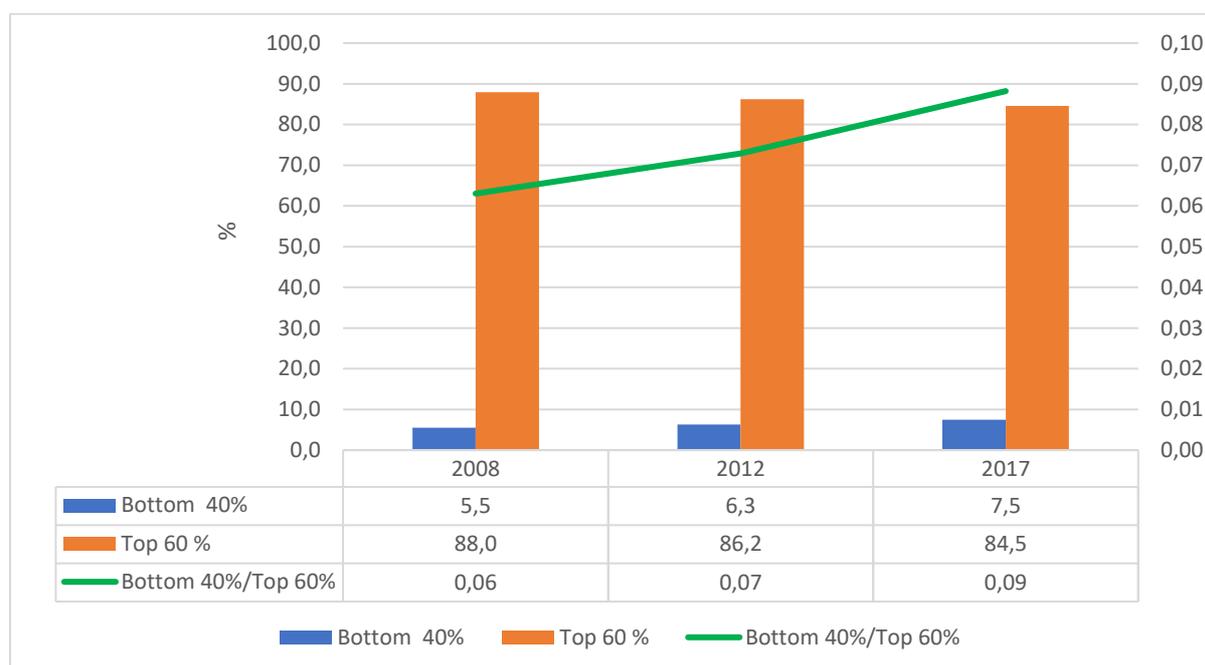
### **2.1 Trends and profile of the poorest 40%**

The 10 Year Review reports progress in poverty reduction between 2006 and 2011, with the poverty rate falling from 51% to 36.4% of the population. This was followed by a resurgence in income poverty to 40% by 2016. In absolute terms, the impact of this is striking, with, around 13.3 million individuals living below the poverty line for food in 2015, surging to 19.4 million in 2020.

Analysis undertaken of the share of income of the poorest 40% for the NPC by South African Labour and Development Research Unit (SALDRU) at the UCT using the National Income Dynamics Study (NIDS) reveals that that similar progress had been made towards the NDP target of 10% until 2017 as is shown in Figure 1.

The share of income received by the poorest 40% had been increasing until 2017 (the most recent data point), and it was likely that the target would have been achieved by 2030. However, the rate of improvement was already slowing before 2020, and our projections suggest that even this modest target will now not be achieved largely due to slow economic growth, insufficient employment generation, and the persistence of structural barriers to asset accumulation by those living in poverty.

**Figure 1: Income shares of poorest 40% and top 60%, 2008, 2012 and 2017(NIDS)**



Data provided by Stats SA and analysed by the TT show that the profile of the poorest 40% is unchanged since the NDP diagnostic more than a decade previously. This is shown in Table 1 which compares their profile to those in the next 40%.

**Table 1: Characteristics of poorest 40% (2014/15)**

Indicator	Poorest 40%	Next 40%
Mean monthly income	R2 562	R10 765
Expenditure on food	32%	16%
Working age pop (14-64 yrs) who are women	54%	49%
Children	48%	34%
Completed Grade 12 or more	18%	34%
Men in working age pop who are employed	29%	64%
Women in working age pop who are employed	25%	53%
Men actively seeking employment	30%	14%
Women actively seeking employment	28%	16%
Men with Grade 12 or more employed	37%	72%

Women with Grade 12 or more employed	29%	62%
Employed in the informal economy	31%	18%

The mean income of the poorest 40% in 2014/15 was R21 328 per year compared to the next 40% whose mean income was R89 589. This is R2562 per month in current prices for the poorest 40% and R10 765 for the next 40%. The poorest 40% spent R6916 on food (32% of their income) compared to R14 645 in the case of the next 40% (16.3% of their income).

