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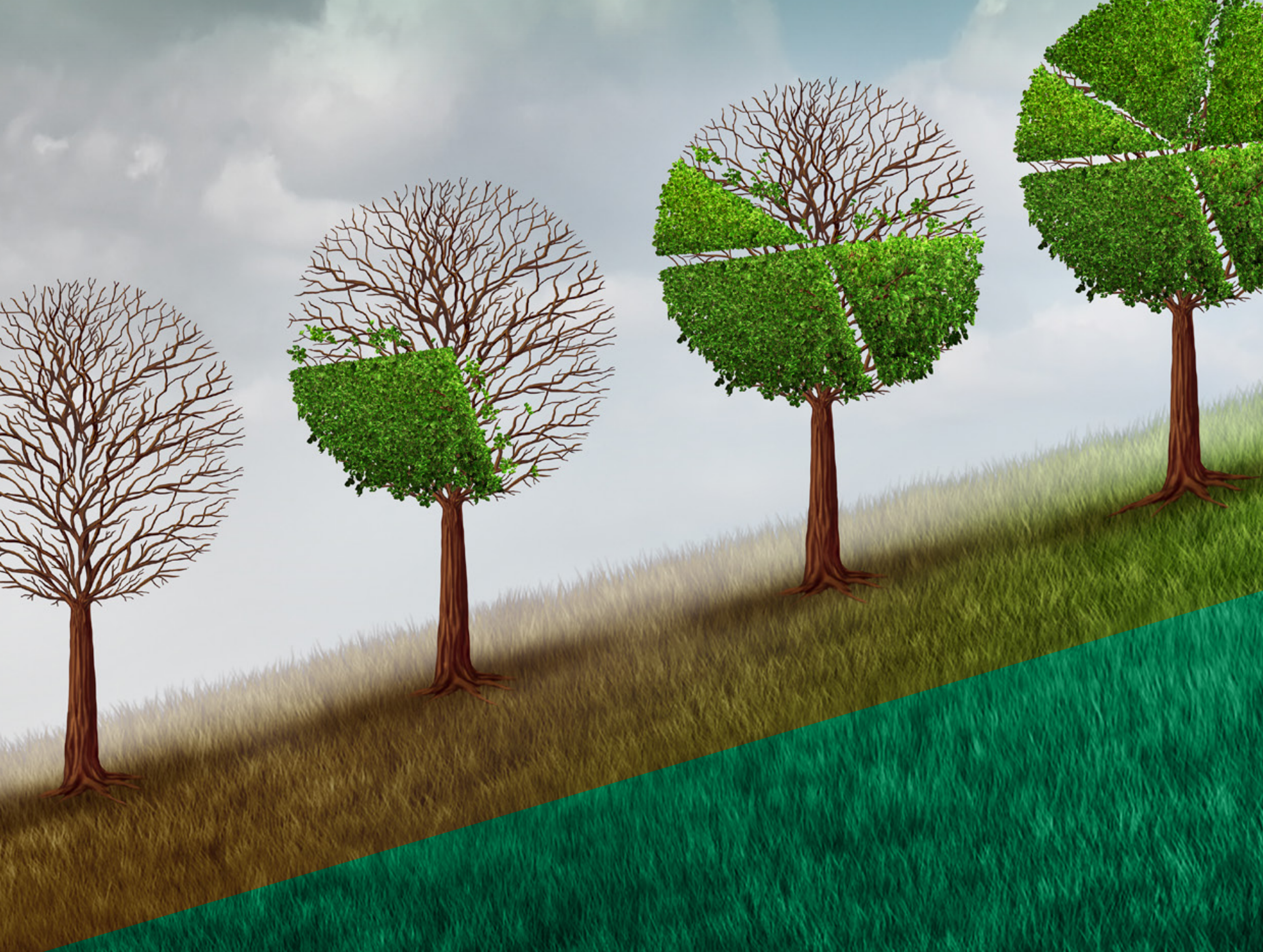
2030 NDP

ECONOMIC PROGRESS TOWARDS THE NATIONAL DEVELOPMENT PLAN'S VISION 2030

Recommendations for Course Correction

Executive Summary | December 2020



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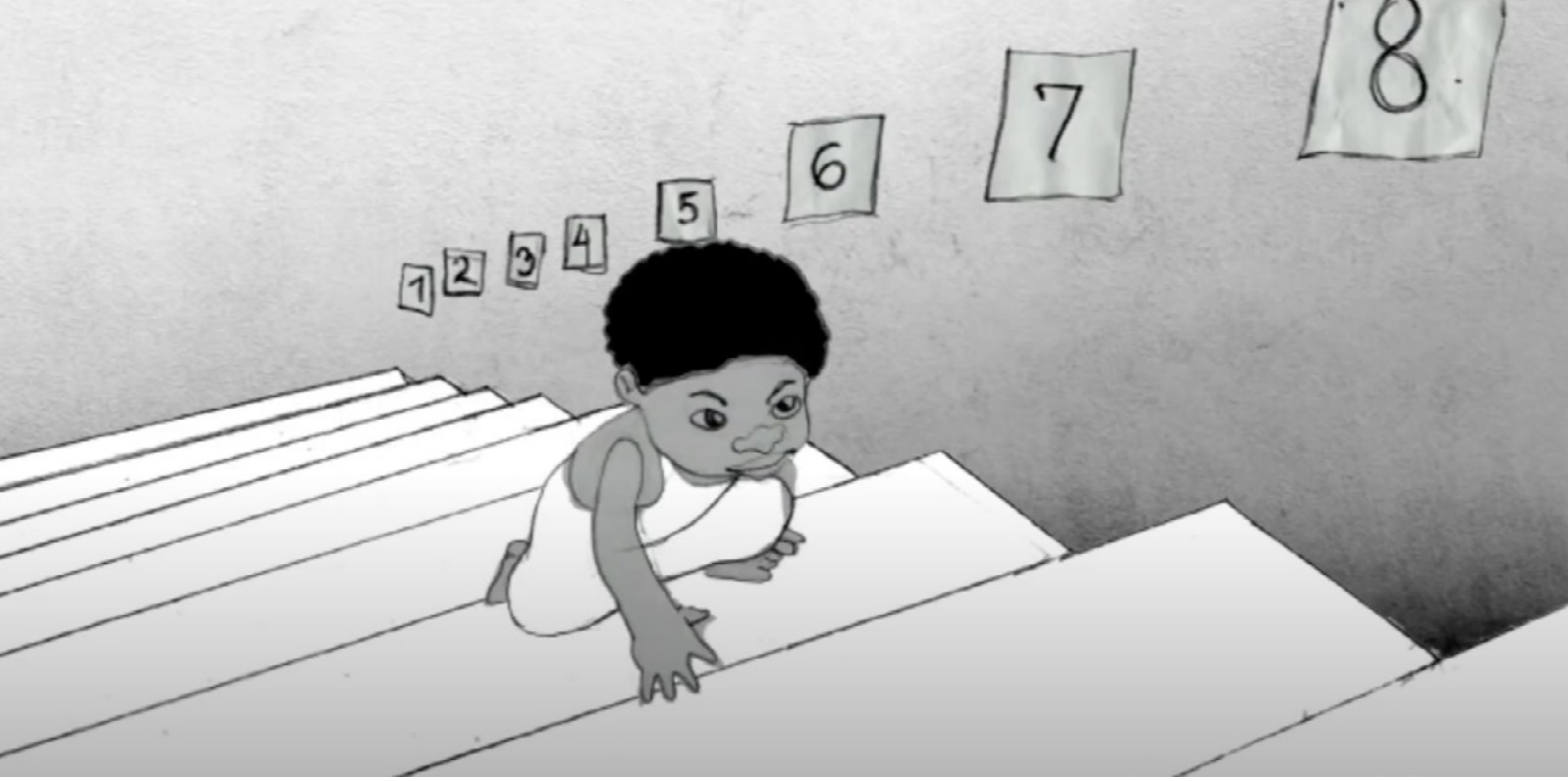

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We would like to thank the many stakeholders, experts and policy makers that generously contributed their time to the thinking in, and preparation of, this Report.

