2021 Pre-MTBPS Brief

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Executive summary

Long- and medium-term policy priorities, including proposals for post-Covid-19 recovery

The National Development Plan (NDP) remains the country's blueprint to address the triple challenges of unemployment, inequality and poverty in South Africa. The 2019-2024 Medium Term Strategic Framework (MTSF) is the 5-year implementation framework to advance the national development goals and objectives in line with the NDP, Vision 2030.

The National Development Plan; Vision 2030, aims to:

- Grow the economy at a rate of 5.4 per cent
- Reduce the unemployment rate to 6 per cent
- Increase investment as a share of GDP to 30 per cent
- Reduce inequality as measured by the Gini Coefficient to 0.60; and
- Totally eradicate poverty.

The attainment of Vision 2030 and these targets have been made more difficult by the COVID-19 crisis. In addition to the seven priorities of the 2019-2024 Medium Term Strategic Framework (MTSF), the Presidential Employment Stimulus and the Economic Reconstruction and Recovery Plan (ERRP) are two initiatives aimed at providing immediate responses to the severe economic impact of the coronavirus pandemic. The District Development Model (DDM) aims to build capacity for improving planning, budgeting, monitoring and evaluation over a longer period. The aim of enhancing this capacity is not only to improve efficiency and effectiveness, government hopes that it will also improve the implementation of government's priorities as per the long-term National Development Plan and the 2019-2024 MTSF.

Government has reported progress on all of the policies and plans to address poverty inequality and unemployment, However, in most instances government is unlikely to achieve most of the targets that have been set for 2030. Government's actions to address these shortcomings have been in terms of actions in macro - and socio economic policy areas. They have mainly been reprioritising budgets and attempting to speed up processes through s addressing governance matters, including attempts at restoring trust, building capacity, providing quality health care and improving social services, including housing, water and electricity. All of these interventions are based on measures to implement efficient and effective governance principles. Oversight of these interventions will be crucial and there should be consequences for underperformance or non-compliance.

Specific examples of priority funding are conditional allocations from the national government's share of revenue to fund or supplement programmes or functions provided by provincial and local governments. The PBO's analysis of the performance of these conditional grants in the 2019/20 financial year showed shortcomings in terms of the quality and reporting on performance information as well as over or under spending, which was not in line with outputs delivered.

Monitoring and evaluation of the implementation and maintenance of efficient, effective and transparent systems are one of the most important functions of oversight bodies to ensure service delivery and the efficient use of resources.

Macroeconomic overview: Global economy and South Africa

Global risks and prospects

The global economy faces several serious risks over the long-term as well as short and medium-term risks, these include environmental risks, geopolitical risks, increased instability caused by high levels of unemployment, poverty and inequality, other economic risks, risks of financial crises, and the risk of disasters such as the Covid-19 pandemic and others. The current short and medium term risks are related to the ongoing Covid-19 pandemic and the complex process of dealing with the pandemic while implementing measures to recover and rebuild from the damage caused by the interventions to control the pandemic.

The pandemic has heightened awareness of the need to build resilience within society and highlighted the role of fiscal policy choices that have exacerbated poverty and inequality. This situation has caused economists and policymakers worldwide to rethink their priorities and their approach to policy. There is broad acceptance across economic schools of thought that the focus of governments should not only be on economic growth rates. The interlinked concerns for wellbeing of all people on the planet, including their health, employment, quality of life and happiness, and the environment, that sustains us, should be at the center of economic policymaking, including fiscal policy.

The IMF's October 2021 *World Economic Outlook* (WEO) warns that "The dangerous divergence in economic prospects across countries remains a major concern". Developed countries have implemented massive stimulus programmes to respond to the pandemic but emerging and developing countries have generally spent much less on stimulus. The marked difference in vaccination rates is also an important reason for the economic recovery in developed countries and the poor performance in the developing world. According to the International Labour Organisation (ILO), the loss of working hours globally was six times higher than during the global financial crisis (GFC) of 2008. ILO estimate that working hours may have declined by 14 per cent between the final quarter of 2019 and the second quarter of 2020 and that this loss is the equivalent of approximately 400 million full-time jobs, if one assumes a 48-hour working week. The ILO further says that the global labour market situation has improved since April 2021 but that remains substantially below pre-pandemic levels.

South Africa risks and prospects

South Africa is particularly vulnerable to the global risks discussed above. While progress has been made with regard to improving access to basic services and social grants, most of the goals of the NDP and MTSF are unlikely to be met. The resilience of society in South Africa is low and prospects for inclusive growth unlikely because the country is plagued by such extreme levels of unemployment and inequality. The high death toll that Covid-19 has wrought on South Africa is can be argued to be an example of low resilience to crises. For example, the official death toll from Covid-19 in South Africa at the end of October was 89 163. A report of The South African Medical Research Council (MRC) by Moultrie et al (2021) estimate that "... nationally 85-95% of the excess natural deaths are attributable to COVID-19" (p. 1).[1] The

[1]Tom Moultrie, Rob Dorrington, Ria Laubscher, Pam Groenewald, Debbie Bradshaw (2021), "Correlation of excess natural deaths with other measures of the covid-19 pandemic in South Africa", Burden of Disease Research Unit, South African Medical Research Council, 23 February 2021

SAMRC estimates that the number of excess deaths during the pandemic in South Africa from 3 May 2020 to 23 October 2021 was 267 476 (almost three times the official figure). Therefore, the goal of addressing unemployment and inequality should be at the center of government's policymaking and budgeting. Fiscal policy should support these goals and the instruments and measures of deficits and debt levels should not be mistaken for economic and budgeting goals.

In addition to unemployment and inequality, other macroeconomic variables in South Africa also point to ongoing difficulties in the economy. Even in the period before the pandemic – particularly during the period of fiscal consolidation – GDP per capita and investment was in decline. Average GDP per capita for the 8 years, from 2012 to 2019 was -0.1 per cent and the growth rate of real gross fixed capital formation was also -0.1 per cent. The pandemic caused GDP per capital growth to collapse to –7.7 per cent and investment growth to -14.9 per cent in 2020. The government has not provided evidence that its plans are adequate to deal with the extraordinary levels of unemployment and inequality in South Africa. There is further lack of evidence that the supply-side structural reforms envisaged by government will be able to adequately improve business confidence due to the perceived instability associated with the extraordinary levels of inequality in South Africa. The July 2021social unrest in Gauteng and KwaZulu-Natal, and the billions of rands in damage incurred during those few days, provides an important indication of the damage that years of deprivation and the pandemic have rendered to the social fabric. Further, if the focus of government policy is economic growth and it believes that economic growth is a prerequisite for greater fiscal stability and the ability to make greater efforts to reduce unemployment, poverty and inequality then the question one has to ask is where will growth come from. One also has to ask what kind of growth it will be. National income is unlikely to see growth from government spending because of continued fiscal consolidation, nor from increased investment if the decade before the pandemic is taken into account and affluent households with access to credit are unlikely to increase consumption much. Household consumption has been over 60 per cent of GDP over the past two decades. For household consumption to enable GDP growth, government will have to provide larger social grants to poor households. During 2021, higher prices and demand for mining commodities have increased the trade balance and made a positive contribution to GDP. However, growth from exporting mining goods is uncertain and cannot be depended upon over time; nor is it necessarily the kind of growth that will support the long-term productivity performance of the economy and employment creation. Therefore, increasing grants to poor households, including consideration of a basic income grant (BIG) could help government both to address poverty, inequality and low resilience and simultaneously increase aggregate demand and higher, inclusive economic growth.

Fiscal framework

Since the tabling of the 2020 Medium Term Budget Policy Statement (MTBPS) and the 2021 Budget Review, the performance and outlook for the South African and world economy has improved. Stronger-than-expected economic performance over 2021 to date has also resulted in strong revenue performance over the current fiscal year. Based on revenue collection to date, the PBO expects a smaller budget deficit and improved debt outlook compared with the projections from the 2021 Budget Review. It should, however, be noted that the stronger-than-expected economic and attendant revenue performance for the current financial year reflects a temporary and cyclical increase in growth, and not a sustained structural improvement in the South African economy.

Revenue collection and provincial and local government overview

Relative to the 2020/21 financial year, national tax revenue collection has improved for all tax instruments in the first six months of the 2021/22 financial year. Provinces have also improved their revenue collection in the 2021/22 financial year. By the end of September 2021, provinces had on average spent about 50 per cent of their current expenditure budgets.

The main sources of operating revenue that funded operating expenditure of local government in the 2020/21 financial year was from property rates and services charges. The main operating expenditure items are for employee related costs, and bulk purchases. The main source of their capital in the 2020/21 financial year was a transfer from the national government and other sources were mostly from internally generated revenue and borrowing.

Can government afford a Basic Income grant?

The ravages of the Covid-19 pandemic, which was disproportionately borne by the poorest households, as well as the unrest in July 2021 provided painful lessons of the frailty of the South African social fabric and a warning of how quickly billions of rands of damage can be incurred. Therefore, policymakers have to consider the question whether government can afford not to provide a BIG because it would make the social security system more comprehensive and supports inclusive growth and greater resiliency and stability in society. There are great costs to society from the extraordinary levels of unemployment and inequality in South Africa, which are not reflected in GDP and other economic variables. These cost are disproportionately borne by the poorest in society, and manifest in the form of poor health outcomes, gender based violence, poor education outcomes and regular, violent service delivery protests. They severely constrain the economic performance of the economy, business confidence and undermine the attempts at structural reforms. Evidence shows that instead of dependency, social grants can actually help the impoverished and unemployed gain greater access to the job market and increase productivity of households of recipients.

A BIG could be paid for by higher taxes and more government borrowing. The long-term commitment and experience of redistribution through welfare and social security in Western Europe and Japan, which are amongst the most productive and competitive economies in the world poses a large challenge to the South African government's contention that increasing taxes in South Africa will make it uncompetitive. The affordability of borrowing to support a BIG should take into account measures by which government can increase economic growth and reduce interest rates. A BIG could stimulate aggregate demand and over time go a long way to ending the poor economic performance in the economy.

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1. Purpose

The purpose of this brief is to assist members in their preparations before the Medium Term Budget Policy Statement. In particular, this brief appraises members of parliament about the economic, societal and public finance context of the 2021 MTBPS speech.

2. Introduction

South Africa has made some progress towards achieving the goals set out in the National Development Plan through the implementation of the 2019-2024 Medium Term Strategic Framework. However, there were many areas where even before the Covid-19 pandemic it was clear that these goals would not be met. The government committed itself to a series of supply-side structural reforms that it hopes would improve the environment and lower the cost for businesses and lead to economic growth and investment. The problems on the demand-side of the economy, particularly declining GDP per capita and the consequences of growing unemployment and reversals in poverty reduction were not adequately addressed.

The Bi-Annual MTSF report (compiled by the Department of Planning, Monitoring and Evaluation) at the end of March 2021 examines progress on the targets set for the 2019-2024 MTSF. Government has struggled to bring corruption under control and public trust remains very low. Unemployment has increased and investment has declined. While enrolments in basic education has increased, performance in the schooling system has been below the targets set. The struggles in the health system have persisted and the overall health of the population has not improved as much as targeted. While there have been difficulties, the social grant system has performed impressively to reach an estimated12 million beneficiaries every month. However, millions of adults affected by the extremely high level of structural unemployment in the economy are not eligible for ongoing social protection. Much remains to be done with regard to human settlements as many South Africans remain living in informal settlements and land redistribution has been very low. These difficulties have caused social cohesion to remain low.

Poor performance on these targets before the pandemic and the extreme levels of unemployment and inequality negatively affected the resilience of millions of South African households to the pandemic. It also hurt businesses, particularly small, medium and micro enterprises and businesses in rural areas and townships. The pandemic had a large negative impact on all of these targets, even though, the government put in place measures to support the economy during 2020. The government has also put in place the Economic Reconstruction and Recovery Programme (ERRP), which targets and hopes to accelerate aspects of the structural reforms, including macroeconomic interventions to reduce debt levels, increasing infrastructure investment and pursuing energy security, reindustrialisation through localisation and export promotion, and supporting the tourism industry. The ERRP also includes measures to increase gender equality and the involvement of women and youth in the economy, mass public employment measures, improving food security and green economy interventions. The District Development Models have been introduced with the of cooperation across spheres of government and inclusion of local communities and stakeholder to enhance district level capacity for improving planning, budgeting, monitoring and evaluation. Declining budgets due to declining revenue collection rates and transfers from other spheres of government to municipalities raise concerns about the implementation of the DDM. The impact of improved national revenue collection during 2021 has yet to be seen.

The uneven impact of the ongoing pandemic has occurred across countries and within countries. The poorest have been worst affected and their economic situation has worsened. Developed countries economies have benefited from massive and ongoing fiscal stimuluses, substantially increased levels of quantitative easing and implemented large vaccination programmes that have expanded to children, and even booster shots for adults. Developing countries economic growth rates and employment levels are yet to return to pre-pandemic levels. They have not been able to provide adequate levels of fiscal stimulus and vaccinations across most are still very low. As a result, inequality levels have increased across the globe and also within developing countries. The concern with risks and resilience to these risks has heightened as a result of the damage caused by the pandemic and the growth of fires and floods related to environment risks. There have also been severe supply-chain disruptions around the globe that raise the fear of economic and financial crises. At the same time, several *coups d'états* and growing tensions amongst major powers increase geopolitical risks.