A greater share of the working age population (15-64 years) in the poorest 40% are women compared to the next 40% (54% compared to 48.9%). A significantly greater share of the poorest 40% are children (47.9% compared to 34.3%). Only 18% of the working age population in the poorest 40% have completed Grade 12 or greater, compared to 34% of the next 40%.

Turning to employment, 29% of men, and 25% of women in the working age population are employed in the poorest 40%, compared to 64% and 53% of men and women respectively in the next 40%. In addition, 30% and 28% of working age men and women respectively are actively seeking employment in the poorest 40% compared to 14 and 16% of men and women in the next 40%.

Educational attainment does improve the prospects of working age men in the poorest 40%, with 37% of men with Grade 12 or more employed. However only 29% of women with a Grade 12 or more are employed in this group. The same gendered pattern is evident in the next 40% with 72% of men with Grade 12 or more employed compared to 62% of women.

The informal economy accounts for 31% of those employed in the poorest 40% with a further 17% employed by private households, most likely as domestic workers and gardeners. Just 52% are employed in the formal economy. In the base of the next 40%, 72% are employed in the formal economy, 18% in the informal economy and 10% by private households.

The location of the poorest 40% is shown in Table 2 which again compares the situation of the poorest 40% with that of the next 40%.

**Table 2: Location of the poorest 40% (2014/15)**

Province	Poorest 40%	Next 40%
	%	%
Western Cape	5,3	14,0
Eastern Cape	18,7	9,1
Northern Cape	2,2	2,3
Free State	5,0	5,6
KwaZulu-Natal	25,4	18,2
North West	7,9	6,6
Gauteng	12,3	27,5
Mpumalanga	8,0	8,5
Limpopo	15,2	8,2

The poorest 40% are concentrated in KwaZulu-Natal and the Eastern Cape, which aligns with most poverty mapping that has been undertaken in South Africa. This element of the profile

of the poorest 40% may have changed since 2014/15 given evidence showing a migration of the poor to Gauteng and the Western Cape.

Despite the share of the population of children in the poorest 40%, households in the next 40% are as likely as household in the poorest 40% to be in receipt of at least one Child Support Grant (CSG) with 74% of the former in receipt of a grant compared to 78% of the latter. The same applies to the Old Age Pension (OAP) with 32% of households in the poorest 40% in receipt of the OAP compared to 38% of the next 40%. Although important, grants alone are unlikely to be sufficient to increase the share of income earned by the poorest 40% relative to other income groups.

## 2.2 Asset inequality

The 10 Year Review reports that the top decile of the South African population is estimated to own between 71% and 95% of the nation’s wealth, compared to a global average of 55% to 65%. Table 3 shows the distribution of wealth in South Africa

**Table 3: Distribution of personal wealth in South Africa in 2017<sup>1</sup>**

Income group	Adult population	Average Income (Rand)	Wealth Share, %
Population	35,400,000	326,000	100
Poorest 90%	31,860,000	94,100	14.4
Poorest 50%	17,700,000	-16,000	-2.5
Middle 40%	14,160,000	138,000	16.9
Top 10%	3,540,000	2,790,000	85.6
Top 1%	354,000	17,830,000	54.7
Top 0.1%	35,400	96,970,000	29.8
Top 0.01%	3,540	486,200,000	14.9

Notes: The table shows the distribution of household wealth in South Africa in 2017. The unit of observation is the individual adult aged 20 or above. Source: authors’ computations based on the combination of surveys, national accounts and tax micro data.

Of importance in this table is that the poorest 50% have a negative net asset position of - R16 000 showing that this group is indebted and thus unlikely to be in a position to invest in SMME activities to any significant level.

Reacting to these trends, the 2022 World Inequality Report indicates that “while democratic rights were extended to the totality of the population (of South Africa) after the end of apartheid, extreme economic inequalities have persisted and been exacerbated,”. Also, the

<sup>1</sup> <https://sa-tied-archive.wider.unu.edu/article/extreme-inequalities-distribution-household-wealth-south-africa>

“Post-Apartheid government has not implemented structural economic reforms (including land, tax, and social security reforms) sufficient to challenge the dual economy system.”

### **2.3 Economic multipliers by sector**

The multiplier effect measures the total impact of a change in economic activity on the overall economy. It quantifies how an initial change in spending, investment, or other economic activity creates a larger impact through subsequent rounds of spending.