We welcome written comments on this Report, which can be submitted to Mr. Ashraf Kariem at ashraf@dpme.gov.za It is recommended that comments be submitted before 22 January 2021 to enable their review and consideration by the current sitting of the NPC.

We encourage reading of the full report,
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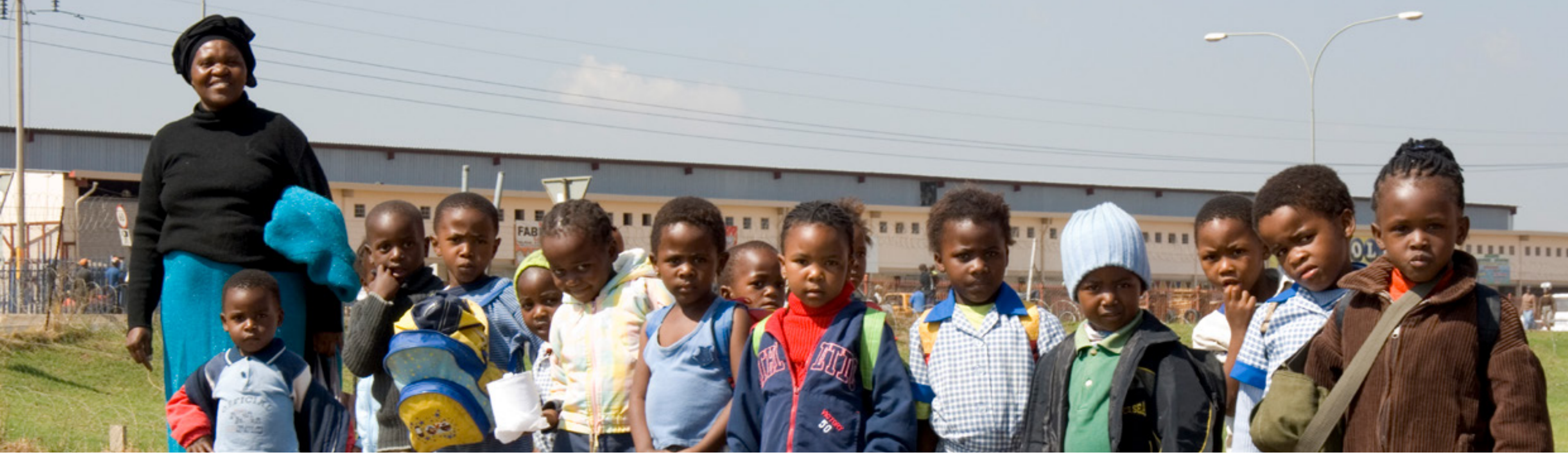


1. INTRODUCTION

The Constitution of 1996 pledges to heal the divisions of the past and establish a society based on democratic values, social justice and fundamental human rights. A commitment is made to improving the quality of life of all citizens and freeing the potential of each person. The National Development Plan (NDP), adopted by Cabinet and all parties in Parliament in 2012, set a route to realise a vision of shared prosperity by 2030.

This report is the product of the National Planning Commission's (NPC) assessment of economic progress towards targets set by the NDP.

While the new democratic government achieved significant improvements in employment, poverty and growth over the decade up to 2008, progress has stalled. Although there are many areas of successful investment and public delivery, the most important social and economic indicators reveal that – at best – the country has not made meaningful progress since the global economic downturn in 2008/09. At worst, there are indications that the economy has lost significant capacity.

Over the past decade, there have been clear signs of danger that South Africa could veer towards a downward spiral. Governance gaps have now spilled over into the central processes of raising and distributing public resources. We are now beyond the cross-roads: kickstarting the economy out of a stasis now seems like a relatively simple challenge. The Covid-19 pandemic has accelerated a downwards spiral, in an already vulnerable economy. We are in a vicious circle ensuing from a toxic confluence of factors, namely falling investment, further diminishing tax revenues, and debt service costs that crowd out all other spending and thus constrain resources for investment in development. The results are falling employment and rising poverty and inequality.

This downward spiral must be broken.

The only way to break this fall is to firmly recommit to the goals of the Constitution. We must get onto a road to broad-based growth, employment and prosperity. A capable state, effective governance of key state institutions, and fiscal resilience are foundations. There is no room for cynicism or prevarication about this objective. There is no country that pulled out of such a downward spiral to achieve decades of growth without progressive strengthening of state institutions. Meaningful, committed partnerships in delivery of our top NDP objectives are also a necessary ingredient. All our collective energies must be trained on these most important foundational priorities of the NDP.

This review considers progress in our country's top priorities, namely employment, poverty reduction and equity. The most significant contributors to that performance are reviewed, focusing on fiscal and financial sustainability, building the capital asset base, building the capabilities of our people, digital readiness for the future, dynamism in employment-generating industries, the contribution of public employment and state capability. Significant gaps are identified and recommendations are made for course correction. These emphasize rebuilding state capacity as a central priority.

2. PROGRESS TOWARDS VISION 2030:
FULL EMPLOYMENT, POVERTY ERADICATION & EQUITY

2.1 Full employment

Achieving full employment is a top priority of the NDP. In the context of high structural unemployment, economic participation will be the most important contributor to raising living standards, eradicating poverty and achieving greater equity.

The NDP set a target of reducing unemployment from 25.4% in 2010 to 20% by 2015, 14% by 2020 and 6.0% by 2030, as shown in Table 1. The path to achieving the 2015 goal would have entailed the creation of 4.7 million jobs between 2010 and 2020. This would have relied on an average GDP growth rate of at least 4% per annum.

Instead, unemployment rose from 24% to 29% between 2010 and 2019. What happened?

While the target for total employment growth by 2015 was almost reached, the gap between what the NDP wanted to achieve and actual performance has widened since then. By 2019, total employment was 1.5 million below what was required to be on track in meeting the NDP Vision 2030 target. The average annual growth in employment between 2010 and 2019 was 256 000 compared with an NDP target of over 400 000 a year. This translates into achieving only 64% of the additional employment targeted by the NDP.

Table 1: NDP employment targets relative to actual performance

Indicator	2010 (Baseline)	2015		2019		2020	2025	2030
		Target	Actual	Target	Actual	Target	Target	Target
Unemployment rate (official)	24.9%	20.0%	25.4%		28.7%	14.0%	8.6%	6.0%
Employment (million)	13.8	15.8	15.7	17.8	16.3	18.3	21.2	24.7
Employment growth relative to 2010 baseline (million)	-	2.0	1.9	4.0	2.5	4.5	7.4	10.9
Gap between target and actual employment (million)	-		-0.1		-1.5			
Average annual employment growth in employment	-	335 000	325 000	398 000	256 000	410 000	466 000	517 000

Source of data: NDP, Statistics South Africa Quarterly Labour Force Survey, 2020

2. PROGRESS TOWARDS VISION 2030: - *continued*

The composition of employment is also a concern.

- De-industrialisation accelerated over the period between 2008 and 2019, as seen in the loss of 313 000 manufacturing jobs and stagnant manufacturing output.
- Youth under the age of 35 are faring poorly. Between 2008 and 2019, employment of people over the age of 35 rose by 1.57 million, while that for those in the age group 18–24 fell by over 335 000, and in the age group 25–34 grew by only 37 000.
- Small business now accounts for a smaller share of total employment, falling from 64% in 2008 to 55% in 2015.
- Unemployment continues to be far more heavily felt by black Africans.