The high levels of unemployment, poverty and inequality within South Africa make the country particularly susceptible to many of these risks, increase instability and negatively affect economic growth and investment prospects. The scale of these problems also poses serious challenges to the success of the structural reforms and the ERRP. Continued fiscal consolidation and low levels of aggregate demand will continue to constrain economic growth and investment even where cycles of growing prices for mining commodities occasionally increase growth.

The increase in exports of mining commodities in 2021 has led to strong revenue performance over the current fiscal year. Based on revenue collection to date, the PBO expects a smaller budget deficit and improved debt outlook compared with the projections from the 2021 Budget Review. However, this improvement is temporary based on the cyclical nature of demand for commodities. An important intervention that could support supply-side structural reforms, boost the ERRP and at the same time promote increased stability in household finances of the poor is a basic income grant. The BIG will reduce poverty and cut into South Africa's extraordinarily high levels of inequality to support an increase in social, economic and political stability in South Africa. At the same time, it is very likely to boost aggregate demand in the economy and help improve the environment for businesses and their profitability.

3. Policy priorities and progress on post Covid-19 recovery proposals

The National Development Plan (NDP) remains South Africa's blueprint to address the triple challenges of unemployment, inequality and poverty. The 2019-2024 Medium Term Strategic Framework (MTSF) is the organising framework to advance the national development goals and objectives in line with the NDP Vision 2030.

The National Development Plan, Vision 2030, aims to:

- Grow the economy at a rate of 5.4 per cent;
- Reduce the unemployment rate to 6 per cent;
- Increase investment as a share of GDP to 30 per cent;
- Reduce inequality as measured by the Gini Coefficient to 0.60; and

- Totally eradicate poverty

The attainment of Vision 2030 and these targets have been made harder by the COVID-19 crisis. In addition to the seven priorities of the 2019-2024 MTSF, the Presidential Employment Stimulus and the Economic Reconstruction and Recovery Plan (ERRP), there are two initiatives aimed at providing immediate responses to the severe economic impact of the Covid-19 pandemic. The District Development Model (DDM) involves the building of capacity for improving planning, budgeting, monitoring and evaluation over a longer period. The aim of enhancing this capacity is not only to improve efficiency and effectiveness; government also hopes that it will improve the implementation of government's priorities as per the long-term National Development Plan and the 2019-2024 Medium Term Strategic Framework.

3.1. Progress on the Economic Reconstruction and Recovery Plan (ERRP)

The ERRP aims to ensure a swift and lasting economic recovery, with measures to limit the immediate impact of the pandemic on vulnerable workers and households, and to revive economic growth in the short-and medium-term. Progress, as reported by the President in the National Council of Provinces (June 2021), is:

- An Infrastructure Fund has been established, and its investment committee constituted. A total of R18 billion has been allocated to the Infrastructure Fund over the next three years for blended finance arrangements that will leverage private sector funding.
- A total of 1 200 MW of new energy generation capacity has been connected to the grid from projects approved through Bid Window 4 of the Renewable Energy Independent Power Producers (IPP) Programme. A request for proposals has been issued for 2 600 MW of power from wind and solar PV projects through Bid Window 5. Eleven preferred bidders have been approved as part of the emergency power procurement programme, which will together deliver nearly 2 000 MW of power to the grid over the next 18 months. Schedule 2 of the Electricity Regulation Act will be amended to increase the licensing threshold for embedded generation projects from 1 MW to 100 MW.
- Four sector Masterplans are currently in implementation in the automotive, sugar, poultry, and clothing, textiles, footwear and leather sectors. This approach, which relies on close collaboration with stakeholders to develop a tailored action plan for high-growth sectors, is reported to be already demonstrating results.
- According to data released by the South African Revenue Service, South Africa experienced a cumulative trade surplus of close to R150 billion for the first four months of this year. This reflects an increase in exports to the rest of the world, driven largely by the increased prices for minerals.

3.2. Progress on the 2019-2024 Medium Term Strategic Framework

The 2019-2024 Medium-Term Strategic Framework (MTSF), is government's five-year programme for the implementation of the NDP 2030 and is anchored on seven priorities:

- Priority 1: Building a capable, ethical and developmental state;
- Priority 2: Economic transformation and job creation;
- Priority 3: Education, skills and health;
- Priority 4: Consolidating the social wage through reliable and quality basic services;

- Priority 5: Spatial integration, human settlements and local government;
- Priority 6: Social cohesion and safe communities; and
- Priority 7: A better Africa and World

The Bi-Annual MTSF report (compiled by the Department of Planning, Monitoring and Evaluation) at the end of March 2021 reflects progress on the targets set for the seven priorities over the 2019-2024 MTSF. The details, which also provide the reasons for slow progress in specific sectors, are in Annexure A. The following is an overview of performance in specific sectors as per the Bi-Annual MTSF report;

a. Public Sector

According to public governance literature there are many measures to assess the country' progress towards a capable, ethical and developmental state, and the level of trust in government institutions by its citizens is one of such measure. An essential driver of trust is the ability of government to deliver to citizens the agreed services at the quality and level set out in the service standards.

- The DPME Bi-Annual MTSF report shows that, public trust and confidence in local government to deliver basic services has decreased from 52 per cent in 2018 to 49 per cent in 2019. While the country has experienced a decline in the number of service delivery protests from 237 in 2018 to 218 in 2019, this number is still very high. The regular occurrence of service delivery protests shows that many citizens are unhappy with regard to delivery of basic services. Their patience has worn thin and they feel enough distrust in the competence of government to address their needs to cause them to resort to protests.
- According to the DPME the Edelman Trust Barometer, South Africa showed a seven-percentage point increase from 19 per cent in 2020 to 27 per cent in 2021. This increase may largely be attributed to the efforts carried out by the state to fight the pandemic to save lives and to fend off hunger and loss of livelihoods through, amongst others, the Social Relief of Distress grant and the Temporary Employer/Employee Relief Schemes. Notwithstanding this increase, South Africa remains the lowest performing country in terms of this data set.
- In terms of corruption, South Africa scored 44/100 and was ranked 69/180 (an improvement of one place from the 2019 baselines of 43/100 score and 70/180) in the 2020 Transparency International ranking. The 2024 target is to reach a score of 68/100.
- According to DPME Bi-Annual MTSF, out of a total of 9 477 Senior Managers in the Public Service, 3301(almost 35%) do not seem to have the required qualifications. While this may not be a true reflection of the current status as most departments do not capture the qualification on PERSAL, it is of concern. The situation is much more serious at the municipal level where between 50 to 60 per cent of officials are reported to not have the required skills and competence to do their jobs.

b. The economy

- The 2024 MTSF target is to reduce unemployment to 20-24 per cent with government facilitating the creation of 2 million new jobs.
- The 2024 MTSF target for Gross fixed capital formation is 23 per cent of GDP

Section 4 of this brief provide detail analysis of the macroeconomic overview taking into account both global and domestic situations.

According to the Bi-Annual MTSF report, National Treasury's payment information from the Basic Accounting System (BAS) shows that the actual percentage spent by government (excluding public entities and municipalities) on designated groups that are registered on the Central Supplier Database (CSD) for the past financial year is as follows:

- 13.49 per cent of total to women owned suppliers against a target of 40 per cent
- 5.58 per cent to youth owned suppliers against a target of 30 per cent
- 0.24 per cent companies owned by persons with disability against a target of 7 per cent

c. Education and skills

- Approximately 3 197 822 children, between 0 and 4 years of age, have accessed ECD services by March 2021, almost reaching the target of 3.6 million children accessing ECD services by 2024
- For children aged 5 to 6 years of age attending school or ECD, enrolments had grown to 89.2 per cent for 5-year old from an 88 per cent baseline in 2017 and 96.3 per cent for 6-year old children from a 96 per cent baseline in 2017
- The 2020 Trends in International Mathematics and Science Study (TIMSS) results show that grade 5 scores achieved are 374 and 324 for maths and science respectively. Maths results show a slight drop from 376 in 2015. Both results are below the 2023 target of 426, which indicates that the MTSF Grade 5 TIMSS mathematics score target of 426 in 2023 does not seem to be attainable. (The advanced international benchmark is 625; while the low international benchmark is 400)
- The proxy for quality education is tracked through the number of learners achieving 60 per cent and above in Maths and Science in grade 12. The 2020 results reflected rates of only 13.2 per cent and 15.3 per cent respectively in the two subjects

Disruptions in academic programmes as result of the Covid-19 pandemic have caused unprecedented destruction in the education system. According to the DPME, research has shown that it may take a number of years to recover from the resultant loss of learning. According to the NIDS-CRAM Wave 4 report, in 2020 learning losses in no-fee primary schools ranged between 50 per cent and 80 per cent when compared to 2019. The report further notes that with concerted effort it will take around three years to recover lost learning. It further cautions that, if the country chooses not to do anything drastically, recovery will be achieved only in 2032.

d. Health

The MTSF bi-annual report shows that South Africa's Life Expectancy (LE) at birth in 2020 was 62.5 years for males, 68.5 years for females and the average LE was 65.5 years (StatsSA data). This average LE rate is an improvement from the 2019 baseline of 64.6 per cent. The MTSF target for LE is to achieve an average of at least 70 years by 2030.

Child indicators show that in 2020, South African's infant Mortality Rate (IMR) was estimated (by StatsSA) at 23.6 deaths per 1 000 live births and the under-5 mortality rate (U5MR) at 34.1

deaths per 1 000 live births compared to 2019, when the country's IMR was 22.1 per 1 000 and the U5MR was 28.5 per 1 000. The MTSF target is that the country's IMR must decrease to less than 20 deaths per 1 000 live births by 2024 and the under-5 mortality rate to less than 25 deaths per 1 000 live births by 2024.

The child under-5 severe acute malnutrition case fatality rate was 7.1 per cent for the period October 2020 to March 2021, and 7.2 per cent for the year 2020/21. The MTSF target is <5 per cent by 2024. This rate of malnutrition is linked to high poverty and inequality.

e. Social Protection

According to the MTSF bi-annual report over 18 million social grants are paid to approximately 12 million social grants beneficiaries (adult recipients) every month. As of March 2021 about 87 per cent of eligible children received the Child Support Grant. About 94 per cent of persons with disability received the disability grant in the financial year 2020/21. The distribution of social assistance, including the Social Relief of Distress (SRD) grant, is targeted and meant to relieve extreme poverty and vulnerability. However, millions of adults affected by the extremely high level of structural unemployment in the economy are not eligible for ongoing social protection.

f. Assets and access

According to the MTSF bi-annual report, only about 10 per cent of land has been transferred to black owners since 1994, as programmes of restitution, redistribution and policies to improve security and fairness of tenure have floundered, due to lack of funds and high levels of corruption and inefficiencies.

The Department of Human Settlements' Housing Needs database shows that over 1.7 million households are located in informal settlements and the slow pace of upgrading of these settlements is prolonging the harsh living conditions experienced by these communities and entrenching their vulnerability.

Human settlement planning and housing provision have a key role to play in addressing poverty, creating employment, improving socio-economic conditions and creating sustainable futures. Spatially, human settlements development is an enabler for economic empowerment (ensuring access to jobs or business opportunities), greater social cohesion and reducing income inequality, not excluding its contribution to stimulating the construction sector. (Human settlements programmes contribute approximately 7% to the construction industry and about 5% in the total employment).

It is also expected that the District Development Model would guide and support strategic interventions in the overall pursuit of national priorities as well as urgent actions at a local level. It is expected that the District Development Model will take into account specific local level endowments, vulnerabilities and opportunities to address social and economic development needs. Similarly, and considering that human settlements can be a powerful catalyst for spatial integration, the designation of 136 Priority Human Settlements and Housing Development Areas is an important step towards overcoming the problem that housing developments and settlements' planning could reinforce and perpetuate apartheid spatial patterns. The key issue to resolve is how these separate initiatives come together and coalesce around a coherent spatial and territorial policy and implementation framework.

g. Social Cohesion

The MTSF Bi-annual report shows that research by the Mapungubwe Institute for Strategic Reflection (MISTRA) informing the Indlulamithi South Africa Scenarios 2030, suggests that inequality and poverty might be the most significant reason for a lack of social cohesion. Inequality and poverty fuel social and political unrest. For many analysts, South Africa will remain the global leader in terms of income inequality unless spatial inequalities, weak public sector administrative and governance capacity and an education system, which prevents upward mobility by denying the poor access to higher skilled, and better paid, jobs, are thoroughly addressed.

The UNDP Human Development Report (2020) shows that, South Africa's Inequality Adjusted Human Development Index, (based on an income differential data collection tool for designated employers) regressed by 25.6 per cent to 0.468 from a baseline of 0.629. The 2019-24 MTSF target is to improve this Index by 10 per cent from 0.629 to 0.69 by 2024.

The cumulative effect of the above is shown in the evidence from the Brand South Africa, National Omnibus Survey, 2020. The survey shows that the Social Cohesion Index has declined sharply from 80 per cent in 2019 to 62.7 per cent in 2020 and that a lower percentage of citizens show a strong devotion to the country than in 2019 (from 82% in 2019 to 68% in 2020)[2].

h. Presidential Employment Stimulus Programme

The Presidential Employment Stimulus was developed in response to the severe economic impact of the coronavirus pandemic in 2020/21. The stimulus package is part of the state's Economic Reconstruction and Recovery Plan, and is a response to the Covid-19 pandemic and its effects on unemployment and the economy. The programme aims to create new jobs, provide support for livelihoods and protect existing jobs in vulnerable sectors.