A review of published research undertaken by the Secretariat identified 25 research papers that report on such multipliers in South Africa. In general, most studies report data problems. Further, the models have adopted simplifying assumptions suited to their specific purpose, but which limit their usefulness in estimating changes to income distribution.

Generally, the papers examined reported that income multipliers of economic growth for South Africa are greater than 1 but are low. This means that while essential, even had the NDP assumptions for economic growth been met, growth alone will not be sufficient to reach the NDP’s target for the poorest 40%. WHY?

The available evidence suggests that increased government spending has not resulted in significant growth of the economy. This is inconsistent of expectations and experience of most orthodox economic theory, and may denote structural supply side constraints. The implication is that even if the NDP assumption of an efficient developmental state that is able to stimulate economic growth been met, this would not have been sufficient to reach the NDP’s target for the poorest 40%. However, studies did report that increased public expenditure on economic infrastructure has been beneficial for the economy, suggesting that the type of government expenditure matters.

Evidence of a business cycle effect was found. While the average government expenditure multiplier is below 0.5, it reaches 1.2 during recessions. While credit volume diminishes during periods of positive output gap, it expands during recessions. Results suggested that a fiscal expansion crowds out private economic activity in good times only, while it holds a positive balance-sheet effect on liquidity-constrained agents during bad times. The implication is that the timing of government expenditure matters. This is supported by evidence showing the positive impact of the Social Relief of Distress Grant during and after the Covid Pandemic (Orkin et al, 2023).

Employment multipliers of public expenditure appear to be sizeable but vary by sector, and that the extent to which this increases imports and consumption. No models could be identified that can assist in the estimation of multipliers by economic sector although increases in net exports have created jobs. The implication is that the current available evidence base is insufficient to allow the targeting of government expenditure in terms of choosing economic ‘winners’ that contribute towards the NDP target for the poorest 40%.

There is some information that identifies the sectors in which government expenditure might have the greatest impact. One study reports a long-run relationship between government spending and job creation in the mining sector but no evidence of long-run relationships between government spending and jobs creation in the construction, financial, manufacturing, and retail sectors. The study concludes that increasing government spending can only create short-term jobs but does not create lasting jobs in most sectors, except the mining sector. Public investment in agriculture was found to have had a greater impact on the income of the target group than that in other sectors, but the outcome remains modest.

In view of the debates around a just transition, the TT noted that in 2021, National Treasury released a Technical Paper on Sustainability Investing, aimed at identifying climate risks and mitigation measures for the growth of the economy which included discussion of the multiplier effect of green investment. Whilst climate related economic activity is burgeoning in South Africa, the industries involved in clean technology and green transitions are likely not yet at a stage where it will be possible to gather data on their multiplier effects. This is an area together with the Environment, Social and Governance (ESG) sector as highlighted in the Country Investment Strategy South Africa, with potential for job creation given its attractiveness to the investment industry.

An IMF supported paper titled “Building Back Better, How Big Are Green Multipliers?” provides evidence concerning the multipliers of green activities (Batini et al, 2022). This shows that green industries particularly in renewable energy and bio diversity conservation contribute to economic multipliers. To confirm that similar opportunities exist in South Africa, the evidence base concerning the commercial and subsistence agriculture sector and the fishing industries will need strengthening.

#### **2.4 Economic multipliers of the social wage**

Government expenditure on the social wage in South Africa has been instrumental in driving the benefits to the poor and social grants remain key tools for addressing poverty and inequality (World Bank, 2018). However, there is debate over the size of the economic multipliers that result from this expenditure. Limited research papers have been produced, some with contradictory findings, and most showing a small multiplier effect from social protection. This means that public spending on grants does matter and does have a positive multiplier that is greater than 1, but it is not sufficient to bring about sufficient redistribution of income towards the poor.

This suggests that it is unlikely that increasing the social wage will have a multiplier effect that is large enough to reach the NDP target of increasing the income share of the poorest 40%. This is supported by the analysis provided by Stats SA to the TT that showed that receipt of a social grant is not sufficient to graduate from the poorest 40%. Thus, while increasing the value of grants, or introducing a new grant such as the Basic Income Grant or the temporary Social Relief of Distress Grant might have a direct impact on reducing extreme poverty, can contribute towards successful work-seeking, and can be motivated for on the basis of human rights, the economic multiplier of doing so is unlikely to be sufficient to achieve the NDP target for the poorest 40%.