The Covid-19 pandemic will push us further off course. The Covid-19 health response specifically attacks employment, especially in activities where women and youth work. Significant employment losses in 2020 are inevitable, potentially of one million jobs or more. Some of these job losses may be permanent. South Africa must create jobs, not lose them, by urgently adopting sustainable strategies to contain Covid-19 outbreaks, while at the same time implementing critical policies to promote inclusive growth on a path towards the NDP Vision 2030.

2.2 POVERTY AND INEQUALITY

The NDP aims to eradicate poverty by 2030. This is defined as those people with an income below the lower bound poverty line (LBPL). Substantial progress had been made between 2006 and 2011, with the percentage living below the LBPL falling from 51% of the population to 36.4% (see Table 2). We had hoped to build on that success. Instead, income poverty rose to 40% by 2016.

The depth and extent of poverty differs substantially by race. Between 2006 and 2015, poverty rates for black Africans fell from 60% to 47%, from 36% to 23% for Coloureds, from 5% to 1.2% for Indians and 0.6% to 0.4% for Whites. The rate of change varied dramatically also, where black African and Coloured poverty rates fell by 21% and 32% respectively. In 2015, 49% of black African women lived in poverty as compared to 45% of black African men (Stats SA 2017).

Progress between 2001 and 2008 was substantially explained by the expanding distribution of social grants since 2001, and to a smaller extent, by job creation and urbanisation. Going forward, a complement of strategies will be needed, including the following:

- Rising employment: lower-income households have very few working members.
- An affordable cost of living for low-income households achieved through better regulation, competition and improved service delivery.
- A deeper social wage.
- A building up of assets that create a foundation to protect against risk and enable intergenerational class mobility.

2. PROGRESS TOWARDS VISION 2030: - *continued*

a. THE SOCIAL WAGE

The NDP put substantial emphasis on the role of the social wage to make up for income poverty. There is evidence that the social wage has made a significant impact on the quality of life, with the multi-dimensional poverty headcount falling from 17.9% in 2001 to 8.0% by 2011, and then to 7.0% in 2016. The slowing contribution of the social wage is cause for concern, such as that found in the provision of municipal service delivery in black communities like piped water, flush toilets and refuse removal.

Home building for low-income households has been extensive. The share of families living in formal housing rose from 65% to 79% between 2011 and 2016. However finance for home ownership is very limited for three-quarters of the population who earn less than R12 000 per month, and who therefore rely heavily on state provision. Delivery of subsidized accommodation has slowed substantially over the past decade and the main approach increasingly relies on mega housing projects located at the edges of cities far from economic opportunity and services, entrenching a high cost of living.

The social wage contribution to urban transport is poorly aligned to enabling economic participation and reducing the cost of living: for example, 63% of urban public transport expenditure goes to rail, accounting for only 17% of trips, 36% is spent on bus services, accounting for 16% of trips, and almost nothing spent on minibus taxis which account for 67% of trips (Van Ryneveld, 2018).

Food accounts for 30% of expenditure in the poorest 40% of households and between 1999 and 2015, food prices rose 60% faster in real terms than for other products.

b. ASSET OWNERSHIP IN RURAL, FORMER BANTUSTANS, TOWNSHIPS AND URBAN AREAS

Below the surface of these aggregate numbers lies significant asset poverty amongst the majority of the population. This contributes to vulnerability and constrains intergenerational class mobility. In turn, it slows overall economic and employment growth. The suite of challenges relates to land ownership in rural, township and urban areas, home ownership, access to transactional finance, and the ability to build up household savings. Progress has been slow and frustration is understandably high.

Inequality has not fallen since 2009 when measured by the Gini coefficient. The share of income going to the bottom 40% was meant to rise from 6% to 10%, and by 2015 it had already risen to 8.3%.

Wealth inequality is extremely high with an estimated 71% to 95% of assets owned by the top decile, as compared to a global average of 55% to 65%. By global standards, South Africa's middle class is small and asset poor.

Almost all aspects of poverty in South Africa could worsen due to the Covid-19 pandemic. Unemployment is likely to rise, especially for lower-skill occupations. Access to many public services and measures that support the social wage (such as school feeding schemes) could be constrained as public finances come under pressure. The poor are also at greater risk of being marginalised by the accelerated move to a digital economy as a result of their low skills and limited access to digital networks. Budgetary constraints may make it harder for statistical authorities to assess trends in poverty and its distribution. Every effort must be made to ensure that unemployment, poverty and inequality do not deepen.

2. PROGRESS TOWARDS VISION 2030: - *continued*

Table 2: NDP targets and outcomes – poverty and inequality

NDP target	2006	Baseline (2011)	2015		2020		2025	2030
			Target	Actual	Target	Actual*	Target	Target
Percentage of people living below the lower-bound poverty line (LBPL)	51.0%	36.4%	28.7%	40.0%	19.2%		9.6	0%
Percentage of people classed as poor using the South African multi-dimensional poverty index (SAMPI) headcount	17.9 % (2001)	8.0%	N/A	7.0% (2016)	N/A			
Reduce income inequality	0.72	0.69 (2009)	0.68	0.68	0.65	0.69 (2018)	0.63	0.60
Share of income going to the bottom 40%		6%		8.3%	8.8%		9.4%	10%

Source: All actual figures are sourced from Statistics South Africa 2019. NDP target values between the baseline and 2030 were extrapolated from the baseline. 2018 actuals are estimates sourced from Quantec.

2.3 Economic growth and per capita incomes

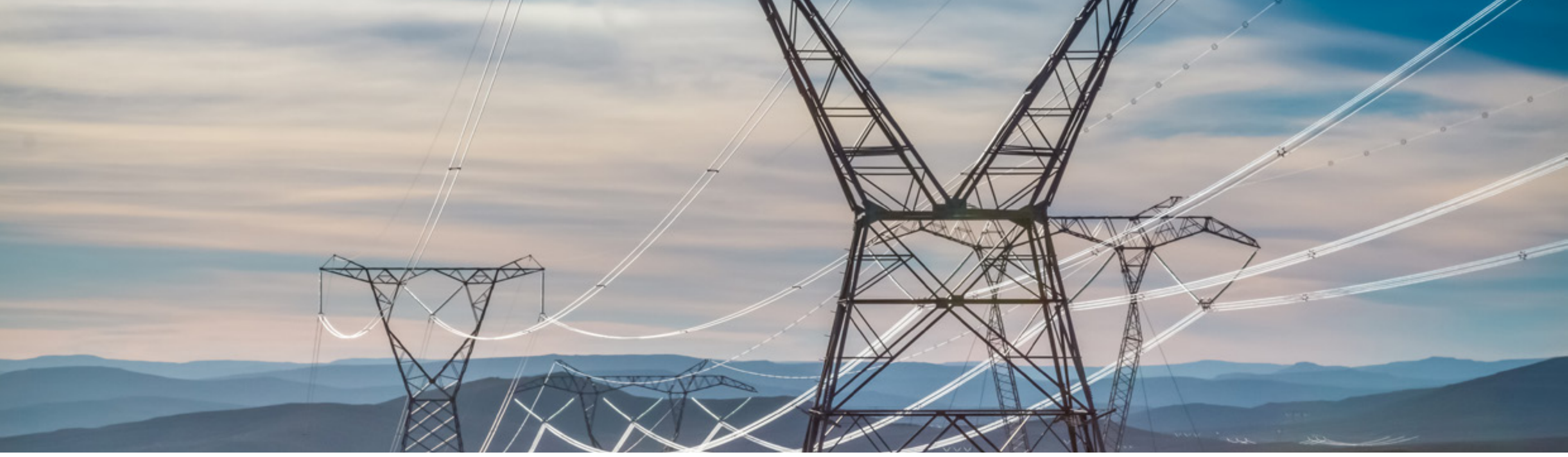
Sustained economic growth over many decades is a necessary but not sufficient foundation for economic inclusion and shared prosperity. While GDP is limited in its communication of underlying welfare, it is currently the most accessible indicator by which to compare economies. No country achieved shared prosperity with slow or intermittent growth. Resource-rich economies tend to have slower per capita growth than others. This is not inevitable, but rather a function of weak investment in people, infrastructure and institutions, limited competition and an inward orientation. Between 1960 and 2015, South Africa's per capita income expanded by only 0.65 times, or by an average of 1.2% per annum. It takes Malaysia, Turkey and Mexico eight, 16 and 24 years respectively to double their per capita income, while it takes South Africa 86 years to do the same. While performance improved after the democratic transition, South Africa continued to fall behind, even among the ranks of upper middle-income countries (UMICs): in 1994, South Africa's per capita income was 5% below the average of UMICs, falling to 18% below the average by 2013.