According to the Presidency a total of 532 180 people had directly benefited from the stimulus, including 422 786 jobs created or retained and 109 394 livelihoods supported by the end of March 2021. Livelihoods support includes, for example, production input vouchers for farmers, awards to the creative sector and income support for the Early Childhood Development sector. A further 161 972 opportunities are still being processed as part of Phase 1 of the stimulus, bringing the total number of opportunities supported to 694 152.

A further provisional allocation of R11 billion has been made in the 2021 Budget for 2021/22 and R1 billion in the 2022/23 and 2023/24 financial years. These provisional allocations will extend the stimulus into a second phase. An intensive process is currently underway to allocate these funds, that will be appropriated during the 2021 adjustments budget process, to programmes that will have the greatest impact in creating jobs and supporting livelihoods, including through the continuation of several existing programmes.

Phase 2 will support the Presidential Youth Employment Intervention, with R838 million targeted for appropriation for the revitalised National Youth Service. Phase 2 also includes the establishment of a Social Employment Fund that will support work for the common good of

[2] Bi-Annual MTSF report (compiled by the Department of Planning, Monitoring and Evaluation) as at end March 2021

communities. This work includes sectors such as urban agriculture, public art, informal settlement upgrading and community safety.

Table 1: Provisional allocation in the 2021 Budget to be appropriated to votes:

R million	2021/22	2022/23	2023/24	MTEF total
2021 Budget	**11 000**	**1 000**	**1 000**	**13 000**
Public employment initiative	11 000	–	–	11 000
South African Revenue Service	–	1 000	1 000	2 000
Total	**16 645**	**32 093**	**33 219**	**81 958**

1. Includes provisional allocation for the Municipal Demarcation Board

Source: National Treasury

3.3. Progress on the District Development Model

The Intergovernmental Relations (IGR) mechanism of the DDM aims to enable all three spheres of government to work together, with communities and stakeholders, to plan, budget and implement the objectives of government. These objectives generally involve the building of capacity for improving planning, budgeting, monitoring and evaluation. Improving this capacity could not only improve efficiency and effectiveness, but may also ensure the implementation of government's priorities in the long-term National Development Plan and the 2019-2024 Medium Term Strategic Framework.

Progress with the implementation of the DDM as at 23 February 2021:

- The development of a framework to incorporate the integrated concepts into the planning, budgeting and reporting cycle.
- One Plans (including diagnostic study, trend and scenario analysis, strategies, actions and outputs with 5-year targets) developed for 3 pilot district/metro spaces. (52 District Profiles were completed covering situational analysis)
- Existing programmes and budgets are utilised to address immediate interventions.
- Functioning hubs and coordinating committees established in three pilots. (3 DDM Pilot Hubs launched and resourced National Hub as well as eThekwini, Waterberg & OR Tambo)
- Champions and District Forums in all districts (Ministers, DMs & MECs deployed; 34 districts visited by National Champions; HODs/CoGTA DDGs designated provinces and districts; 39 District Forums convened and operational; Guidelines for Champions developed)
- IMS core module developed. (DDM Tools & Barometer Frameworks, Guidelines and Circulars developed and issued; Workshops undertaken)
- IGRF Act regulations drafted and promulgated to give effect to DDM institutionalisation.

Declining budgets due to declining revenue collection rates and transfers from other spheres of government to municipalities raise concerns about the implementation of the DDM. Public Enterprises; Mineral Resources and Energy; Tourism; Trade, Industry and Competition; and Water and Sanitation appropriations were reduced from the 2020/21 appropriations. The largest increases of between R1.7 billion and R7.5 billion are reflected in Cooperative Governance, Basic Education, Health, Social Development and Transport.

4. Macroeconomic overview: Global economy and South Africa

4.1. Global risks and prospects

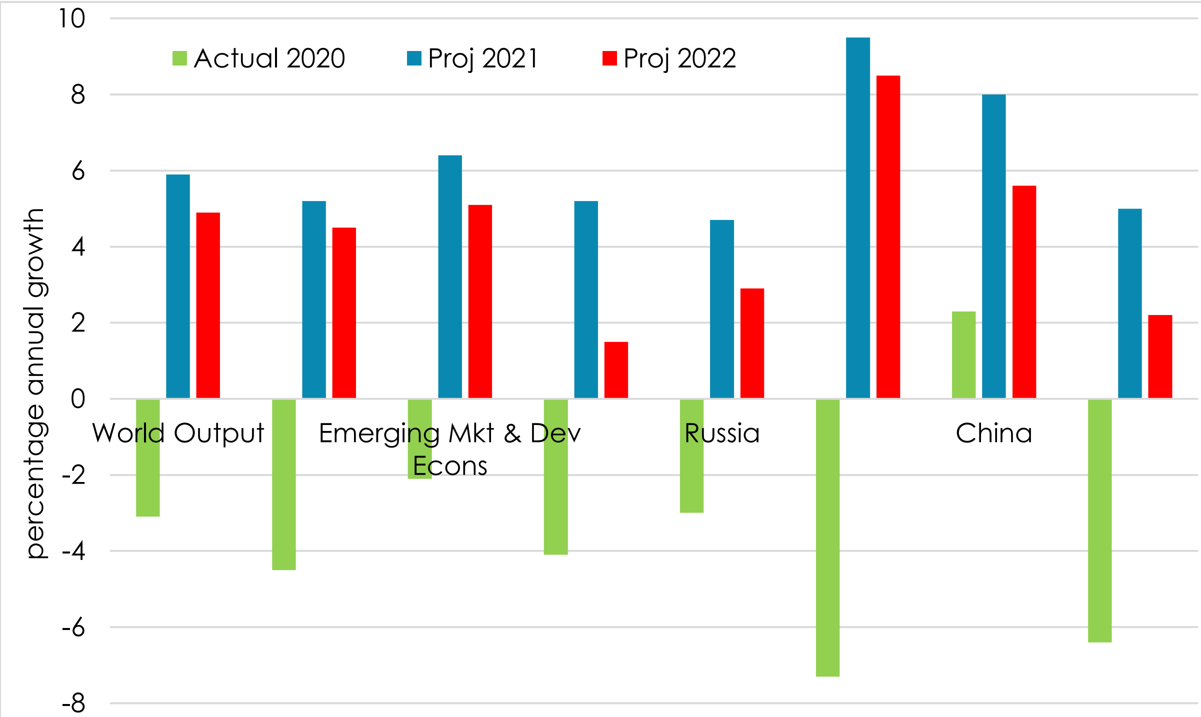
The global economy faces several serious risks over the long-term as well as short and medium-term risks. The current short and medium term risks are related to the ongoing Covid-19 pandemic and the complex process of dealing with the pandemic while implementing measures to recover and rebuild from the damage caused by the pandemic. However, any of the risks listed below could materialise or worsen in the short-term. Some of these risks may be due to natural disasters but most of them are the result of human activity. The impact of these global risks is ongoing and cumulative but include the possibility of sudden, highly damaging disastrous and destabilising events. These risks include:

- Environmental risks that cause increasing damage and disasters associated with environmental degradation and climate change caused by human economic activity. Risks include worsening episodes of drought, flooding, and fires, and damage from excessive chemicals and plastics in the environment and food chain;
- The ongoing pandemic and whether it will continue much longer; and the possibility of future pandemics remains a concern. Some of these health risks, including the Covid-19 pandemic, are related to zoonotic diseases that increase in prevalence because of inadequate regulations of mass industrial farming of animals and also encroachment of humans into environmental spaces of wild animals;
- High levels of unemployment, poverty and inequality across the globe and within countries remains a serious risk to social, economic and political stability;
- Geopolitical risks as a result of ongoing political instability within countries. These events have the potential to affect stability in other countries. There are current examples of these events, including attempts at insurrection, coup de tats, undermining of democratic institutions, armed conflicts and heightened tensions between countries, including major global powers.
- The possibility of financial crisis and contagion associated with inadequate regulation of financial activities within countries and across the globe, including cross-border financial flows. These risks are related to increasing levels of financial speculation, growth of shadow financial activities, and growing systemic risks within countries and global financial markets; and
- Economic risks as a result of the high level of integration of trade and financial markets and the global breadth of production value chains means that disruptions to production in one country can have global economic consequences.

The interrelatedness of these risks has been well illustrated by the Covid-19 pandemic. People around the world have been forced to recognize that the health and welfare of their families are affected by how the pandemic is tackled in other countries and the choices not only of their neighbours but people who live on the other side of the world. The pandemic has also affected production and logistics and transport networks, which have disrupted global value chains. The shortage of certain key inputs produced in a few countries has caused economic production to falter across the world and has increased geopolitical tensions and heightened the risks of financial instability and crises.

The pandemic has also heightened awareness of resilience within society and the role of fiscal policy choices that have inadequately addressed and exacerbated the impact of poverty and inequality through inadequate provision of housing, health care, education, and other basic services and social security grants. Not only have the poorest in society been the worst affected by the pandemic and its economic costs but the lack of resilience of the poorest in the face of the pandemic has meant that they will struggle to recover and rebuild. At the same time, the incomes and wealth of the richest across the globe and within countries has increased. As a result, the levels of trust in society not only of government and democratic institutions but also of corporations and their leaders, particularly billionaires, has declined. The sense that political and economic systems are unfair and that the rule of law is discriminately applied to business and political elites has grown. The interrelated social, economic and political instability associated with inequality and distrust has increased and the trauma of the pandemic on recovering stability and trust will persist even as economic growth rates recover.

Figure 1: IMF growth projections for 2021 and 2022 (percentages)



Source: IMF, 2021 World Economic Outlook

These risks have caused economists and policymakers to rethink their priorities and their approach to policy. Important indications of this change is seen in the focus of the United Nation agencies on the Sustainable Development Goals and the title of the World Bank's 2021 Annual Report: *From Crisis to Green, Resilient, Inclusive Economy*. There is broad acceptance across economic schools of thought that the focus of governments should not be only on economic growth rates. The interlinked concerns for wellbeing of all people on the planet, including their health, employment, quality of life and happiness, and the environment that sustains us should be at the center of economic policymaking, including fiscal policy. However, many governments' and international economic and finance agencies' policy approach to fiscal policy and budgeting still treats gross domestic product (GDP), and its growth rate, as a central concern. They voice concern about the risks mentioned above but inadequately take them into account because of their entrenched GDP-centric methodologies. And, even though, there is widespread agreement and a clear understanding that focusing on GDP growth in is an inadequate way of understanding what is happening in the economy and its potential and risks.

The economic growth of countries will be affected by their structure. The United Nations *World Economic Situations and Prospects* (WESP) *Mid-2021 Update* said that they expect that countries dependent on tourism will continue to perform poorly because of the pandemic. Commodity dependent countries have benefited from increased demand from China and shortages that may have arisen because of supply disruptions caused by the pandemic. The WESP updates says that, even though there have been rising commodity prices, the recovery in commodity dependent countries will not be as strong as those of countries with larger manufacturing sectors. The WESP update also says that the size of the fiscal stimulus in countries will affect the size of their recoveries. They point out that developed countries have had massive fiscal stimuluses while stimuluses in emerging and developing countries was significantly smaller on average.

The IMF's October 2021 *World Economic Outlook* (WEO) warns that "The dangerous divergence in economic prospects across countries remains a major concern". They agree with the UN's view that different policy responses affect growth prospects and also point to the marked difference in vaccination rates between developed and the emerging and developing economies. The 2021 WEO says, "While almost 60 per cent of the population in advanced economies are fully vaccinated and some are now receiving booster shots, about 96 percent of the population in low-income countries remain unvaccinated." They expect that developed countries' aggregate output will recover to their pre-pandemic levels during 2022 and that in 2024 their economic growth will be 0.9 per cent higher than it was before the pandemic. Their expectations about aggregate output of emerging and developing economies is much more pessimistic. They forecast that the average growth in output of these countries will be 5.5 per cent below pre-pandemic levels in 2024. They expect this poor aggregate performance to be an impediment to these countries improving their living standards. The WEO also mentions increased government debt levels incurred by these countries to respond to the pandemic and environmental issues as serious risks.