#### **2.5 The role of SMMEs in the informal sector**

The NDP places emphasis on the role of the SMME sector for the achievement of its economic targets. Progress was being made prior to 2020 in terms of growing the SMME sector with the 10 Year Review reporting that the contribution of the sector to overall employment increased from 54.3% in the first quarter of 2018 to 66.5% in the first quarter of 2019. However, Covid had a particularly negative impact on SMMEs in the informal economy. The 10 Year Review reports that lockdown interventions resulted in the number of informal enterprises decreasing by 25% between the first and second quarters of 2020, or from 1.6 million to 1.2 million. Given this shock to the sector, and noting the importance of informal sector employment to the livelihoods of people in the poorest 40%, the TT has focused its analysis on the informal component of the SMME sector.

Data provided by Stats SA on participation in enterprises in the informal economy, most of which are SMME's, showed both the potential and limitations of these enterprises. This is shown in Table 4 which reports the characteristics of the population in the economically active age group (16 – 64 years).

On average, each self-employed person in these enterprises employs three workers. The incomes earned by the self-employed person and the workers in the informal economy differ significantly, with the former group able to earn incomes that would permit them to transition out of the poorest 40%, and the latter likely to be trapped in this group. The numbers of youth in the informal sector was noteworthy, as were the numbers of people older than 60 years of age.

In addition, our scoping of the literature highlights the high failure rate of SMMEs in South Africa. Some fail at their infancy, others a few years from start-up. For example, it is estimated that 50 percent of all start-ups fail within their first year and 70% to 80% fail within the first 3 to 5 years. This indicates an exaggerated reliance by government on the sector.

Finally, of note was the high share of women who are employed in family business, but who do not receive an income. Although only 3.4% of the economically active age group are in this category, this exceeds the share who are self-employed, and is almost the same as the share of economically active who are employed in the informal sector who do receive a wage. This points to an extension of unpaid household labour into unpaid labour even when this directly generates a cash income.

The 2020 Marginalised Groups Indicator Report indicated that, on average, 40,6% of female-headed households were without an employed household member and approximately one-tenth of female-headed households (11,1%) reported suffering from hunger compared to 9,7% of male-headed households. In support of this, the 10 Year Review highlights black women as a particularly distressed group. Our analysis suggests that women in the poorest 40% remain vulnerable even when in informal employment.

**Table 4: Characteristics of economically active age group**

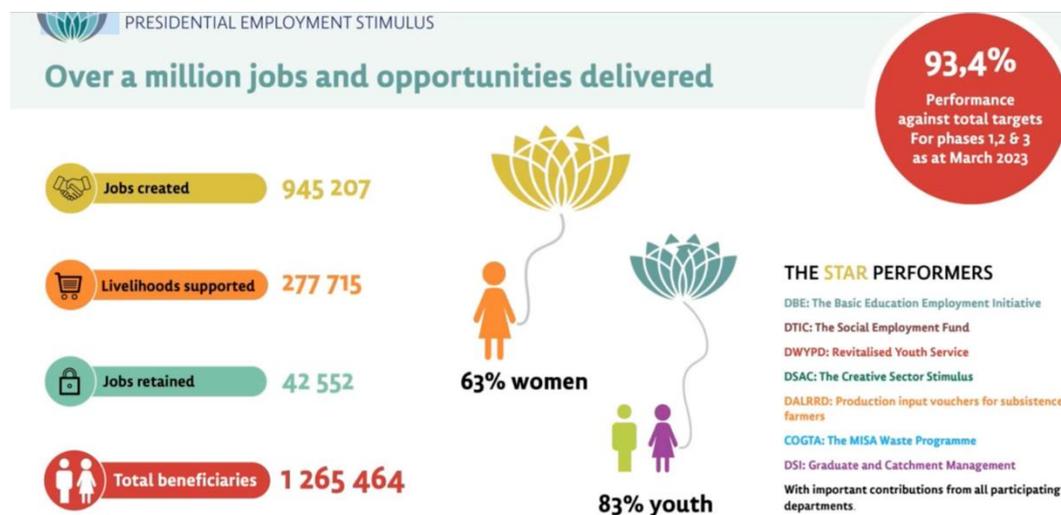
Persons % Economically active age group	Total	Female	Younger than 19	19-34 (Youth)	35-59	60 and older	Less than GRADE 12	GRADE 12 or more	Urban	Rural	Poorest-40	Next-40	Top-20
Not working	53,3	57,3	6,2	47,8	26,7	19,3	71,5	28,5	58,5	41,5	50,3	37,8	11,9
Working for a wage in the formal sector	34,6	44,4	0,3	41,9	54,2	3,6	41,9	58,1	81,5	18,5	11,3	46,0	42,6
Working for a wage in the informal sector	4,2	38,1	0,5	44,8	51,0	3,7	75,0	25,0	63,9	36,1	30,9	57,6	11,6
Self-employed in the formal sector	1,7	31,5	0,2	22,7	62,1	15,0	33,7	66,3	83,4	16,6	7,9	29,5	62,6
Self-employed in the informal sector	2,8	41,2	0,5	31,8	59,7	8,0	72,5	27,5	66,2	33,8	33,3	52,7	14,0
Employed in a formal hh business but not receiving income	0,1	73,4	0,0	28,8	64,1	7,1	53,8	46,2	74,0	26,0	11,0	60,8	28,1
Employed in an informal hh business not receiving income	3,3	66,3	0,6	26,6	66,3	6,6	83,2	16,8	72,4	27,6	32,1	56,2	11,8