We look at seven areas that help explain poor growth performance: fiscal and financial sustainability, building the capital asset base, building the capabilities of our people, digital readiness for the future, dynamism in employment-generating industries, public employment, and building a capable state.

Table 3: NDP targets and outcomes for GDP

NDP target	Baseline (2011)	2015		2020		2025	2030
		Target	Actual	Target	Actual*	Target	Target
GDP growth	3.3%	4.6%	2.2%	4.6%	0.2%	4.8%	5.0%

**Reflects 2019 actuals*
Sources: Statistics South Africa, 2020; South African Reserve Bank, 2020.



3. CONTRIBUTORS TO POOR ECONOMIC PERFORMANCE

While significant progress was made up to 2008, we have not seen meaningful and sustainable progress towards the NDP's most important targets for employment, poverty reduction, and equity since then.

We identify seven main reasons that explain why we are on a path below that required to achieve the goals of the NDP Vision 2030:

1. Sustainability in fiscal and financial resources to fuel transformation
2. Building the asset base: capital
3. Building the asset base: people
4. Digital readiness for the future
5. Dynamism in employment-generating industries
6. Public employment and public employment programmes
7. Building a capable state

3.1 Sustainability in fiscal & financial resources to fuel transformation

Macro-economic management has been seen as one of the successes of the new democratic government, even if contentious among many stakeholders. The approach to the governance of fiscal and monetary policy effectively charted South Africa across a macro-economic tightrope in the 2000s, creating sustainable finances, while channeling significant and growing resources into social delivery and infrastructure development.

The ultimate aim is to stimulate inclusive economic development in such a way that more macro-economic space is created, thereby stepping off the tight rope.

Significant uncertainty has arisen since 2008, with growing concern for the capacity of key revenue gathering and budgeting institutions to enable a commitment to the fiscal framework. This is one of the most important contributors to reaching the current crossroads. A vicious circle has been formed, of falling investment, diminishing tax revenues, rising cost of debt to close the budget gap, and/or constrained resources for investment in South Africa's human and capital development to achieve the NDP. The result is a dramatic deterioration in government finances over a relatively short space of time that reflect growing domestic risks.

In 2017, debt as a percentage of GDP was expected to peak at 53%. The 2020 supplementary Budget indicates a peak at 87% in 2023/24 – but only if necessary interventions are adopted. Otherwise, debt is expected to continue rising and could exceed 140% by 2028/29.

3. CONTRIBUTORS TO POOR ECONOMIC PERFORMANCE - *continued*

There are significant domestic risks, that are now being realized. They must be urgently addressed by:

- Restoring confidence in the budget process and the commitment to a fiscal framework.
- Charting public sector bargaining to a sustainable result that supports service delivery objectives.
- Restoring governance in top infrastructure state-owned entities (SOEs).
- Strengthening municipal management and finances.
- Restoring and modernising revenue collection capability.
- Taking credible action on top locations where there is a risk of corruption.
- Improving the productivity of public spending through better service, delivered more efficiently.

3.2 Building the asset base: capital

a. INVESTMENT & SAVING RATES

Globally, there is a strong correlation between high growth, high investment and high saving rates. Countries that have sustained more than 6% average GDP growth between 1980 and 2008 had investment growth rates in excess of 25% per annum, usually fueled by high domestic savings.

In contrast, South Africa's gross fixed capital formation grew by 18.4% per annum between 2000 and 2015, and saving rates have fallen well below 20%. Negative rates were found in the years of the Asian crisis (1999) and the global financial crisis (2009 and 2010), and then in 2016 in the absence of any global explanation.

There is a vicious circle of falling investment, diminishing tax revenues, and rising cost of debt to close the budget gap, and/or constrained resources for investment in South Africa's human and capital development to achieve the NDP.

The foundations to promote investment are found in the seven areas discussed in this Report, showing how to improve confidence of investors and attract capital.

Table 4: NDP investment targets and outcomes

NDP target	Baseline (2011)	2015		2020		2025	2030
		Actual	Target	Actual*	Target	Target	Target
Investment (gross fixed capital formation) as a percentage of GDP	19.3% (2010)	20.9%	25%	17.9%	30%	30%	30%
Public sector (state and state-owned entities) investment as a percentage of GDP	6.8%	7.8%	8.4%	5.6%	10%	10%	10%

**Reflects 2019 actuals*
Sources: Statistics South Africa, 2020; South African Reserve Bank, 2020.

3. CONTRIBUTORS TO POOR ECONOMIC PERFORMANCE - *continued*

b. PUBLIC INFRASTRUCTURE DEVELOPMENT AND MAINTENANCE

Public infrastructure investment – most notably in respect of energy, water, ICT, and transport – is central to achieving greater productivity and competitiveness, reducing spatial inequality and supporting the emergence of new job-creating sectors.

The construction of infrastructure generates employment and broad-based black economic empowerment opportunities, further contributing to the goals of the NDP.

Between 1998/99 and 2017/18, the public sector spent a total of R3 trillion on the provision and maintenance of infrastructure. This expenditure increased from R48.8 billion in 1998/99 to R236.2 billion in 2017/18. In real terms, infrastructure spending grew by an annual average of 4.3%.

Public sector investment was targeted to reach 10% of GDP. It achieved slightly more than 8% only in 2009/10, but has been falling since then. In 2018/19, public sector infrastructure investment accounted for just over 4% of GDP. There has been a decline in public sector investment since 2014/15, mainly driven by SOE underperformance and stagnant spending in the local and provincial spheres of government. Overall, municipalities spent only half of their infrastructure budgets.

The NDP envisages that infrastructure spending undertaken by state-owned entities is meant to make a significant contribution to public infrastructure targets. To date, these expectations have disappointed. Many of the major SOEs have become a drag on growth, rather than a support. Governance of key public entities has fallen short, posing challenges to service delivery that underpins economic expansion and now also undermining macro-economic stability. Evidence of grand corruption in these entities also undermines confidence and social cohesion. The net effect is that the largest state-owned entities have failed to deliver on their long-term infrastructure investment objectives. Uncertainty has been created for potential investors (public-private partnerships and competitive suppliers of infrastructure).

Public sector infrastructure delivery should be corrected to lead recovery and transformation. A number of recommendations are made to:

- Rebuild the private civil construction sector.
- Drive the implementation of top priority public infrastructure programmes in energy, transport, water, housing and telecommunications. De-emphasize mega projects in favour of a pipeline of smaller, affordable and flexible projects.
- Reduce the infrastructure maintenance backlog across the state, and particularly in local government.
- Build professional capacity in the state to drive and oversee infrastructure.
- Strengthen infrastructure SOE performance, governance, and accountability, with an emphasis on Eskom, Transnet and PRASA.
- Enable private participation in public infrastructure delivery and management.