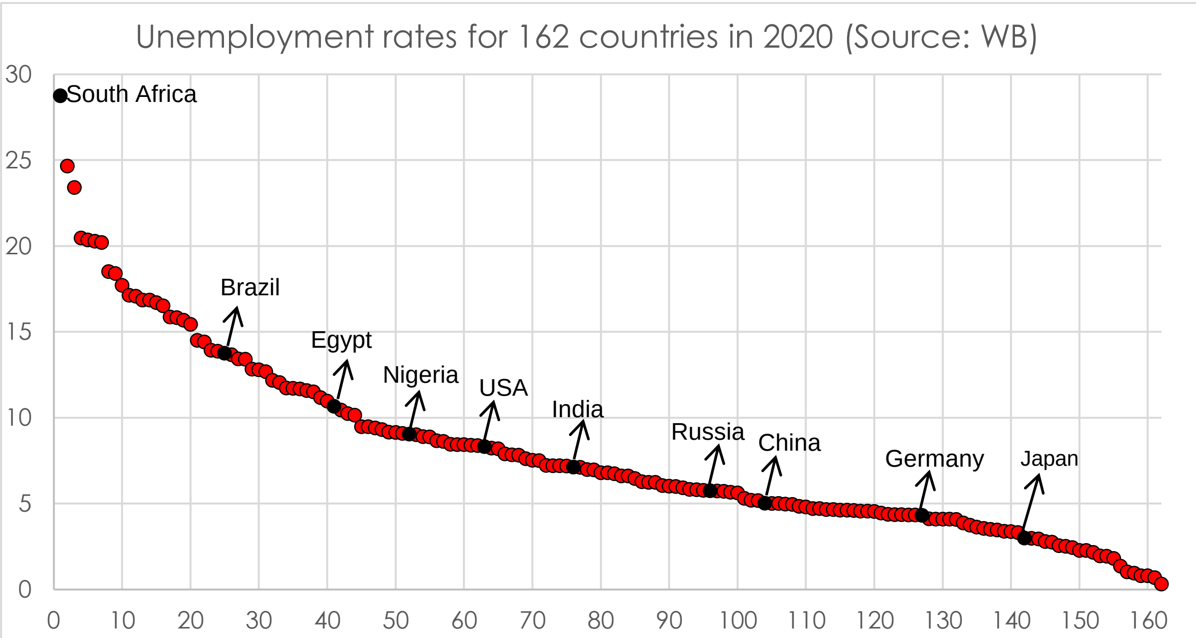
The ILO explains the devastation to global labour markets during 2020. They say that their global projections "… suggest that working hours may have declined by 14 per cent% between the final quarter of 2019 and the second quarter of 2020". They estimate that this loss is the equivalent of approximately 400 million full-time jobs, if one assumes a 48-hour working week. They add that the decline in labour market participation has caused reported unemployment rates in countries to not reflect the true impact on labour markets. They also point out that even workers who remained employed had lower incomes because they were forced to accept shorter hours and wages. They say that many of the sectors most affected were sectors where more women were employed. The lowest paid workers and workers in the informal sector were most affected by job losses and loss of incomes and were more likely to be exposed to Covid-19.

According to the ILO, the loss of working hours globally was much higher than during the global financial crisis (GFC) of 2008. They estimate it was greater than 6 times higher. They do find that the global labour market situation has improved since April 2021 but that it remains substantially below pre-pandemic levels. All in all, the pandemic has highlighted the lack of resilience to crises, particularly of poor people and poorer countries. It has caused global unemployment, poverty and inequality to worsen and has reduced resilience to crises in a world where risks to several types of crises are high.

4.2. South Africa's macroeconomic situation

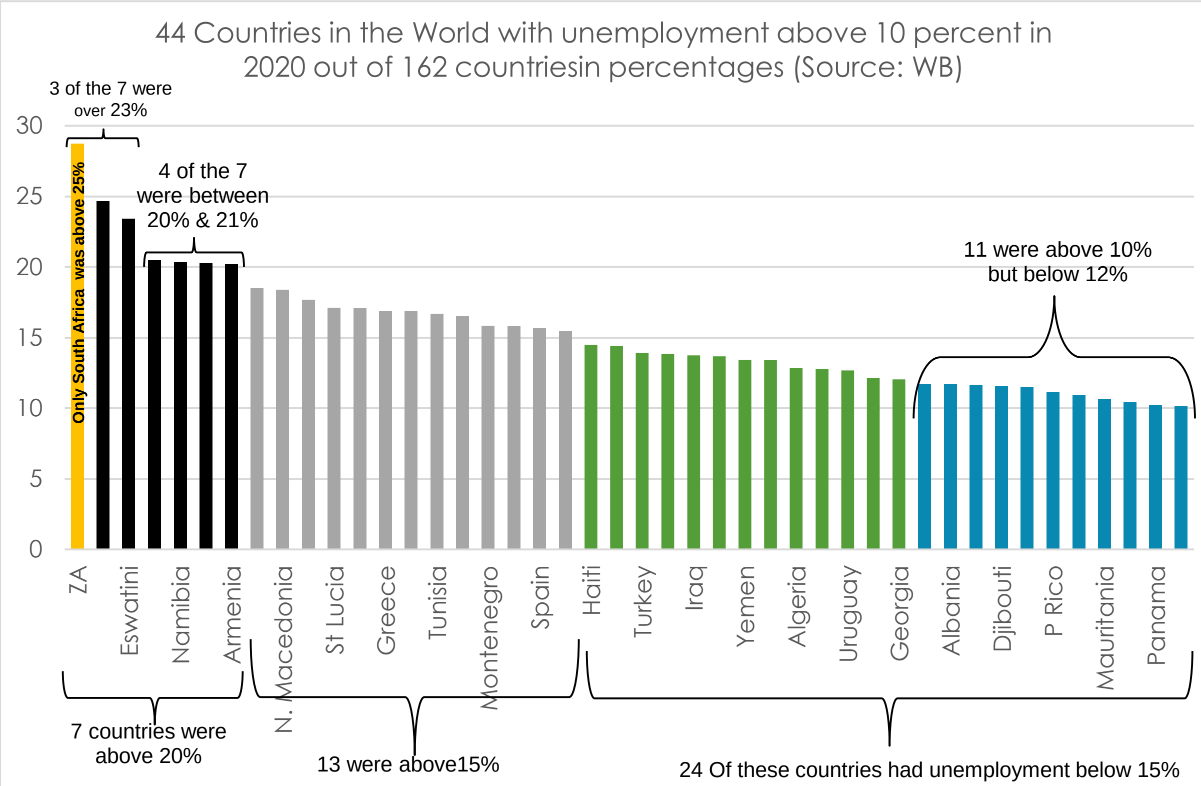
South Africa is particularly vulnerable to the global risks discussed above. Poor resilience in the face of risks can be gauged in the poor performance with regard to the MTSF targets (the evaluation of DPME of the MTSF targets at the end of March 2021 is discussed above with more detail provided in Appendix A). While progress has been made with regard to improving access to basic services and social grants, South Africa is plagued by levels of unemployment and inequality that should be at the center of government's policymaking and budgeting.

Figure 2: Unemployment rates for 162 countries in 2020



Source: World Bank Development Indicators

Figure 3: 44 Countries in the World with unemployment above 10 per cent in 2020



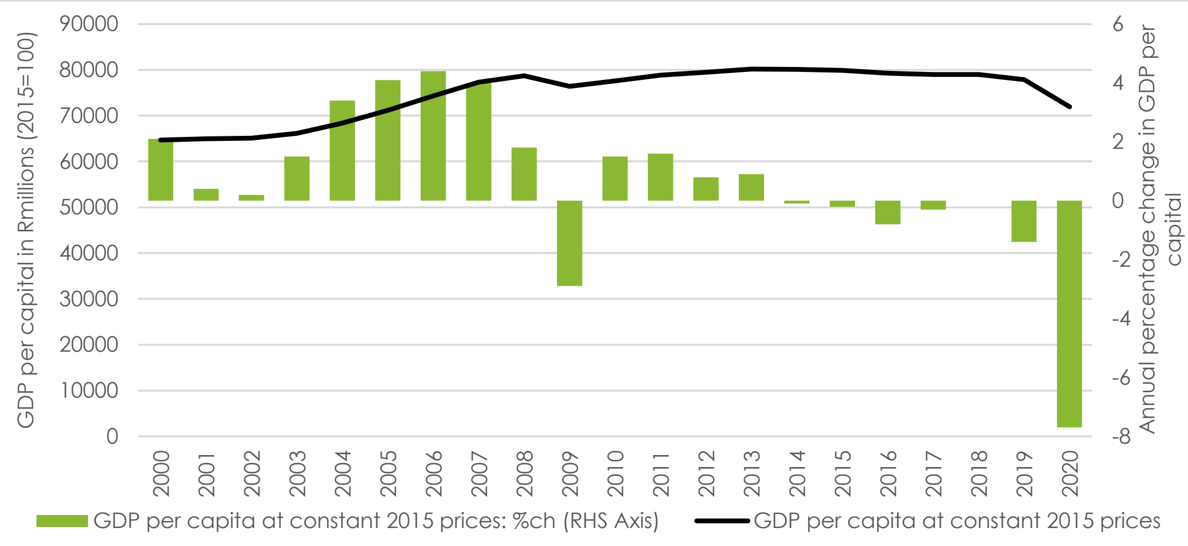
Source: World Bank Development Indicators

It is often written that South Africa is one of the most unequal countries in the world with very high unemployment. These statements understate the level of the problem in a way that may cause complacency amongst policymakers. South Africa's unemployment and inequality rates are so high compared to other countries in the world that it is an outlier. Figure two shows unemployment rates in 2020 reported in the World Bank's World Development Indicator database. The database had 2020 unemployment data for 162 countries. The extent to which South Africa is an outlier amongst this group of 162 countries can clearly be seen. Figure 3 provides a bar graph of the countries with unemployment above 10 per cent. Out of the 162 countries in figure 2, 42 countries had unemployment rates above 10 per cent. Only seven countries had an unemployment rate higher than 20 per cent, including South Africa which was the only country with a rate above 25 per cent. South Africa seems to have been be an outlier even amongst the seven countries with unemployment rates higher than 20 per cent.

Palma (2019) provides comparisons of inequality for 130 countries for 2016 using data from the World Development Indicators complemented by official sources. His data shows that South Africa's Gini was 62.5 per cent, the highest of the 130 countries in his sample. Even amongst the handful of countries in the world with Gini coefficients over 50, South Africa was an outlier. Palma (2019) also calculated the Palma Ratio (PR) in 2016 for the 130 countries in his sample. The PR is a ratio of the share of national income that goes to the top 10 per cent and the bottom 40 per cent of earners in a country. He found that only 14 countries in the sample had a PR of more than 3. In other words, there were only 14 countries where the top 10 per cent of earners got 3 times more income than the combined income of bottom 40 per cent. South Africa with a PR of 7 was an outlier even amongst this group of 14 outlier countries in the sample of 130 countries. In South Africa, the incomes of the top ten per cent was 7 times more than the combined income of the bottom 40 per cent.

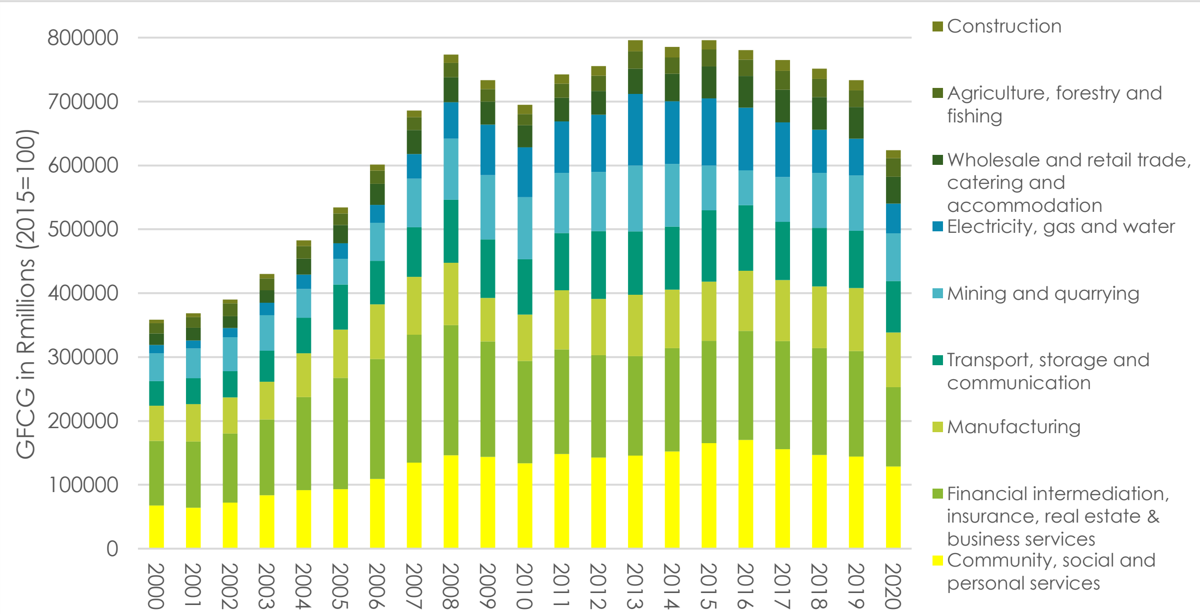
This unbelievable level of structural unemployment and inequality puts a huge burden on social, economic and political stability in South African Society and affects the resilience of the majority of the population to the Covid-19 pandemic and other risks. It also affects every other aspect of South Africa's social and economic performance and development. Like the rest of the world, the pandemic has also worsened unemployment and inequality in South Africa. One indicator of the low resilience to crisis in South Africa is death associated with the pandemic. The South African Medical Research Council estimates that the number of excess deaths in South Africa from 3 May 2020 to 23 October 2021 was 267 476. The excess deaths over this period is almost 3 times the official figure for Covid-19 deaths of 89 163 at the end of October.