## 2.6 Work guarantee programs

Work guarantee, also known as a job guarantee or employment guarantee program, is a policy approach that aims to provide a guaranteed job opportunity to all willing and able individuals who are seeking employment. The theory of change behind a work guarantee program is that by ensuring that anyone who wants to work has access to a job, issues of unemployment, poverty, and economic instability can be addressed.

Although not specifically as a policy option to increase the income of the poorest 40% in South Africa, work guarantee programs have had some success in South Africa, including the Expanded Public Works Program (EPWP) and the Community Works Program (CWP). The Presidential Employment Stimulus (PES) is the most recent example. The TT received a report on the PES that suggested that significant numbers of youth were reached by the PES, and that the program was able to access people in the poorest regions of South Africa. The outcomes of the PES are shown in Figure 2.

Figure 2: PES Outcomes



Although these results are promising, the largest public works program, the EPWP, falls far short of the temporary employment relief that is required. Employment needs in South Africa are more than four times what the EPWP can provide and the EPWP skilling and reskilling interventions have resulted in limited transition of the participants to full-time employment or self-employment (Sibanda, 2021).

Our analysis has shown that while progress had been made towards the achievement of the NDP's target of increasing the share of national income earned by the poorest 40% to 10%, most of this was achieved by direct transfers via social grants. Very little progress can be attributed to increased employment in the SMME sector or economic multipliers from state expenditure. Some progress may have been made through work guarantee programs but these have been regarded as temporary and unaffordable. As a result, progress toward the target was faltering before the COVID pandemic, and was severely compromised by the pandemic and South Africa's choice of mitigation strategies.

### 3 Advisory and call to action

Urgent corrective actions are required if Objective Six of Chapter Three the NDP is to be reached by 2030. The achievement of this Objective will also benefit other economic targets proposed by the Plan. A four point call to action is outlined below.

**1) Increase investment for building the evidence base used in decision-making:** An essential first step is to recognise that the evidence-base for policy concerning the poverty-reducing growth is weak and to agree on a plan to identify, collect and process the required data. Although progress was made during the 2000's to improve South Africa information base on poverty and inequality through the country's national statistical system, this was slowing prior to COVID and came to an effective halt during the lockdown. This means that we lack the data required for long-term planning. Both investment in data collection and efficiency reforms are urgently required to restore and improve the system. This action requires engagement with Stats SA, the DPME, SARS, DSD, the DBSA, the Department of Employment and Labour, and the National Treasury. Administrative data collected by municipalities should also be considered. University and industry-based think tanks can play an important role in analysis and modelling.

Related to this, existing economic models estimating the impact of public investment are unable to assess how these will change the distribution of income in South Africa. Some stakeholders in government, the academic sector and the private sector are seeking to fill this knowledge gap, notably at the DBSA, the SA-TIED project at UNU-Wider and at some universities. These should be encouraged, appropriately resourced and coordinated to maximise synergies. International expertise is likely to be required in order to rapidly develop these models and the capacity to improve them as data are improved. This is a multi-departmental action involving Higher Education, Science and Innovation, Trade and Industry, Treasury and the Presidency among others. The World Bank is an additional potential partner.

Given its convening power, the NPC should play a role in initiating and then guiding this process. However, given the technical complexity involved, an appropriate partner will be required. SA-TIED may be an option.

**2) Conduct a systematic review of the assumptions that informed the NDP targets for reducing inequality:** The diagnostic shows that key assumptions the informed the targets to reduce inequality set by the NDP have failed to materialise. These need to be reviewed, and if necessary revised, taking account of analysis emerging from current thinking in economics. The purpose of this would be to take account of recent advances in the field made possible by better data and analytical capacity. This should include issues concerning institutional and ecological economics among others that have broadened our understanding of 21<sup>st</sup> century heterodox economies. Account should also be taken of current concerns regarding the influence of uncertainty, rapid change, geospatial reconfigurations and prospects for adaptation to structural disequilibrium. Key questions to be addressed include:

- Given the lack of progress in reducing inequality in the first 10 years of the NDP be a focus on employment in all economic sectors be a central economic goal that is prioritised over other goals?