3. CONTRIBUTORS TO POOR ECONOMIC PERFORMANCE - *continued*

3.3 Building the asset base: people

a. EDUCATION AND TRAINING TO FUEL VISION 2030

Education is the most important contributor to economic progress and is the most important asset that enables low-income families to escape poverty. There is a very close correlation between education, employment and incomes. The NDP is therefore very precise in its education proposals and targets. Some of these targets were aimed at aligning South Africa's education outcomes to successful middle-income economies.

Starting from a low base, significant improvement was achieved between 2002 and 2011 in the foundation years, with slower improvement since then. Even so, in 2016, 78% of Grade 4 learners could not read for meaning in any language. By Grade 4, only 25% to 35% of learners in lower quintile schools are still on track in the school curriculum. This sets the scene for the rest of their lives. The impact of spending across the school system would be greatly enhanced if early reading comprehension was addressed.

Since 2008, there has been marked improvement in the number of Bachelor's passes amongst students in low-income groups. The proportion of matric Bachelor passes in quintile 1, 2 and 3 schools rose from 35.2% in 2008 to 57.1% in 2016. The NDP proposes that by 2030, 400 000 university graduates be produced annually. If the NDP's targets related to university and college degrees are achieved by 2027, it is estimated that 18% to 36% of quintile 1 to 3 households could be lifted above the upper bound poverty line by 2030.

There has been exceptional growth in the vocational and university system. TVET enrolments almost doubled between 2010 and 2015. Black African enrolments in university tripled between 1995 and 2015, with growing numbers in science, engineering and technology, and in contact institutions. However, graduation rates are still too low and workplace-based learning opportunities are still well below that needed to enable vocational graduation.

In a study prepared for the NPC, Van der Berg et al. (2020) says that "South Africa can be considered to be on a trajectory which, starting around 2000 with a level of performance well below that of Botswana, has now caught up with Botswana and, assuming the current pace of improvement continues, will reach roughly Malaysia's level of educational quality by 2030." However, the reasons for the improvement are not well understood and therefore not necessarily repeatable.

The Education system faces several risks and challenges:

- The introduction of the Grade 9 national examination introduces major structural change into the system. While this may improve the quality at lower secondary level there is concern that it will detract from a focus on strengthening school-level monitoring systems at the primary level, as well as the need to increase Grade 12 completion rates.
- The halting of the Annual National Assessments (ANA) in 2015 removed a key pillar of the NDP's monitoring and accountability system for schools.
- The increased allocation to higher education from 2018 and the introduction of "free higher education" has resulted in significant spending increases per (disadvantaged) student which may reduce the fiscal space for significant enrolment expansion as envisaged by the NDP.

3. CONTRIBUTORS TO POOR ECONOMIC PERFORMANCE - *continued*

- Overall spending on post-school education in South Africa remains underfunded given the post-school graduation targets. Investment and participation of the private sector and foreign institutions could be encouraged to diversify funding sources and inject dynamism.
- The Covid-19 pandemic has introduced risks that are still uncertain. It could negatively impact on learning for those in school and PSET in 2020. Inequitable access to broadband, digital education materials, remote and home learning could further entrench inequalities. The higher education sector is well connected with SANREN, but even the better resourced institutions were shown to be poorly digitally enabled when it came to online learning.

Top priorities to achieve the NDP's education objectives

Priority 1: 'Reboot' the NDP's focus on accountability in the schooling sector. Central to this is the need for a 'results-oriented mutual accountability system', centred around the school and the school principal. This should include the implementation of the new rules for school principal recruitment, as well as simple annual reports which assess the learning outcomes trends of schools and how schools compare to other socio-economically similar schools.

Priority 2: Improve and monitor reading in the early grades. The initiative to teach reading better in primary schools and enhance classroom practices must be strengthened. This must focus both on teachers and also mobilise parents in the push to eliminate functional illiteracy among children. A new universal testing system, replacing the ANA, will be essential to ensuring progress in this critical area.

Priority 3: Insist on better monitoring of sectoral trends. The monitoring of trends and progress in the education sector is often weak. Investments are needed to modernise and strengthen information systems. Existing data, leveraging the South African School and Administration Management System (SASAMS) and the Data Driven Districts initiative, needs to be used more effectively. The contributors to education improvement over the past decade are not well understood and therefore might not be replicated. Monitoring trends and understanding causal relationships will be key to making further rounds of progress.

Priority 4: Ensure all schools have internet and supportive services, along with investment in digitally-enabled teaching and learning practices. Government needs to clarify exactly what the concept 4IR means for the education sector, with the understanding that the fundamentals will be delivered. At a minimum, the SA Connect targets for schools need to be met more meaningfully, initially by connecting all schools by 2023 and by investing in digital teaching and learning methodologies. This is further discussed in section 3.4.

Top priorities to progress towards the NDP's PSET objectives

Priority 1: Strengthen the navigation of students from low- and middle-income communities from school through PSET and into work.

Priority 2: Increase system coherence to provide a continuum of vocational skills including TVET and higher education that is responsive to the demands of industry. The provision of vocational skills development (VSD), which include the continuum of vocational skills including TVET and

3. CONTRIBUTORS TO POOR ECONOMIC PERFORMANCE - *continued*

through to higher education, needs to be responsive to the demands of industry. Decisions about VSD programming within the context of sectoral TVET, HET and Skills Development strategies should be embedded into industry sector Masterplans.

Priority 3: Deepen relationships between TVETs, HETs and public/private employers.

Priority 4: Make Community Education and Training Colleges more effective. CET Colleges should play a specific role in supporting township and village economies, including a focus on second chance matric.

Priority 5: Attend to a sustainable funding model. The financial model needs to balance depth and breadth, support low income but also 'the missing middle', and should encourage public-private partnerships. The mechanics of delivering bursaries to students continues to need attention.

Table 5: NDP and related targets and outcomes in education

NDP target	Baseline (2010)	2015		2020		2030
		Target	Actual	Target	Actual	Target
TIMSS Grade 8 score Mathematics and Science	352 (2011) 332 (2011		372	420 (2023)	N/A	500
SACMEQ (Grade 6 Language and Mathematics score)	495(2007)		552 (2013)	550 (2019) 600 (2022)	N/A	640 (2029 DBE Target)
Percentage of Grade 3 learners with acceptable literacy PIRLS score + PIRLS score	24% (2011) 253 (2006) 295 (2011)	50%	22% (2016) 320 (2016)	75% (2019)	N/A	90%
Percentage of learners in grades 3, 6 and 9 who achieved 50% or more in the new National Assessment in Literacy, Numeracy/ Mathematics and Science	Grade 3 (2012) Language 56.6% Numeracy 36.6% Grade 6 (2012) Mathematics 10.6% Home Language 38.7% Grade 9 Mathematics 2.3% Home Language 38.9%	60%	ANA stopped	75%	ANA stopped	90%
Number of matric pass Mathematics above 50%	50 195	198 000	53 588	270 000	n/a	No target developed
University graduates, including all degrees and diplomas	153 325	181 616	191 524	217 022		425 000

3. CONTRIBUTORS TO POOR ECONOMIC PERFORMANCE - *continued*

NDP target	Baseline (2010)	2015		2020		2030
		Target	Actual	Target	Actual	Target
Artisans qualified per annum	11 778	20 110	16 114	24 000 (2018/19)	19 355 (2018)	30 000
Trade test pass rate (percentage)	45%	56%	54%	65%		
TVET enrolments	358 393	1 000 000	737 880	1 238 000 (2018/19)	657 133 (2018)	
TVET (NCV) Level 4 completion rates (After 4 years)	NCV – L4 42%	NCV – L4 42%	41.5%	65%		75%
University enrolments Contact Distance	837 776 (2009) 521 427 316 349	1 020 190 607 691 412 499	985 212 605 480 379 732	1 070 000 (2019) 672 017 409 073	1 283 466 (2018)	1.62 million

b. AN ADAPTIVE AND RESPONSIVE LABOUR MARKET

The NDP recognises the need for a labour market that is more adaptive and responsive and makes proposals aimed at helping young people get into the labour market, appropriate regulation for small businesses, and reducing tension and conflict between employers and employees.