Figure 4: Real GDP per capita (2015 = 100) and percentage change in GDP per capita



Source: SARB

Figure 5: Real gross fixed capital formation in Rmillions (2015 = 100)

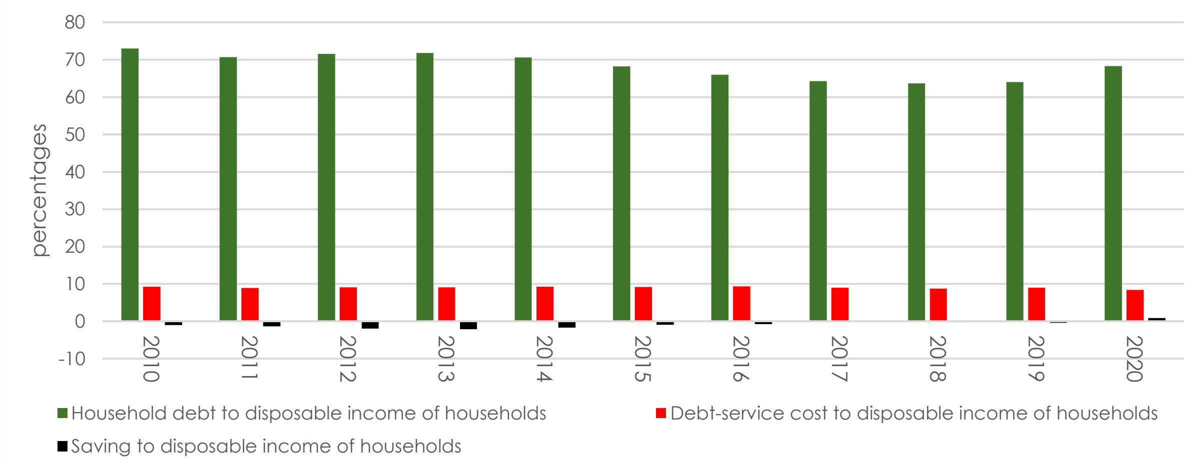


Source: SARB

In addition to unemployment and inequality, other macroeconomic variables in South Africa also point to ongoing difficulties in the economy. Figures 4 and 5 show that even in the period before the pandemic – particularly during the period of fiscal consolidation – that GDP per capita and investment was in decline. Average GDP per capita for the 8 years 2012 to 2019 was -0.1 per cent and the growth rate of real gross fixed capital formation was also -0.1 per cent. Figures 4 and 5 show that the pandemic caused GDP per capital growth to be -7.7 per cent and investment growth to be -14.9 per cent.

The government has not announced plans that are adequate to deal with the extraordinary levels of unemployment and inequality in South Africa. The supply-side structural reforms envisaged by government will not be able to adequately improve business confidence because of the perceived instability associated with the extraordinary levels of inequality in South Africa. The social unrest in July 2021, and the billions of rands in damage incurred during those few days, provides an important indication of the damage that years of deprivation and the pandemic have rendered to the social fabric. Further, if the focus of government policy is economic growth and it believes that economic growth is a prerequisite for greater fiscal stability and the ability to make greater efforts to reduce unemployment, poverty and inequality then the question one has to ask is where will growth come from. One also has to ask what kind of growth it will be.

Figure 6: Household debt, debt service costs and savings as percentages of household disposable income



Source: SARB

Government has chosen to continue with fiscal consolidation, which has been associated with constrained expenditure and lower growth and investment rates. Continued fiscal consolidation will mean that from a macroeconomic perspective that government will not be spending enough to stimulate economic growth. Investment rates may recover from the sharp declines during the pandemic crisis but given performance before the pandemic one cannot expect investment to make a meaningful contribution to economic growth over the medium term. Households consumption has been over 60 per cent of GDP over the past 2 decades. For household consumption to make a larger contribution to enable GDP growth, government will have to provide larger social grants to poor households. Middle class households are paying off debt accumulated since before the global financial crisis of 2008. Average debt to disposable incomes of households increased in 2020 due to loss of income suffered during the pandemic. The only dependable contribution to GDP growth in the medium term could be related to higher global demand and prices for South Africa's minerals products. However, even if the commodity cycle were to remain positive growth will remain constrained by the other macroeconomic variables discussed.

The question of the type of growth the economy will have is very relevant when considering that most growth may be due to increased earnings from minerals exports. This type of growth is cyclical and potentially erratic. It cannot be depended on for long-term commitments and investments. Further, exports of mineral products, particularly those with low levels of beneficiation, have limited potential to support recovery of the rest of the economy. Mining is not strongly linked into other productive economic sectors, has increased in capital intensity and does not create many jobs. South Africa has lost capacity in mining capital equipment production and increased imports of this equipment could partially offset the growth associated with larger minerals exports.

5. Fiscal framework

Table 2: Growth outlook improved since the beginning of the year

GDP growth outlook - calender year*	2021	2022	2023
National Treasury - Budget 2021	3.3%	2.2%	1.6%
South African Reserve Bank - January 2021	3.6%	2.4%	2.5%
South African Reserve Bank - July 2021	4.2%	2.3%	2.4%
World Bank - Global Economic Prospects - January 2021	3.3%	1.7%	-
World Bank - Global Economic Prospects - June 2021	3.5%	2.1%	1.5%
IMF - World Economic Outlook - January 2021	2.8%	1.4%	-
IMF - World Economic Outlook - October 2021	5.0%	2.2%	-
*Growth projections correspond to publication date and not forecast date			

Since the tabling of the 2020 MTBPS and the 2021 Budget Review, the performance and outlook for South Africa and world economy has improved. The South African economy has to date performed better than expected during 2021, recording real economic growth of 7.5 per cent over the first half of 2021 compared with the same period in 2020, where the effects of the coronavirus and measures to mitigate its spread had the strongest effect on growth.

Table 3: Revenue collection seems likely to exceed estimates from the 2021 Budget Review

R million	NT Budget Review 2021	PBO Pre-MTBPS 2021[1,2]	Surplus (shortfall) compared to NT BR projections	
Personal income tax	515,957	557,339	41,382	8.0%
Corporate income tax	213,114	344,350	131,236	61.6%
Skills development levy	17,813	17,744	(69)	-0.4%
VAT	370,177	401,337	31,159	8.4%
Other tax revenue	248,063	261,710	13,647	5.5%
Gross tax revenue	**1,365,124**	**1,582,479**	**217,354**	15.9%
SACU payments	(45,966)	(45,966)	0	0.0%
Main budget revenue	**1,351,672**	**1,569,027**	**217,355**	16.1%
Main budget expenditure	**1,834,252**	**1,834,252**	**0**	0.0%
Main budget balance	**(482,580)**	**(321,926)**	**160,654**	-33.3%
Main budget balance (% of GDP)	**-9.0%**	**-5.3%**	**-**	**3.7%**
Gross loan debt (% of GDP)	**81.9%**	**68.7%**	**-**	**-13.2%**

1. Monthly revenue and expenditure generally do not follow a smooth profile, therefore year-to-date growth rates are not reliable predictors of annual growth rates.

2. Projections are from PBO's in-year revenue and expenditure model. PBO uses historical monthly profiles of revenue data available in Section 32 reports to project full-year main budget outcomes. PBO's model is based on methodologies employed by other independent fiscal institutions.

Stronger-than-expected economic performance over 2021 to date has also resulted in strong revenue performance over the current fiscal year. Based on revenue collection to date, the PBO expects a smaller budget deficit compared with the projections from the 2021 Budget Review. It should however be noted that the stronger-than-expected economic and attendant revenue performance for the current fiscal years reflects a temporary and cyclical increase in growth, and not a sustained structural improvement in the South African economy. The current acceleration in economic and revenue growth is likely to slow as the global economy and commodity prices moderate. Medium term revenue and expenditure policy choices should be based on the medium term economic and not merely on a single year's performance.

Stronger revenue and economic performance over the current year, and a marginal improvement expected over the medium term, combined with the effects of Statistics South Africa's rebasing the estimates of the size of the economy, suggest the possibility of an improved budget balance and debt trajectory over the medium term compared with the 2020 MTBPS and 2021 Budget Review. It should however be noted that PBO's estimates are baseline estimates, and are not policy-adjusted and therefore do not reflect the effects of new and additional expenditure that may be proposed in the upcoming MTBPS which will have a material impact on the country's fiscal framework.

Figure 7: Marginally faster growth and re-based GDP suggest improved budget balance

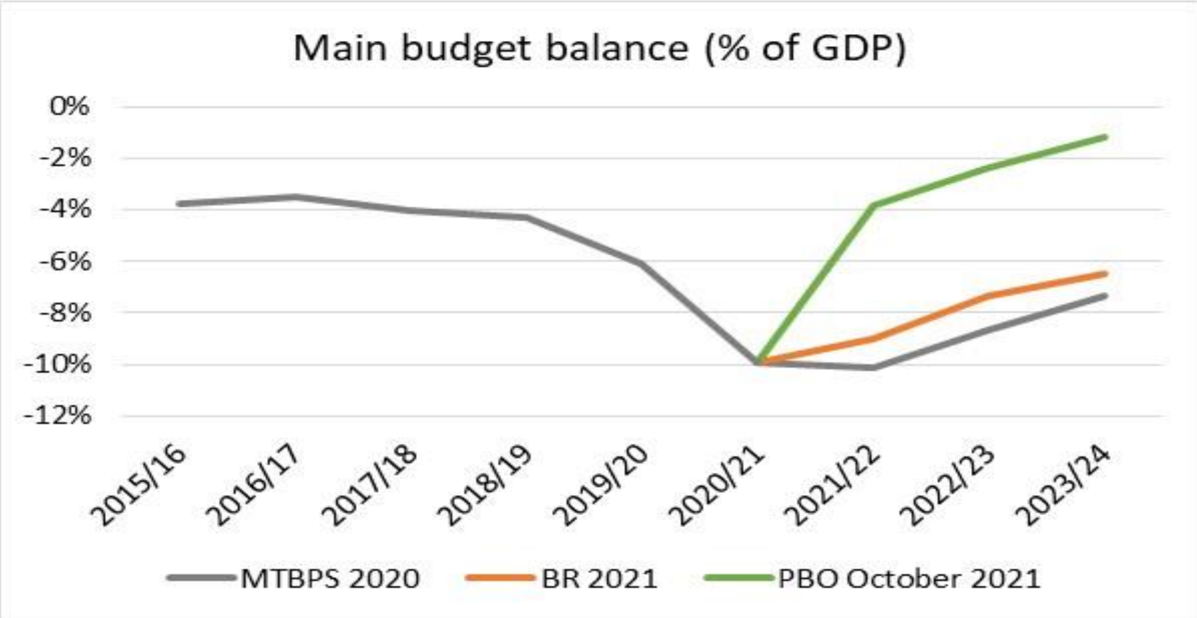
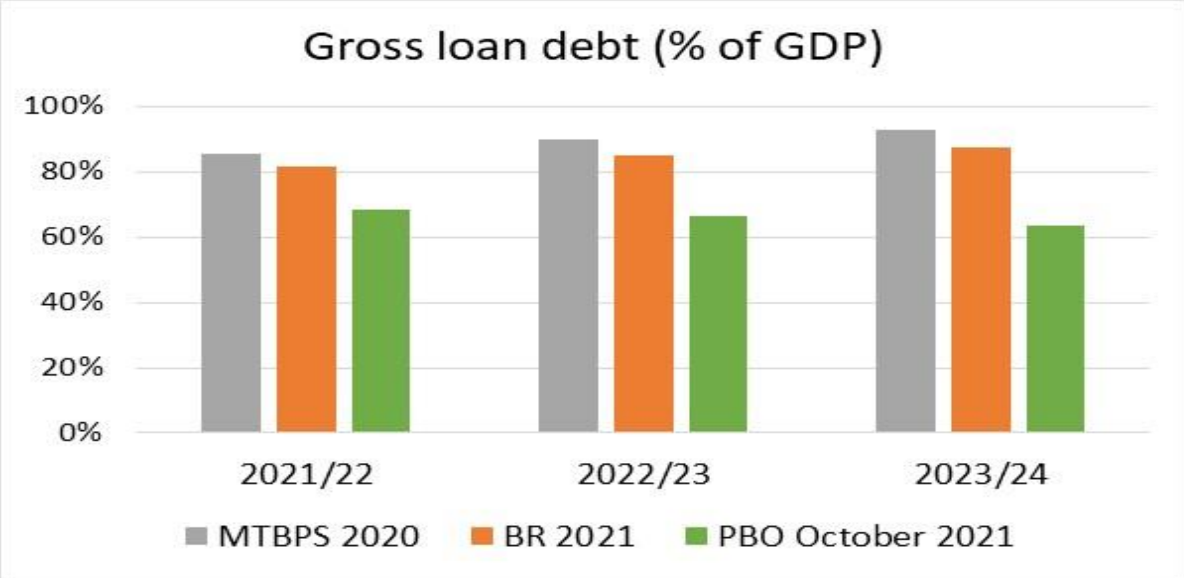


Figure 8: Re-estimated 2021 growth and re-based GDP imply slower growth in debt as a percentage of GDP



6. Revenue Overview

6.1. Tax revenue collection by September 2021

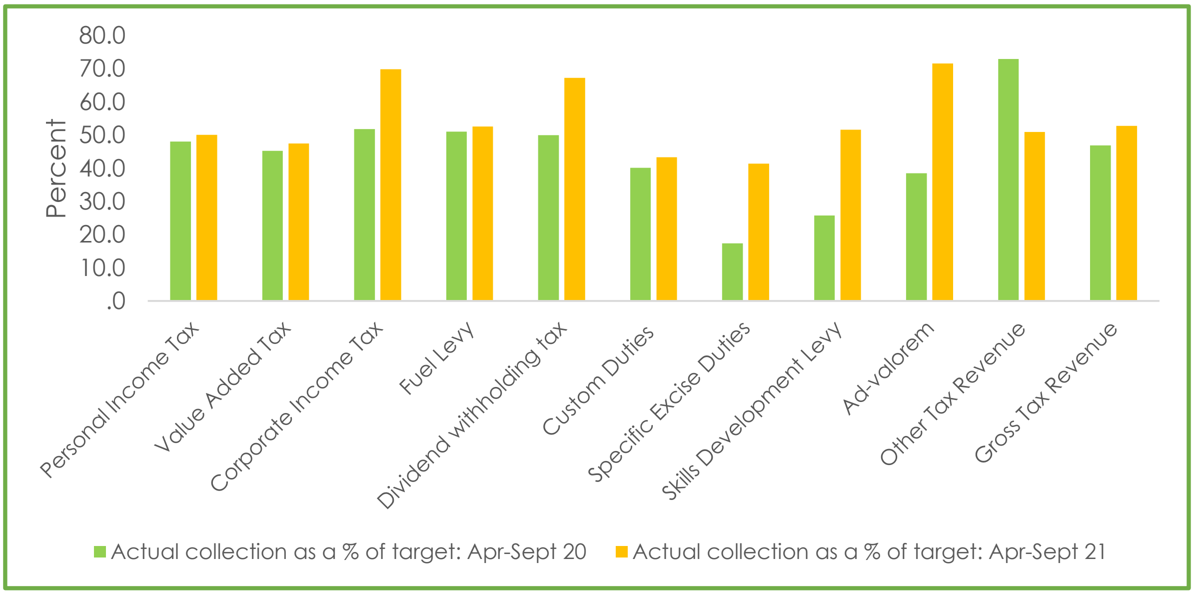
The 2021 budget presented an estimate of gross tax revenue of R1 365 billion for the 2021/22 financial year. By the end of September 2021, R720.1 billion (52.7%) had been collected; a 5.9 percentage increase in collections compared to the similar period in 2020/21, when it was 46.9 per cent. The reduced tax revenue collection may be associated with the slowdown in economic activities in 2020 as a result of government's nation-wide lockdown to curb the spread of the corona virus pandemic.