- What policy levers at national and sub-national level exist to address the causes and consequences of economic inequality for sustainable economic growth?
- How can public economic policy and the institutionalisation of planning in all spheres of government contribute towards the reduction of inequality?
- What steps are required to move towards a just economic pathway that ensures environmental sustainability in the face of extreme inequality;
- How can innovation and technological change provide benefits to the poorest 40% of the population in South Africa?

The purpose of this action would be to improve the diagnostics contained in the NDP, and to reconsider its theory of change concerning the reduction of inequality, together with its recommendations and targets.

**3) Set a more ambitious target:** The target of 10% of income earned by the poorest 40% of the population is unlikely to result in the achievement of other NDP goals that rely upon the reduction of absolute poverty. A more ambitious target for the share of national income to be earned by the poorest 40% should be set. We propose that the target should be revised by at least two further percentage points to 12% of national income. This is in line with the situation in most G7 countries and lower than the situation in most G20 countries. We further propose that the terminology used in the NDP be reviewed, and specifically that the term “bottom 40%” be dropped.

Further, in order to more precisely identify the optimal target, the growth elasticity of poverty estimates prepared by the World Bank for the Poverty and Inequality Assessment in 2018 should be revised and extended to identify the growth elasticities of poverty by income decile and economic sector. This should form part of building the evidence-base.

This is also multi-departmental action involving Higher Education, Science and Innovation, the DBSA, Treasury and the DPME among others, as well as university and industry-based think tanks.

**4) Initiate a dialogue between the state, business and labour on maximising synergies between growing economic sectors through the market and direct public investment in order to reduce inequality:** While growing the informal economy is a necessary component of increasing the share of income earned by the poorest 40%, it is not sufficient given limitations of the sector noted in above and the post-COVID context. More direct intervention by the public sector may be required.

Firstly, despite the limits of the SMME sector, supporting informal economy is a critical part of the strategy to increase the income of the poorest 40% and initiatives to support this sector should be encouraged. The high failure rate in the sector is attributed to lack of funding, minimal infrastructure, the lack of access to technology and business services, and extremely competitive environments, especially with pressures from bigger businesses. SMMEs operate in the same environment as their larger counterparts but without the benefits of relatively easy access to funding, human resources and strategic benefits of economies of scale. Action is necessary to eliminate the drivers of SMME failures. This is an action that should include the Department of Trade and Industry, COGTA, provincial and municipal government and SALGA. The Township Economy Task Team of the NPC can play a critical convening role.

Second, despite concerns over their financial sustainability, work guarantee programs such as the PES program have reached the poorest areas of South Africa providing much needed jobs and work experience. Critically, they have provided employment opportunities for youth and for women. In the short term, further supporting these programs despite their short-term costs could serve as a counter-cyclical measure. Resources should be allocated for a rigorous evaluation of their impact in order to facilitate more informed decision-making. This is an action for the Presidency and National Treasury, with partners in the university sector. Given the potential for public-private-partnerships for work guarantee activities linked to infrastructure, the private sector should be included in both the evaluation and in future implementation.

#### **4 Conclusion**

The Redistribution Task Team was established by the NPC in May 2022. The purpose of its first phase was to produce an assessment of the knowledge base to be used to assess public policy interventions that seek to increase the income of the poorest 40% of the South Africa population. The purpose of the second phase was use this knowledge base to prioritise and optimally sequence possible policy options,. The final phase was for the NPC as a whole to communicate and promote these options. In the absence of a credible knowledge base, the TT has recommended actions to establish this, and a review the assumptions underpinning the NDP targets concerning the reduction of inequality given that most of these have not transpired. If these actions are carried out, the third NPC may still be able to identify feasible options for the reduction of inequality before the end of its term.

#### **References**

Batini, N., Di Serio, M., Fragetta, M., Melina, G. and Waldron, A., 2022. Building back better: How big are green spending multipliers?. *Ecological Economics*, 193, p.107305.

Feachem, R.G., 2000. *Poverty and inequity: a proper focus for the new century*. Bulletin of the World Health Organization, 78, pp.1-2.

IMF, (2015). *Causes and Consequences of Income Inequality: A Global Perspective*

Orkin, K., Goldman, M., Kreft, B., Hlela, N. Jessica Nicklin, J., Woolard, I and Leibbrandt, M., 2023. *Proposal for the extension, redesign, and repurposing of the special COVID-19 Social Relief of Distress grant for the twin goals of poverty and unemployment reduction*, SA-TIED Working Paper, 218, UNU-WIDER, Helsinki.