It also notes the need for life-long training for existing workers that facilitates their continued employment and advancement.

Specific recommendations are made in the final section of this Report, with the aim of addressing labour market policy priorities including:

- The development of an education and skills system that is responsive to the needs of employers and in which they are appropriately invested. Expecting this to be done outside of the traditional schooling system imposes excessive costs on employers (and on work-seekers) and acts as a disincentive to employment – particularly of the youth.
- Strengthening labour market matching services, especially stimulating private provision and innovation aimed at enabling youth employment.
- The development of better dispute resolution mechanisms in relation to wages and conditions of employment and a labour relations environment that is conducive to productivity growth. Enhancing the capacity of the key labour market institutions such as the CCMA, the Labour Court, Bargaining Councils and the Labour Inspectorates to fulfil their respective functions.
- Labour regulation designed to enable compliance by small business in relation to issues such as dismissal, employment equity and skills development.
- Extension of social protection to vulnerable and non-standard workers, to cover possible contributory schemes, occupational health and safety provisions and skills training opportunities to those 'informally' employed, Gig-economy workers, and those who are unemployed.
- Sustainable labour arrangements in the public sector that attend to pay, benefits, staff structure and performance.

3. CONTRIBUTORS TO POOR ECONOMIC PERFORMANCE - *continued*

3.4 Digital readiness for the future

The NDP envisages that a seamless information infrastructure would be universally available and accessible by 2030, at a cost and quality at least equal to South Africa's peers and competitors.

Communication more broadly is the foundation of an inclusive market economy, a key facilitator of citizen engagement and increasingly a critical divider of those who can readily access services. The digital divide is not only about inequality in access to technology but about exclusion from services, education and economic opportunity.

The aspirations of the NDP were translated into the National Broadband Plan (2013) and SA Connect led by the Department of Telecommunications and Postal Services. Table 6 lays out 2020 targets set by SA Connect, in addition to other targets that would be consistent with the NDP.

South Africa tends to perform well on infrastructure development indices. SA has excellent national coverage of fibre and 4G/LTE. There is a strong base of private companies that continue to invest, maintain upgrade and innovate.

Yet performance is poor in demand-side indices including internet usage, skills and digital awareness (Gillwald et al, 2020). SA slipped down the ITU ICT Development Index from 78th to 92nd between 2002 and 2018. The Network Readiness Report (NRI, 2020) ranks South Africa 76th out of 134 countries. Twenty-five upper middle income countries (out of 37) and three lower middle income countries rank above South Africa: countries such as Malaysia, China, Thailand, Serbia and Vietnam.

The main priorities for digital readiness include:

Identify a workable operating model to achieve SA Connect objectives

- The model that relies on SOEs to implement SA Connect is not working, nor is a model that relies on spectrum licence obligations. Universal access and public sector connectivity should shift to one that relies on Government as procurer and regulator, but perhaps not as implementer.
- Sustainable funding models are needed to deliver on SA Connect commitments to low income individuals and households, to communities and to public institutions. Government funding is currently insufficient to deliver on SA Connect targets.
- The mobilisation of private funding in PPPs and similar arrangements would require that PPP frameworks be strengthened and be made more easily implementable than at present. It would also require funding and procurement frameworks to enable government to commit as an anchor tenant over the long term.
- A fund dedicated to accelerating internet access for under-served communities would be beneficial. For it to succeed, it would need to be properly resourced (by the state but also as the main service obligation in a spectrum award), effectively governed (ideally with private sector and DFI participation), and services appropriately designed. The Department of Communications and Digital Technologies' proposed approach for the Digital Development Fund is to be supported, in not delivering directly but instead facilitating in offering inter alia: incentives for de-risking private sector investments in rural areas and accelerating broadband delivery in peri-urban areas; demand-side schemes for subsidizing low-income consumers' communication costs; and innovative use of unlicensed spectrum (WiFi, TV whitespace).

3. CONTRIBUTORS TO POOR ECONOMIC PERFORMANCE - *continued*

- The digitisation of government services needs to be accelerated. Government must implement the National e-Strategy and e-Government Strategy and Roadmap approved by Cabinet in November 2017. The current institutional approaches are not yielding sufficient progress and require review and determined commitment to capacity development.

Migrate and release high demand spectrum. This is long overdue causing constrained network capacity and higher mobile prices. It needs to be done in a way that supports enhanced competition as well as universal access obligations. Government has proposed the introduction of a Wholesale Open Access Network (WOAN), but competition might more easily be stimulated through stronger wholesale regulation and obligations tied to spectrum allocation and/or spectrum set-asides to encourage access by operators with less access to capital.

Deepen the ICT skills base. SA ranks poorly in its ICT skills base, from the school to the professional level. There is deep nascent capacity that has not yet translated into a national capability. Some of the priorities include:

- Connecting all schools by 2023, with supportive digital services in the school and in the cloud, and free WiFi to low-income households nearby.
- Centres of excellence supported to innovate in digital teaching and learning methodology from school to PSET.
- ICT training needs to be core in the teacher training curriculum and in ongoing professional development.
- Stronger partnerships between vocational training and industry to ensure relevance of the curriculum and pathway into digital apprenticeships and workplace learning.
- Identify and address the causes of poor throughput of high-quality ICT graduates.
- Expand opportunities to unemployed youth to gain digital literacy and related vocational skills.

Enable e-commerce, digital finance and digital entrepreneurship.

Strengthen partnerships by leveraging a number of formations such as the Presidential Commission on 4IR (PC4IR) and/or the Public Private Growth Initiative (PPGI).

3. CONTRIBUTORS TO POOR ECONOMIC PERFORMANCE - *continued*

Table 6: SA Connect Targets and Actuals

NDP target	Baseline (2011)	2016		2020		2030
		Actual	Target	Actual	Target	Target
% of population with internet access	33.7%	54% unspecified	50% at 5Mbps	65%	90% at 5Mbps 50% at 100 Mbps	100% at 10Mbps, 80% at 100Mbps
Government facilities (% connected)						
Schools	25%	28%	50 % at 10 Mbps	30%	100 % at 10 Mbps 80 % at 100 Mbps	100% at 1Gbps
Health	13%		50 % at 10Mbps	N/A	100 % at 10Mbps 80 % at 100Mbps	100% at 1Gbps
Government offices			50 % at 5Mbps	N/A	100 % at 10Mbps	100% at 1Gbps

3.5 Dynamism in employment-generating industries

a. INDUSTRIAL DYNAMISM

The NDP has a vision for an industrial base that is diversifying, increasingly dynamic, inclusive and encourages more labour-absorbing activities.

The NDP states that by 2030 South Africa should have a higher global share of dynamic products, and greater depth and breadth of domestic linkages.

The NDP identifies a number of preconditions for progress including: strengthening commercial transport, telecommunications, energy, and water provision; supporting the expansion of dynamic small- and medium-sized firms; achieving improved education and health outcomes; improving the alignment of human settlements and public transport systems to support the emerging forms of employment; strengthening the capabilities of the workforce through education and skills development; playing a more pivotal role in regional development and integrating supply chains across the region; and strengthening public-service capabilities and the governance of state-owned enterprises.

Performance in meeting NDP objectives for industrial dynamism over the past decade has been poor, requiring significant course correction.