Table 4: Tax Revenue collection April to September 2021 compared to budget estimate,

	2021/22				2020/21
R million	**Budget Estimate**	**Collection: Apr-Sept 21**	**Actual collection as a % of budgt estimate Apr-Sept 21**	**Contribution to total tax revenue (%)**	**Actual collection as a % of budgt estimate Apr-Sept 20**
Personal Income Tax	515 957	258 304	**50.1**	35.9	**48.0**
Value Added Tax	370 177	175 730	**47.5**	24.4	**45.3**
Corporate Income Tax	239 829	167 496	**69.8**	23.3	**51.8**
Fuel Levy	83 148	43 735	**52.6**	6.1	**51.1**
Dividend w ithholding tax	16 837	11 330	**67.3**	1.6	**50.0**
Custom Duties	53 967	23 394	**43.3**	3.2	**40.1**
Specific Excise Duties	43 734	18 113	**41.4**	2.5	**17.4**
Skills Development Levy	17 813	9 203	**51.7**	1.3	**25.8**
Ad-valorem	3 537	2 533	**71.6**	0.4	**38.5**
Other	20 125	10 261	**51.0**	1.4	**73.0**
Gross Tax Revenue	1 365 124	720 099	**52.7**		**46.9**

Source: NT, SARS and PBO

Figure 9: Comparison of tax revenues for first 6 months of 2020/21 and 2021/22 financial years



Source: NT, SARS and PBO

Figure 9 compares the collection rates for the first six months of the financial year for 2020/21 and 2021/22. The comparison shows an improvement in revenue collection rates in 2021/22 from the 2020/21 financial year. In particular, the collection rate in 2020 for corporate income tax (CIT) (69.8%) and the ad-valorem tax (71.6%) instruments increased from 51.8 and 38.5 per cent, respectively. However, the collection rates for value added tax (VAT) (47.5%), custom duties (43.3%) and specific excise duties (41.4%) were still below 50 per cent of the budget estimates by end of September 2021. The Minister of Finance noted in July 2021 that the better than expected performance of the mining sector tripled its tax revenue contribution. This trend of increased revenue collection, which began in 2017, has continued through 2021. The majority of companies analysed show an increase in revenue for the current financial year.

7. Provincial Overview

Provincial Receipts

Provincial governments have very limited revenue raising capabilities. However, more than 97 per cent of their receipts are allocated from the national budget. By the end of September 2021, provinces had on aggregate collected more than 51.3 per cent of their 2021/22 (R8.7 billion) targeted own receipts. This amount is 21.1 per cent (or R1.5 billion) higher than collection during the same period of 2020/21.

Table 5: Comparing provincial receipts, April to September 2020/21 and 2021/22

Receipts	Budget R'000	Actual R'000	% of total
2020/21			
Transfer from the NRF	648 822 906	323 420 043	49.8
Own receipts	18 842 206	7 182 087	38.1
Total Receipts	667 665 112	330 602 130	49.5
2021/22			
Transfer from the NRF	639 017 482	329 523 839	51.6
Own receipts	20 790 256	8 698 619	41.8
Total Receipts	659 807 738	338 222 458	51.3

Source: PBO, NT datasets 2020 and 2021

Provincial Expenditure

On aggregate, provinces had spent more than 44 per cent in 2020/21 (R300.8 billion) and 2021/22 (R324.1 billion) of their combined revised budgets by end of September. The R324.1 billion aggregate spending in 2021/22 represents 7.7 per cent or the R23.3 billion increase compared to same period last year, 2020/21.

Table 6: Provincial government expenditure, April to September 2020/21 and 2021/22

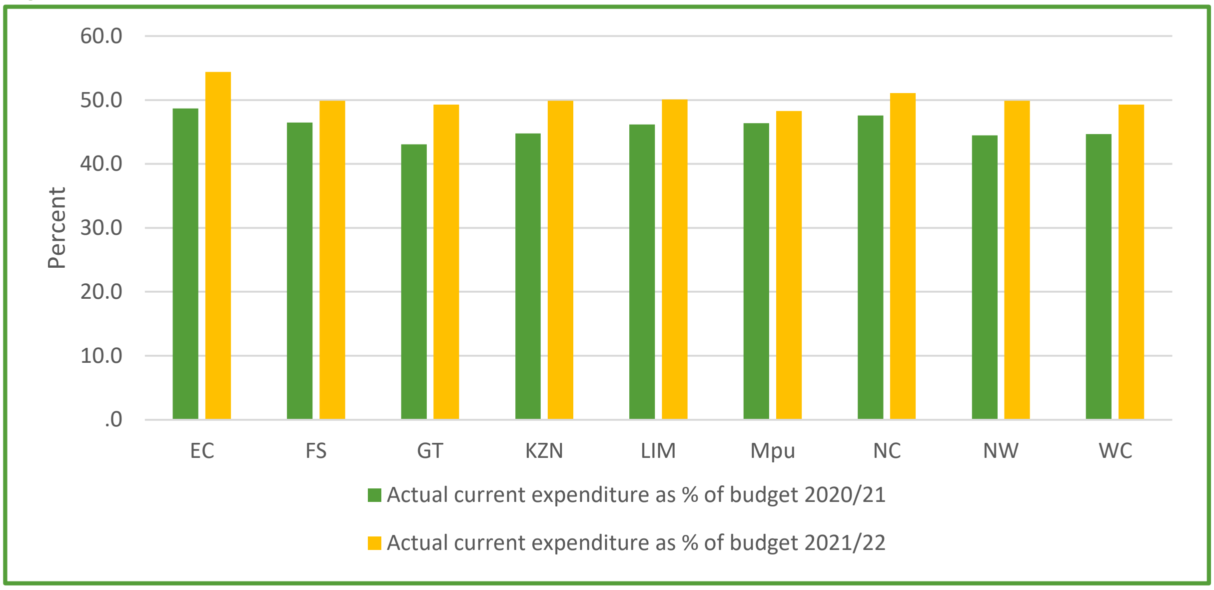
Financial year	Budget	Actual as at end September	Actual as a percentage of the estimated budget
	R'000	R'000	%
2020/21	672 298 237	300 822 079	44.7
2021/22	657 435 711	324 073 939	49.3

Source: PBO, NT datasets 2020/21 and 2021/22

Current Expenditure

Eastern Cape (54.4%), Limpopo (50.1%) and the Northern Cape (51.1%) have spent just above 50 per cent of their 2021/22 current expenditure budgets. On aggregate, provinces have spent just above 50 per cent of their estimated budgets in the first six months of the respective financial years.

Figure 10: Provincial current expenditure overview, April – September 2021

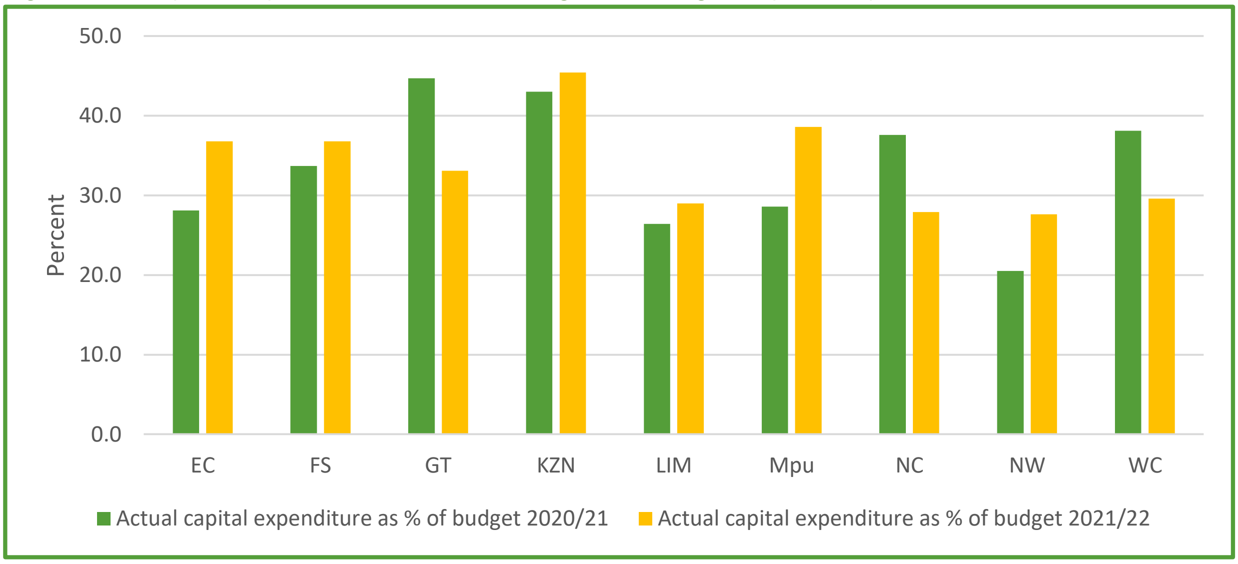


Source: PBO, NT datasets 2020 & 2021

Capital Expenditure

The total provincial capital budget for 2021/22 has increased by more than 2.1 per cent from R35.8 billion in 2020/21 to R36.5 billion in 2021/22. Despite an overall increase in the capital budget, the Eastern Cape, Gauteng and North West had their capital budgets reduced in 2021/22 financial year. Provinces have on aggregate spent more than 30 per cent (or R11.4 billion) of their capital expenditure budgets by the end of September 2021/22. KwaZulu Natal has spent more than 45 per cent of its budget of the provincial budget, whilst the North West (27.6%) and Northern Cape (29.9%) have spent less than 29 per cent of the capital budgets over in the same period in 2021/22.

Figure 11: Capital expenditure outcomes against budget, April – September, 2021



Source: PBO, NT datasets 2020 & 2021

8. Funding of local government

The operations of local government are mainly funded by own revenue sources, while capital expenditure is mainly funded by transfers from national government.

The main sources of operating revenue that funded operating expenditure in the 2020/21 financial year was from property rates and services charges, which amounted to 62.5 per cent of the total operating adjusted budget The biggest proportion of the 62.5 per cent was 29.5 per cent from electricity service charges. Income from transfers and subsidies amounted to 23.8 per cent of the total operating revenue adjusted budget.

The main operating expenditure items are for employee related costs, which amounted to 29.4 per cent of the total operating expenditure. Bulk purchases amounted to 21.6 per cent of the total adjusted operating expenditure budget in 2020/21.

The main source of capital revenue that funded capital expenditure in the 2020/21 financial year was a transfer from the national government that amounted to, 53.9 per cent of the total capital revenue adjusted budget. The other main capital sources are internally generated and from borrowing, which amounted to 27.8 per cent and 13.6 per cent respectively of the total capital revenue adjusted budget.

Capital expenditure in 2020/21 was mainly for road transport and water management, which amounted to 20 per cent and 25.6 per cent respectively of the total spending on capital.

Between the 2017/18 and 2020/21 financial years, Metropolitan municipalities received 31 per cent of the total transfers to municipalities, while between 20 per cent and 21 per cent were transferred to district municipalities. The annual average growth of transfers to metros was 3 per cent over the 2021 MTREF, 5 per cent for district municipalities and the national total allocation grew by 4 per cent on average over the 2021 MTREF. The remainder of the transfers was allocated to other municipalities.

Reductions to the public-service wage bill affected only national and provincial governments, and caused local governments' share of revenue to rise in relative terms over the 2021 MTEF. Transfers to provinces grow by an annual average of 1 per cent over the medium term, while transfers to local governments grow by an annual average of 2.6 per cent. The equitable share increases by 4.4 per cent and conditional grants grow by 7.3 per cent.