Sibanda, N., (2021) *An Evaluation of Expanded Public Works Programme (EPWP): South Africa's Employment Creation Tool*, unpublished Ph.D Thesis submitted to the Department of Anthropology and Archaeology in fulfilment of the requirements for the degree of Doctor of Philosophy in Development Studies

World Bank Group, 2018. *Overcoming poverty and inequality in South Africa: An assessment of drivers, constraints and opportunities*. World Bank.

# **NPC ADVISORY TO THE MINISTER IN THE PRESIDENCY RESPONSIBLE FOR PLANNING, MONITORING AND EVALUATION OF THE REPUBLIC OF SOUTH AFRICA, MS. MAROPENE RAMOKGOPA**

## **Advisory 1.1: Increase Investment for Building the Evidence Base Used in Decision-Making**

### **Executive Summary**

This advisory emphasizes the need to enhance the evidence base for economic policy-making in South Africa. It calls for increased investment in data collection, analysis, and efficiency reforms to support informed decision-making and achieve the National Development Plan (NDP) targets.

### **Introduction and Background**

Accurate and comprehensive data is essential for effective evidenced-based policy-making. South Africa's national statistical system has made progress in improving the information base on poverty and inequality, but recent challenges have slowed this progress. Budget cuts and the COVID-19 pandemic have disrupted data collection efforts. Urgent remedial action is required

### **Problem Statement**

The current evidence base is insufficient to support long-term planning and informed decision-making. The lack of reliable data hinders the ability to design and implement effective policies aimed at reducing poverty and inequality. The economic models used by the public sector are inadequate to determine the likely impact of alternative fiscal policies on poverty reduction and income distribution. Information on wealth inequality is particularly sparse given the South African context.

### **Reflection on Work and Research by Key Stakeholders**

Efforts by institutions like Stats SA, DPME, SARS, DSD, DBSA, and the Department of Employment and Labour have contributed to data collection and analysis. However, these efforts need to be coordinated and expanded to build a robust evidence base.

### **NPC Proposals**

1. **Enhance Data Collection:** Invest in improving the national statistical system to ensure regular and accurate data collection on poverty, inequality, health, and economic performance. Priorities might include collection of data on income, asset and multi-dimensional poverty at least every 3 years; collection of health outcome statistics at least every three years; updating the Statistical Business Register annually; undertake a census of manufacturing, agriculture and SMMEs at least every five years; continuously improve the Register of Births and Deaths.
2. **Improve Data Efficiency:** Implement efficiency reforms in data collection and processing to ensure timely availability of critical information. Initiatives include building capacity for using data science in universities, government and the private sector; use of 4IR for data collection and analysis.

3. **Coordinate Stakeholder Efforts:** Engage with key stakeholders, including government departments, universities, and industry-based think tanks, to leverage their expertise and resources in data analysis and modelling.
4. **Leverage International Expertise:** Collaborate with international partners to develop advanced economic models and analytical capacity, with particular emphasis on models that can estimate the distribution, sectoral and spatial implications of public policy.

### **Conclusion**

Investing in data collection and analysis is crucial for informed decision-making and achieving the NDP targets. By enhancing the evidence base, South Africa can design and implement more effective policies to reduce poverty and inequality.

## **Advisory 1.2: Conduct a Systematic Review of the Assumptions that Informed the NDP Targets for Reducing Inequality**

### **Executive Summary**

This advisory calls for a systematic review of the assumptions underlying the original NDP targets for reducing poverty and inequality through economic growth. It emphasizes the need to revise these assumptions based on current economic realities and emerging insights in economic theory.

### **Introduction and Background**

The NDP set ambitious targets for reducing poverty and inequality and increasing the income share of the poorest 40%. However, progress has been slower than anticipated in the NDP, and in all forecasts of economic growth reported in the annual Budget Review, necessitating a reassessment of the assumptions that informed these targets.

### **Problem Statement**

Key assumptions that informed the NDP targets have not materialized, resulting in slower progress towards reducing inequality. There is a need to review and update these assumptions to reflect current economic conditions and emerging trends.

### **Reflection on Work and Research by Key Stakeholders**

Economic research and analysis have evolved since the NDP was prepared, notably in the fields of heterodox economics, new structural financial economics (NSFE), and machine learning and data science. These advances provide new insights into the drivers of inequality and the effectiveness of different policy interventions. These insights need to be integrated into the NDP's framework.