For example, between 2008 and 2015, manufacturing output grew by an average of 0.5% per annum, as compared to Malaysia (2.7%), Turkey (5.6%), Egypt (3.3%), Thailand (2.0%) and Mexico (2.0%) or Brazil, whose manufacturing sector contracted by -1% per annum.

The main Report reviews trends in value-added production and employment by major sectors over the period from 2010 to 2019. It finds that there are no major sectors driving growth - no sector grew faster than 3% annually over the period. The main sectors that should provide dynamism have contracted. As expected, services have dominated employment and output, yet they have also been anaemic. There has been little evidence of productivity improvement. Services, therefore, have neither played a leading role, nor have they offered sufficient support to traded activities.

3. CONTRIBUTORS TO POOR ECONOMIC PERFORMANCE - *continued*

b. GLOBAL MARKET PRESENCE

South Africa has positioned itself powerfully within Brazil, Russia, India, China and South Africa (BRICS) and has developed important relationships with China and other major partners. However, this has not yet translated into economic benefits, with global market share stagnating at around 0.5% since 1996. South Africa has performed poorly in non-minerals merchandise and services exports. Even in minerals, metals and fuel exports, which account for about half of all South Africa's exports and 90% of export growth, South Africa's global share fell by 35% between 1992 and 2012. The profile of exporters has remained highly concentrated with 80% of exports accounted for by the top 1% of exporters. Even so, traditional exporters are becoming less dynamic. There is also a large number of firms selling diverse, highly sophisticated products into export markets, but at a very small scale. This nevertheless shows that there is a nascent capability ready for stimulation.

Table 7: NDP targets and outcomes for exports

NDP target	Baseline (2011)	2015		2020		2025	2030
		Actual	Target	Actual*	Target	Target	Target
Exports growth (percentage per annum growth, constant rand)	4.0% (2010–12)	5%	2.3% (2014–16)	6%	0.1% (2018-19)	6%	6%
Non-traditional exports growth (non-mining based)	7.6%	8.8%	4.0% (2014–16)	10%	-0.8%	10%	10%

c. COMPETITION & ACCESS TO MARKET OPPORTUNITY

The NDP's targets for employment and growth rely substantially on greater dynamism and competition.

South Africa has high levels of market concentration, significant presence of collusive behaviour and legacy barriers to market access for new players, especially those that were historically disadvantaged. There has been significant action to attend to anti-competitive behaviour. However, global evidence shows that even where competition authorities are successful, some economies have business environments that are conducive to collusion. South Africa demonstrates those characteristics. Competition and industrial policies need to work in concert to stimulate competition, even in concentrated markets. This is essential for economic competitiveness and to reduce the cost of living for the poor.

The NDP would like to see far greater and more equitable access to opportunity in dynamic small firms. Black ownership of small formal firms rose dramatically from 38% in 2002 to 49% in 2015. Yet, small firms have struggled since the downturn: the proportion of employment in small firms fell from 64 to 55% between 2008 and 2015. Less than 20% of employed people are employers or self-employed, compared to 40% in UMICs. There is a strong link between education and self-employment: 20% of people with a degree own a small business, compared to 10% of those with

3. CONTRIBUTORS TO POOR ECONOMIC PERFORMANCE - *continued*

a post-secondary diploma and less than one in 20 of those with matric or less. An expansion in vocational and professional education could fuel this.

The main priorities to inject greater dynamism into the economy that are specific to industrial policy include:

- The destruction of capacity caused by the Covid-19 pandemic must be limited. Widespread financial support needs to be channeled to affected businesses and workers to limit the extent of permanent damage and will still be needed even as the economy re-opens. A commitment to Covid-19 health protocols at work, in transport and in communities will help sustain economic opening.
- Dynamic activities that create employment and have significant linkages to other parts of the economy need to be prioritised. Examples include social housing construction, maintenance and refurbishment of public buildings, the construction of public transport systems, IPP energy and related investments such as battery storage, agriculture and related industries. A more ambitious tourism drive is also required.
- The capacity to drive greater dynamism through exports needs to be developed, especially in relation to non-traditional goods and services. Partnerships between government and exporters are needed. Commercial diplomatic support and intelligence in top priority markets is required. The African Continental Free Trade Area (AfCTA) is designed to facilitate intra-regional trade and must be driven rapidly even in the context of the Covid-19 pandemic. China is a growing priority and South Africa must ramp up its capacity to engage strategically.
- Attention is required to stimulate the growth of dynamic small- and medium-sized firms by:
  - Strengthening regulation and industrial policy to deepen competition and attend to anti-competitive behaviour.
  - Stimulating entrepreneurship especially in historically disadvantaged communities.
  - Strengthening support mechanisms for SMEs, including business and skills development.
  - Ensuring the regulatory regime is conducive to small business' needs and abilities.
- Meaningful recognition of the importance of public-private partnerships is essential to success. The Master Plan processes and efforts by PPGI could be bolstered in this regard. However, it must be recognized that significant effort will be needed to develop these relationships and build trust.

3.6 Public employment & public employment programmes

Central to the NDP is the need for a capable and developmental state. This requires a professional and appropriately-sized civil service to meet the needs of South Africa's growing population. The rising civil service wage bill has not been aligned to public sector performance.

Bargaining in the public sector must be guided to a sustainable result. A longer-range public personnel strategy is needed, aimed at sustainable remuneration, better grading that enables staff to enter at the bottom layers, staffing structures aligned to delivery, and performance-linked benefits. This is likely to require a pact between the state, labour and other stakeholders.

3. CONTRIBUTORS TO POOR ECONOMIC PERFORMANCE - *continued*

Public Employment Programmes (PEPs) play an important role in the NDP especially in a context of high unemployment. The Covid-19 pandemic has intensified this demand. The NDP proposed a target of some two million public employment opportunities per year by 2020. The PEP targets are set at about 1.5 million opportunities, 70% of which is achieved annually. By 2019 about one million work opportunities were created.

The public employment programmes should be driven to achieve an annual target of at least two million participants by 2023. Innovation will be needed to do so. At a minimum, this will involve support to intermediary organisations that support NGO delivery, and the expansion of social and community-based activities.

3.7 Building a capable state

A capable state is the essential foundation for delivery on NDP objectives. The quality of delivery of all programmes – from public infrastructure, to skills development, to international trade – will be determined by the capability of the state. A capable state implements policies effectively, uses state resources efficiently, and builds the confidence of citizens and the private sector.

However, if state capability is poor, then even the best-designed policies and interventions will not succeed. Private sector and international investor confidence will remain low. There will be misdirection of public funds and/or anaemic delivery of critical public programmes. The poor performance of local government in meeting minimum operational and financial management standards undermines basic service delivery, more equitable spatial development and fiscal sustainability.

The NDP details a clear set of actions to build a more capable state. Those fundamental priorities have not been addressed.

The analysis of the reasons for poor economic performance in this Report repeatedly point to a failure to build a capable state. Staffing departments and SOEs with those unsuited to the job has resulted in poor implementation of policies, and poor governance outcomes. Excessive political interference in operations and appointments has undermined institutional continuity and staff morale, and severely undermined the role that the state-owned enterprises are intended to play in driving economic growth. The regulations issued in 2007 in respect of the minimum competencies of senior managers in local government are sensible. However, 13 years later fewer than half of all municipalities comply with these regulations. The high turnover of senior staff, which undermines institutional stability, can be directly attributed to political interference. Unstable institutions and a lack of accountability has undermined the relationship with the private sector and resulted in the misuse of significant amounts of state resources that should have been spent on implementing the NDP. The lack of political leadership to enforce a co-operative and co-ordinated intergovernmental working relationship has further undermined the implementation of policies.