9. Reporting on conditional grants

Nationally raised government revenue is divided between the three spheres of government in the form of an equitable share and conditional grants for specific purposes. The equitable division of revenue (according to a formula) raised nationally among spheres of government is divided among the national, provincial and local spheres of government.

Conditional allocations to provinces and local government from the national government's share of revenue are meant to supplement the funding of programmes or functions funded from provincial and municipal budgets; specific-purpose allocations and allocations-in-kind to provinces and municipalities for designated special programmes. In addition to directing funds for a specific purpose, conditional grants aim to achieve a particular outcome with a set of generic/common outputs for all provinces and municipalities. Other conditional grants include funds that are not allocated to specific provinces, which would be allocated to provinces and municipalities to fund immediate responses to declared disasters or housing emergencies.

Due to the size and importance of priority funding, the PBO started a process to determine the efficiency and effectiveness of expenditure on conditional grants. The performance of Basic Education, Health, Human Settlements, Agriculture and Transport Conditional Grants were assessed for the 2019/20 financial year. Due to the fact that performance data and quarterly performance reports on conditional grants are not published, the PBO assessed the information available in the schedules to the 2019 Division of Revenue Act (DORA). The assessments showed that the information provided in the DORA is neither relevant nor adequate to determine efficiency and effectiveness of expenditure. A further weakness is that there is a two-year time lag between current year and actual performance data that is reported in the schedules.

The PBO evaluated the performance information reflected in government departments' Annual Reports. In some instances, the analysis included the funding model of provincial sector departments, but mainly focused on the financial and non-financial performance on Conditional Grants.

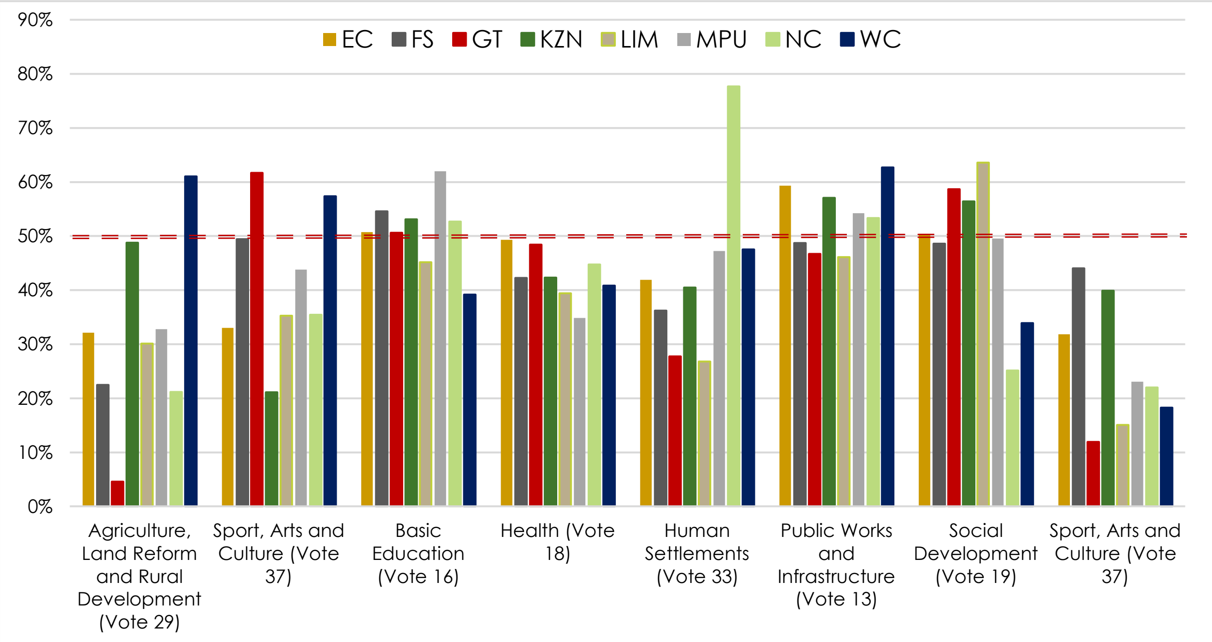
In summary, the analysis of the information on the conditional grants assessed showed:

- Performance outputs/indicators were not well defined
- There was a mismatch between expected outputs and actual outputs
- There was duplication of indicators/outputs
- There was poor or no reporting on actual non-financial information
- In some instances, no targets were set for outputs
- Overspending on some of the grants, accompanied by underperformance
- Underspending that is accompanied by over performance
- Reporting on the performance was not measured against set targets
- There was incomplete performance information

The lack of proper performance information on conditional grants in the Annual Reports of the departments makes it difficult for Parliament to determine the effectiveness of expenditure and impact of the outputs delivered by provincial departments.

Figure 12 shows that performance on conditional grants, per province for the first six months of the 2021/22 financial year. The figure shows that most of the spending on conditional grants are below 50 per cent for the first six months of the financial year. The detail of the specific grants per province is in Appendix A.

Figure 12: Spending on conditional grants, per province, as at end September 2021



Source: National Treasury

10. Building resilience, inclusive growth and stability through a BIG

Much of the current discussion around achieving a comprehensive social security system and introducing a basic income grant (BIG) in South Africa is about what it would cost and whether government can afford it. While some proposals include budget neutral proposals for a BIG, there is a large possibility that implementing a BIG would require government to raise more tax income and increase debt. Irrespective of the types of assumptions and models used to calculate the cost of the BIG and its impact on government's financial situation, government will ultimately have to make a political choice to reform the social security system to make it comprehensive, such reform could include a BIG. Therefore, it is necessary to go beyond debates about costs and different accounting measures but rather to consider the economics of social security and a BIG.

10.1. Societal instability and low resilience is not adequately considered

Section 4 of this brief explains how the focus of governments' economic policies across the world has shifted towards increasing economic and societal resilience. There is also a sharp awareness of the negative impact of inequality in society not only on economic growth prospects but on social and political stability. South Africa has extraordinarily high levels of unemployment and an 'obscene' level inequality. The resilience to pandemics and other risks is very low and the potential for inequality to disrupt the economy and democratic institutions is very high.

The events of July 2021 in Gauteng and Kwazulu-Natal provided a painful lesson of the extent of the damage to the South African social fabric and a warning of how quickly billions of rands of damage can be incurred. Therefore, one has to consider the question whether government can afford not to provide a BIG. A BIG would make the social security system more comprehensive and would supports inclusive growth and greater resiliency in society.

Much economic analysis that guides policy includes what economist calls externalities. In the mainstream economic school of thought externalities usually refer to the negative costs of producing goods that are not included in the price of that good, such as costs associated with pollution. There are large costs to South African society associated with poverty and the absence of a comprehensive social security system. These costs can be thought of as externalities associated with an economy with huge structural unemployment and inequality. These high costs disproportionately fall on the poorest people in society. They manifest in the form of poor health and high mortality rates, high levels of stunting of children's development, poor education outcomes, high levels of gender based violence, gangsterism, substance abuse and violent service delivery protests where infrastructure is often damaged. The damage to society associated with rising unemployment and inequality has very real and cumulative costs for all of society. Over time, they damage economic potential and disrupt stability and democracy.

10.2. The Taylor commission

When the BIG was proposed as part of the Taylor Commission's recommendations in 2003, the response from government was to question whether it would be effective and stressed their concern that a BIG would lead to dependency in society. The question of whether government made the correct choice to reject the BIG in the early-2000s is an important question to ponder now that there is increased pressure in society for government to implement a BIG. According to the Taylor Commission Report, a BIG would have reduced the poverty gap by 74 per cent compared to 37 per cent, which could have been achieved if there had been full take up of all social security provided at the time. The concern with a BIG leading to dependency is not based on evidence but seems driven more by fear and bias.[3] It is also incorrect to think that scaling up public works programmes could be sufficient to remove the need for a BIG. The extraordinary levels of unemployment and the large size of the working poor in South Africa means that EPWP has to complement a BIG. It cannot replace it because the government is very likely incapable of scaling up a public works programme enough to reduce poverty to the extent that could be achieved by a BIG with much less effort, in much less time and with much lower administrative costs.

Evidence shows that instead of dependency, grants can actually help the impoverished and unemployed gain greater access to the job market and increase productivity of households of recipients.[4] Therefore, there is a very real possibility that if government had implemented the BIG almost 20 years ago, it could have had a large positive impact on millions of households and individuals. It is also very likely that it would have had a positive impact on the economic performance of the South African economy because it would almost certainly have decreased levels of poverty and inequality, which are harmful to economic growth.

10.3. Increased taxes should help pay for a BIG

The question of how to pay for a BIG remains a concern to the government, which worries about growing debt levels and remains committed to fiscal consolidation. The first solution to

[3] See for example, the HSRC 2008 policy brief by Michael Noble and Phakama Ntshongwana with the self-explanatory title "No sign of a dependency culture in South Africa"
4 Department of Social Development (2021), "Green paper on comprehensive social security and retirement reform", Government Gazette, No. 45006, 18 August 2021, p25.

the costs of a BIG should be to take the 'obscene' level of inequality in South Africa seriously and recognize that fiscal policies and taxes that redistribute wealth and income from the very rich to the poor are absolutely necessary to build resilience and stability in society. Palma (2019) shows that over the last 4 decades, developed countries in western Europe and Japan (that have always had much lower Gini coefficients than South Africa) have made huge efforts to redistribute very large and increasing amounts of income to ensure continuing low levels of income inequality.[5] South Africa's current social security system does not come anywhere close to reducing the income Gini coefficient even close to half as much as the reduction in these countries. These are amongst the most competitive and productive economies in the world. Their long-term commitment and experience of redistribution through welfare and social security poses a large challenge to the South African government's contention that increasing taxes in South Africa will make it uncompetitive.[6] The efforts to reduce base erosion and profit shifting around the world and the move to achieve a global agreement on a minimum level of corporate tax show that the very wealthy and transnational corporations have been taking unfair advantage of tax rules in countries. They have orchestrated a race to the bottom with regard to tax levels and concessions. The approach by government makes it a victim of this race to the bottom approach to taxation.

10.4. Can government afford a BIG

The government may have to borrow more in the short and medium term if it chooses to implement a BIG. The question of whether South Africa will face a debt crisis if it increases debt more is used as an argument against implementing a BIG. Commentators argue that as long as interest rates are higher than economic growth South Africa will have increasing debt levels. Therefore, it is necessary to consider how to increase economic growth and to examine consider how to reduce interest rates.

The question of where growth will come from and the type of economic growth South Africa should pursue has been addressed in section 4 of this brief. Unlike fiscal consolidation, increased expenditure on comprehensive social security to stabilise household finances will help stabilise the economy and directly support growth through enhancing aggregate demand. Reduced inequality, higher levels of aggregate demand due to increased spending power of poor households and the associated potential improvement in social, economic and political stability could provide a business friendly economic environment that supports investment and job creation.

In section 4, we showed that high levels of unemployment and inequality will be a serious constraint on structural reforms. Without adequate effort to support inclusive economic growth that includes a comprehensive social security system, the proposed structural reforms of government will risk exacerbating structural economic problems and could lead to worse development and growth outcomes for South Africa. The well-known Harvard University economist Dani Rodrick (in an aptly titled 2016 article "The elusive promise of structural adjustment") points out that structural reforms when they sometimes happen to be successful,

[5]Gabriel J. Palma, (2019), "Behind the seven veils of inequality. What if it's all about the struggle within just one half of the population over just one half of the national income?", Development and Change Distinguished Lecture 2018 in *Development and Change* 50:5, pp. 1133–1213

[6]The 2021 Budget Review asserts that "Lowering South Africa's tax rates will increase its competitiveness" (p44). The government favours more consumption taxes than taxes on income and corporates.

work very slowly to increase the productive potential of the economy. In many cases a positive outcome of structural reforms would be too small and too slow to offset the short-term negative effects of these reforms.[7] Therefore, even if government's structural reforms were to somehow be successful, the weight of unemployment and inequality and the associated serious aggregate demand problem in the economy will mean that the impact of the structural reforms will at best be very constrained without government measures to increase aggregate demand. A comprehensive social security system should be considered as an intrinsic part of a strategy to transform the economy in a way that reduces inequality, promotes resilience, creates employment, and enhances productivity.

The question of interest rates and how to reduce them will require that longstanding thinking in the South African government and the Reserve Bank about sovereign debt be reconsidered. First, government should reexamine lowering its interest rate burden through introducing prescribed assets for public and private pension funds and other institutional investors. Prescribed assets can assist not only financing a BIG but also can provide savers in pension funds with stable, government guaranteed returns at a time when serious risks increasingly threaten economic and financial stability around the globe.