### **Proposal**

- **Review NDP Assumptions:** Conduct a comprehensive review of the assumptions that informed the NDP targets, considering recent advances in economic theory and data.
- **Revise Targets:** Update the NDP targets to reflect current economic realities and emerging insights. This should include considerations of institutional and ecological economics, rapid change, and geospatial reconfigurations.
- **Address Key Questions:** Focus on critical questions such as the prioritization of employment, policy levers to address economic inequality, steps towards a just economic pathway, and pandemic, polycrisis and climate change economics.

### **Conclusion**

A systematic review of the NDP assumptions is essential for setting realistic and achievable targets. By updating these assumptions, South Africa can design more effective policies to reduce inequality and promote inclusive economic growth.

## **Advisory 1.3: Set More Ambitious and Realistic Targets**

### **Executive Summary**

This advisory proposes setting more ambitious and realistic targets for reducing poverty inequality in South Africa. It recommends increasing the income share target for the poorest 40% to 12% to ensure meaningful progress towards the National Development Plan (NDP) goals and replacing the target of reducing the share of the population living below the Lower Bound Poverty Line (LBPL) with a Zero-Hunger target of no one living below the Food Poverty Line (FPL).

### **Introduction and Background**

The NDP aims to reduce inequality by increasing the income share of the poorest 40% of the population. The current target of 10% is unlikely to achieve the broader goals of poverty reduction and economic inclusion. The NDP also proposed achieve zero percent of the population living below the LBPL. As the share of people living below this line has not changed, and may have increase, the imperative of zero hunger would is a preferable and potentially attainable target.

### **Problem Statement**

The existing target for increasing the income share of the poorest 40% is insufficient to drive significant progress towards reducing poverty and inequality. A more ambitious target is necessary to achieve meaningful change. At the same time, the target for poverty reduction set by the NDP is improbable, while 11 million South Africans live in extreme poverty and below the FPL.

### **Reflection on Work and Research by Key Stakeholders**

Studies by the World Bank, the OECD and others indicate that the current target of 10% is modest compared to international standards. Revising this target upwards can align South Africa with best practices in poverty reduction and economic inclusion. Zero hunger is a key SDG target and the minimum cost of eliminating food poverty would be in the order of R6 billion per annum.

### **Proposal**

1. **Set a New Target:** Increase the income share target for the poorest 40% to 12% of national income. This aligns with targets in G7 and G20 countries. Reword the poverty target to Zero Hunger, and the reduction of the share of the population below the FPL to zero.
2. **Revise Growth Elasticity Estimates:** Update the growth elasticity of poverty estimates to identify the impact of economic growth on different income deciles and sectors.
3. **Remove Stigmatising Terminology:** Review and refine the terminology used in the NDP, moving away from terms like "bottom 40%" to more accurately reflect the target group.

### **Conclusion**

Setting more ambitious targets for the income share of the poorest 40% is crucial for achieving the NDP goals. By aiming higher, South Africa can make significant strides towards reducing inequality and promoting inclusive growth.

## **Advisory 1.4: Initiate a Dialogue Between the State, Business, and Labour on Maximising Synergies**

### **Executive Summary**

This advisory emphasizes the importance of initiating a dialogue between the state, business, and labour to maximize synergies between growing economic sectors. It highlights the need for coordinated efforts to leverage market and public investments for reducing inequality.

### **Introduction and Background**

Achieving the NDP targets requires collaboration between various stakeholders, including the government, private sector, and labour. By working together, these stakeholders can create synergies that enhance the country's ability to plan towards economic growth and the reduction of inequality.

### **Problem Statement**

There is a need for greater coordination and dialogue between the state, business, and labour to effectively leverage economic growth for reducing inequality. Current planning and implementation efforts are fragmented and lack a cohesive strategy.

### **Reflection on Work and Research by Key Stakeholders**

Research shows that public-private partnerships and coordinated efforts can significantly impact economic growth and inequality reduction. However, these efforts require structured dialogue and collaboration.

### **Proposal**

1. **Foster Public-Private Partnerships:** Encourage collaboration between the government and private sector to identify and support economic sectors with high potential for job creation and poverty reduction.
2. **Support Informal SMME Sector:** Implement policies to support the informal sector, addressing barriers such as access to funding, infrastructure, and technology.
3. **Evaluate Public Works Programs:** Conduct rigorous evaluations of public works programs to identify best practices and areas for improvement.

### **Conclusion**

Initiating a dialogue between the state, business, and labour is essential for maximizing the impact of economic growth on reducing inequality. By fostering collaboration and leveraging synergies, South Africa can achieve the NDP targets and promote inclusive economic development.