Building a capable state is a top priority in delivering on economic objectives. The rules are in place. They need to become ‘norms’. This refers to the quality of recruitment into key leadership positions, performance management, stabilising the political-administrative interface, making procurement more transparent and addressing corruption in state activity.

4. Proposals to stabilise and then accelerate towards Vision 2030

A contracting economy, falling employment, rising poverty and diminishing state resources and capacity pose a serious threat to achieving NDP 2030's goals of full employment and a decent life for all. Urgent action is needed for revitalisation and transformation.

Significant capacity has been lost in the public and private sectors, further exacerbated by the coronavirus pandemic. Even the most positive scenario will, at best, see steady growth in the coming few years. The worst scenarios see continued decline.

The recommendations do not change in the context of the Covid-19 pandemic, they are simply more urgent. The main differences are that stability will be more difficult and take longer to achieve. Moreover, some opportunities will be less accessible in the short to medium term.

4. Proposals to stabilise and then accelerate towards Vision 2030 - *continued*

4.1 Principles for inclusion in the NPC's recommendations for course correction

The following proposals are all based on achieving longer term results for the coming decade but with a focus on short- and medium-term implementation to lay a foundation for success.
The recommendations centre on:

- Addressing critical governance concerns, which we believe are currently the most significant binding constraints to progress.
- Immediately achievable actions that will bring about longer-term transformation and economic progress.
- Setting in motion actions for which there can be measurable implementation, and not simply processes.
- Ensuring the engagement and participation of state and non-state stakeholders.
- Evoking an early and significant private sector response. Any strengthening of public sector delivery should be designed to encourage private action, which will in turn spur rising growth rates.

In the areas requiring immediate action, any proposal involving regulatory or policy intervention should require government to explain why the current legal frameworks and rules are not sufficient. We expect the only exceptions to be situations where there is a significant gap in sectors that are highly regulated and/or depend on government-issued licences to operate. Clarity on government's intention in respect of land ownership is a good example.

The formulation of new policy or structures will generally have long lead times of two years or more. Credibility will be built on evidence of delivery and concrete improvement.

4.2 Summary of proposals

1. Responding to the Covid-19 pandemic

The Covid-19 pandemic has done significant harm to an already bruised economy. Safely returning to work and actively promoting employment must be a top priority for economic policymakers and stakeholders over the coming few years.

- Ensure the adoption of risk-adjusted strategies to support safe human interaction in communities, at work, in transport and in education.
- Deepen financial support to businesses and workers who continue to be at risk.
- Boost employment sectors with significant potential to absorb labour and create substantial linkages to other sectors of the economy.
- Drive a tourism recovery plan.
- Expand public employment programmes.

4. Proposals to stabilise and then accelerate towards Vision 2030 - *continued*

2. Actions to restore fiscal and financial sustainability

Restore a pathway to sustainable flow of public sector resources on both the revenue and expenditure sides. This includes:

- Restoring and modernising tax collection capability.
- Raising impact of current spending.
- Restoring confidence in the budget process and commitment to a fiscal framework.
- Charting public sector bargaining to a sustainable result.
- Restoring governance in top infrastructure SOEs.
- Stabilise municipal finances.
- Taking credible action in top locations where there is risk of corruption.

3. Building the asset base: Capital

The foundations to promote investment are found in the eight sections of this Report, showing how to improve confidence of investors and attract capital. The recommendations below focus on strengthening public sector infrastructure and the civil construction sector.

- Rebuild the private civil construction sector.
- Drive implementation of top public infrastructure programmes.
- Reduce the infrastructure maintenance backlog across the state, especially in local government.
- Increase the capacity of the state to spend infrastructure budgets effectively.
- Restore governance in top infrastructure SOEs.
- Increase opportunities for private sector investment in infrastructure.
- Eliminate the 'construction mafia'.

4. Building the asset base: People

Drive transformation through high priority education improvements including:

- Developing a standardized accountability framework in the school system.
- Raising the standard of reading comprehension and numeracy in the foundation phase.
- Strengthening monitoring of education sector trends to better understand 'what works' and how to course correct where needed.
- Ensuring all schools have internet and supportive digital services, along with investment in digitally-enabled teaching and learning practices.
- Strengthening youth pathways from learning to earning.
- Driving equitable access for poor and working-class students to higher education and training, including a review of the funding model.
- Integrating skills development (across levels) and give effect to industry growth strategies.
- Deepening incentives for vocational training.

4. Proposals to stabilise and then accelerate towards Vision 2030 - *continued*

Support movement towards responsive labour markets to enable development by:

- Making the skills system responsive to the needs of employers.
- Enhancing support for work-seekers and placement – particularly the youth.
- Developing a more harmonious industrial relations system.
- Enabling SME compliance with labour regulation.
- Expanding of social protection and work-linked entitlements to vulnerable and non-standard workers.
- Forging a 'developmental pact' with public sector trade unions that strengthens pathways into the public service and tangible service delivery outcomes for citizens.

5. Digital readiness for the future

- Identify workable operating models to achieve SA Connect objectives. Some of the recommendations involve shifting the model away from a reliance on SOE delivery to one that involves private sector participation in finance and delivery.
- Sustainable funding models are needed to deliver on SA Connect commitments to low-income individuals and households, to communities and to public institutions.
- Accelerate the digitization of government.
- Migrate and release high-demand spectrum. Evaluate whether a WOAN is the best option to achieve the desired competitive access to wholesale networks.
- Deepen the ICT skills base.
- Enable e-commerce, digital finance and digital entrepreneurship.
- Strengthen partnerships to deliver on SA Connect.

6. Dynamism in employment-creating industries

- Promote employment creating sectors
  - Make more capital available for labour-absorbing investments.
  - Stimulate foreign demand, with immediate prioritisation of tourism.
  - Ease visa requirements.
  - Mitigate threats to industry and jobs caused by governance gaps.
  - Drive construction activity.
- Expand South Africa's share of global export markets – particularly non-traditional exports and services.
  - Align public sector performance indicators more explicitly with expert performance.
  - Build capacity in critical areas that facilitate trade, such as standards-setting bodies, phytosanitary standards-setting and inspectorate, and veterinary controls.
  - Increase focus on higher value services exports such as finance, insurance, professional business services and online-retail for Africa.
  - Enhance focus on trade and investment within the region.

4. Proposals to stabilise and then accelerate towards Vision 2030 - *continued*

- Assist new exporters to get listed on foreign supplier databases.
- Deepen skills for exporting.
- Build cluster capability conducive to domestic linkages, including services.
- Deepen commercial diplomatic presence and intelligence.
- Drive infrastructure that supports trade, particularly within the region.

- Adopt policies to create a more dynamic small business sector, including:
  - Leveraging local corporate, public sector and state-owned entity procurement for localisation and SMME promotion.
  - Stabilising and deepening the approach to promoting black empowerment.
  - Prioritising the effort to revitalise township and village economies
  - Shifting focus of SMME support to promoting entrepreneurship and dynamism – particularly among black Africans – by adopting a 'life-cycle' approach.
  - Ensuring representation and reflection of small enterprises in all priority sector plans

7. Public employment

- Chart public sector bargaining to a sustainable result.
- Expand public employment programmes especially in community care and related opportunities.

8. Actions to rebuild state capacity

- Create a skills and professional public service.
- Stabilise the political-administrative interface.
- Improve the operation of the intergovernmental framework.
- Restore governance in the top infrastructure SOEs.
- Strengthen municipal management and oversight.
- Introduce transparent tender processes to reduce the potential for corruption and make decision-makers accountable.

Notes

national planning commission

Department:
The Presidency
REPUBLIC OF SOUTH AFRICA

2030 NDP

ECONOMIC PROGRESS TOWARDS THE NATIONAL DEVELOPMENT PLAN'S VISION 2030

Recommendations for Course Correction

Executive Summary | December 2020