Second, the government should investigate the use of quantitative easing (QE) to lower interest rates. The actions of many developed country governments and their central banks over the past two decades have shown that governments can substantially influence and reduce interest rates, including those on government debt. The use of quantitative easing (QE) increased dramatically in 2020 and 2021 in response to Covid-19. It was used by a number of developing country central banks, including the SARB. Benigno et al (2020), provide an interesting assessment of this QE by developing countries during 2020 drawing on a range of research by the IMF, Bank for International Settlements and others, they say:

> In sum, while it is important to avoid easy generalisation to the universe of emerging economies as a whole, QE appears to be a viable macroeconomic policy response to COVID-19 for countries with a credible institutional framework in which the central bank operates a floating exchange rate regime and the sovereign issues debt in its own local currency. QE can preserve stability in the local capital markets and can finance needed health and welfare expenditures and fiscal stimulus.[8]

11. Conclusion

The South African Government has committed itself to addressing the high levels of poverty, inequality and unemployment in South Africa since the 1994 elections. However, Statistics South Africa reported in 2020 that 6 out of 10 South African children were multidimensionally poor in 2015.[9] South Africa's levels of unemployment and inequality are not just amongst the highest in the world but are noticeably higher than other countries who have unemployment and inequality amongst the highest in the world. There are plans in place to address these and other key socio-economic problems. The Government has been able to show progress

[7]Dani Rodrick (2016), "The elusive promise of structural reform", *Milken Institute Review*, 2nd quarter 2016.

[8]Gianluca Benigno, Jon Hartley, Alicia García-Herrero, Alessandro Rebucci, and Elina Ribakova (2020) "Credible emerging market central banks could embrace quantitative easing to fight COVID-19", Published on *VOX, Centre for Economic Policy Research (CEPR) Policy Portal. Downloaded from* https://voxeu.org/article/credible-emerging-market-central-banks-could-embrace-quantitative-easing-fight-covid-19

[9]According to StatsSA, "A child is said to be multidimensionally poor when they are living in households where they are deprived of at least three out of seven dimensions of poverty (Health, Housing, Nutrition, Protection, Education, Information, Water and Sanitation)."

towards achieving the goals set out in the National Development Plan through the implementation of the 2019-2024 Medium Term Strategic Framework. However, analysis by the Department of Monitoring and Evaluation in their March 2021 Bi-Annual MTSF report shows that progress on the targets set for the seven priorities over the 2019-2024 MTSF indicates that the targets will not be achieved. Severe problems remain with regard to health, education, human settlement and land reform. While social grants have reached millions of households millions remain without social security support in an economy where structural employment will continue beyond the medium-term and real investment was negative even before the pandemic. Unsurprisingly, social cohesion and trust in government has worsened and corruption remains. Government has to increase their efforts with regard to existing plans and also explore additional measures to complement existing plans.

Government managed to put in place measures for relief from the Covid-19 pandemic to support to households, through boosting the Child Support Grant and the Social Relief of Distress (SRD) grant, as well as its support to business and their workers, through the Temporary Employment Relief Scheme, the Employment Stimulus and tax deferments and loans. As part of the ERRP, the Presidential Employment Stimulus Programme, according to the Presidency, directly benefited 532 180 people, 422 786 jobs were created or retained and 109 394 livelihoods were supported by the end of March 2021. A provisional allocation of R11 billion will extend this seemingly successful programme into a second phase. Performance of this ongoing programme as well as other aspects of the ERRP, such as reindustrialisation and localisation, infrastructure development, energy security, food security, promoting gender equality and efforts to implement the District Development Model should continue to be closely monitored. The extent to which these efforts provide continued relief to household and businesses as the pandemic continues and the possibility for additional relief measures should also be closely monitored.

Globally, the recovery from the pandemic is uneven across developed and developing countries. Developing countries, on the whole have not had large stimulus and relief packages and vaccination rates are low. Developed countries have used giant fiscal stimuluses financed by central bank funding to provide relief to households and businesses and to drive their recoveries. They have also managed to rollout vaccination programmes to large parts of the populations. The pandemic as well as increasingly frequent climate change events, such as fires and flooding, has focused policymakers around the world on the need to build resilience to the multiple risks facing global society and economies. Poverty and inequality are important factors that reduce resilience in society. The pandemic has shown that disasters and their associated economic crises affect everyone in society and have a global reach. However, the poorest were worst affected and their economic situation has worsened. Therefore, resilience to global risks have to be measured by the extent to which the poorest in society can withstand crises.

The high levels of unemployment, poverty and inequality within South Africa make the country particularly susceptible to many of these risks, increase instability and negatively affect economic growth and investment prospects. The scale of these problems also poses serious challenges to the success of the structural reforms and the ERRP. Continued fiscal consolidation and low levels of aggregate demand will continue to constrain economic growth and investment even where cycles of growing prices for mining commodities occasionally increase growth. South Africa benefited from strong revenue performance over the current 2021 fiscal year because of increased exports of mining commodities. Based on revenue collection to date, the PBO expects a smaller budget deficit and improved debt outlook compared with the projections from the 2021 Budget Review. However, this improvement is temporary based on the cyclical nature of demand for commodities.

The provision of the SRD grants helps millions of poor, unemployed people who previously were not covered by social security during the pandemic. The government was able to quickly find innovative means to extend this grant. There has been pressure by civil society groups and even prominent businesspeople to continue with the grant and to convert it into a BIG. Implementation of a BIG could be an important intervention that could support supply-side structural reforms, boost the ERRP and at the same time promote increased resilience through improving poor households' finances. A BIG will help government achieve its longstanding goal of reducing poverty and inequality levels within a relatively short time. These measures could also contribute to improving social, economic and political stability in South Africa while potentially boosting aggregate demand to improve the environment for businesses and their profitability. A main point of opposition to the BIG is due to concern that government cannot afford it. Therefore, in addition to reprioritisation of expenditure and reduced wasteful expenditure; the use of increased taxes on the wealthy, high earners and big businesses as well as increased borrowing should be explored to finance a BIG.

Annexure A: Detail of performance on the 2019-2024 MTSF

Priority 1 has a total of 33 targets for 2024, of which 25 are on track and 8 are lagging. The targets not on track and thus of concern include clarifying institutional arrangements for the DDM, and the ones relating to improvement in qualified audit outcomes in national and provincial government and municipalities as well as curbing irregular and wasteful and fruitless expenditure in the public sector as whole.

Of the 55 targets for **Priority 2** (Economic Transformation and Job Creation), twenty-five (25) are lagging. The targets that are not performing as expected and thus of concern are as follows:

- Improve overall ranking to within the top 50 countries by 2024. SA's current ranking is 84, although it must be noted that reforms will take time to reflect in the ranking.
- Skills Priority Plan developed by 2020, this deadline has been missed but work is currently gaining momentum with the Skills Strategy under consultation.
- Financial sector code reviewed and implemented by end of 2020. This target has been missed however engagements with Financial Sector Transformation Council are being revived.
- Compliance with government spend on designated products and services, currently stands at 80 per cent against a target of 100%.
- Gross expenditure on research and development as a percentage of GDP has declined from 0.83 per cent in 2017/18 to 0.75% in 2018/19, the lowest level since 2013/14. MTSF target is 1.1 per cent of GDP by 2024.
- 200 000 competitive small businesses and cooperatives supported by 2024, only 34 299 were supported during 2020/21 financial year, therefore this target is unlikely to be reached by 2024. Budget cuts affected this target and it has been revised downward in the new MTSF.
- The number of incubation centres and digital hubs established remains low against the MTSF target of 270 by 2024. The target has also been revised downward in the new MTSF.
- Against a target of 100 000 youth business start-ups supported per annum, only 10 630 were supported. This target has been revised downward in line with SoNA pronouncements.
- Telkom has interdicted the auctioning of High Demand Spectrum and spectrum for Wholesale Open Access Network (WOAN), the matter is set down for 26 to 29 July 2021. The 5G policy direction could be affected by the outcomes of the litigation. Although the Broadcasting Digital Migration is a legacy project, some work appears to be forging ahead. The SA connect program has been reduced by well over 75 per cent due to budgetary constraints.
- The current Energy Availability Factor (EAF) is 65%. This is 10% below the baseline and the 80 per cent target.
- Load shedding is an on-going concern. Delays in completion of Medupi and Kusile have a direct impact on the reserve margin.
- The review of NERSA was set to be completed by the end of 2020. This has not been undertaken.
- The final investment decision to proceed with the new oil refinery set to be completed by the end of 2021 has not been made, affecting the finalisation of the feasibility study.

- Reducing the period for granting water use license applications by 50% has not been achieved. Noting the challenges, the DWS has engaged Operation Vulindlela to review the business process, and it is expected that the review will be completed by June 2021.
- The Economic Regulation of Transport (ERT) Bill has been submitted to Parliament and is awaiting approval. The target to finalise the Bill has, therefore, been missed.
- In terms of provisional road maintenance performance for 2020/21 125km of road was resealed, with only 77 km strengthened and improved. This performance is poor given the target of 20 000 km of road networks that need to be maintained and refurbished
- The private sector participation framework has been drafted. However, implementation has not yet commenced.
- The funding model for the Gauteng Freeway Improvement Project (GFIP) has not been finalised
- Transnet National Ports Authority Corporatisation has not been completed by 2020. The Department of Public Enterprise (DPE) is leading the consultation process and determination of options.
- Targets for hectares of land distributed to women, youth and persons with disabilities have not been achieved.
- Preferential procurement targets a minimum of 40 per cent for women, 30 per cent for youth and 7 per cent for persons with disabilities.

  The current structure of government spending:
  - 13.49 per cent of total to women owned suppliers against a target of 40 per cent.
  - 5.58 per cent to youth owned suppliers against a target of 30 per cent.
  - 0.24 per cent companies owned by persons with disability against a target of 7 per cent.

Among the 8 targets that are not performing as expected and thus of concern in the Education component of **Priority 3** are as follows:

In the PSET component, thirteen (13) of the 32 targets are lagging. Among the targets that are not

performing as expected and thus of concern are the following important ones:

- The targets that are expected to transform the education system to develop the capability of learners with different skills such as the full implementation of the three stream model, the focus schools are not fully implemented and the enabling condition of training teachers to operate in this new environment is not proceeding rapidly enough.
- Secondly, quality at Foundation Phase is stalling as shown by the performance in Grade 5 Maths, meaning interventions that have improved performance thus far need to be augmented to create another momentum for increased performance.
- Loss in learning during Covid-19 has worsened the challenge facing the sector.
- Infrastructure challenges that the state has not tackled efficiently and effectively was worsened by budgets being diverted to deal with health protocols.
- Unequal access to school connectivity illustrates the state taking longer to implement its goals and in the process cementing inequality.
- Access to TVET colleges is not reflecting the NDP targets, CET is inadequately responding to the need of NEET, and not much is being achieved **to ensure students** gain necessary experience through work-based learning and access for artisanal training.

- he system's efficiency remains a challenge in respect of the production of NC(V), GETC, number of artisans and SETA supported programs.
- Skills needed to support the knowledge economy remain constrained.
- Overall, the responsiveness of the PSET system remains a challenge as shown by the low number of artisans trained in centres of specialisations and the failure of CET to accommodate those in the NEET category.

In the **Health component**, ten (10) of the 21 targets are lagging. The targets that are not performing as expected and thus of concern are as follows:

- National Health Insurance (NHI) Fund operational by December 2020; and NHI Fund purchasing services by 2022/23
- 80% of public sector facilities implementing the National Quality Improvement Programme (NQIP) by 2022/23; and 100% of public sector facilities implementing the NQIP by 2024/25 3,467 Primary Health Care (PHC) facilities (100%) attain and maintain their Ideal Clinic status by 2024
- TB treatment success rate of 90% achieved by 2022, which must increase to 95% by 2024
- 90% of HIV positive people are initiated on ART by 2020; and 95% of HIV positive people are initiated on ART by 2024
- 30 million HIV tests conducted annually by 2024
- 90% of children under 1-year of age immunized against vaccine preventable diseases by 2024
- Severe acute malnutrition case fatality rate of <5% amongst children under-5 achieved by 2024
- Pneumonia case fatality rate of <1% amongst children under-5 achieved by 2024
- Diarrhoea Case Fatality Rate of <1% amongst children under-5 achieved by 2024

Of the 20 targets for **Priority 4**, twelve (12) are lagging. The targets that are not performing as expected and thus of concern in Priority 4 are as follows:

- 10 per cent increase in the number of people accessing substance abuse prevention programmes by 2024
- 53 new ECD centres constructed by 2024
- 656 ECD centres maintained/upgraded by 2024
- Amendment of legislation to regulate the new ECD land scape
- Develop new funding models for ECD delivery.
- 10 per cent of households profiled are empowered through sustainable Livelihood programmes
- 2 per cent of CSG recipients below 60 linked to sustainable livelihoods opportunities by 2024
- Reduce household vulnerability to hunger to 5.7% by 2024
- Integrated social protection information system fully operational
- 4 500 000 newly registered employees by the Unemplyment Insurance Fund (UIF)
- Develop new funding models for ECD delivery.
- 80 per cent of eligible children between 0-1 year receiving the CSG

Of the 18 targets for the Environmental Management and Climate Change component of **Priority 5**, ten (10) are lagging. The targets that are not performing as expected and thus of concern are as follows:

- Timeous processing of Atmospheric Emission Licences affected due to lack of resources
- Development and implementation of sector plans to reduce vulnerability to risks associated with climate change
- Assessment study and recommendations for 44 Disaster management plans undertaken and finalised
- Municipal preparedness to deal with climate change, while no progress update was provided, based on the Department's review of the 10 IDPs per district
- Just transition to a low carbon economy, the Department has developed 5 transition plans, however none of the 5 has been implemented
- 850 wetlands to be rapidly and intensively rehabilitated and restored, 114 wetlands rehabilitated 3 mine water/ wastewater management plans implemented
- 65 per cent level of compliance of water users in various sectors monitored for compliance with water use licenses
- NAQI of less than 1 has not been achieved, The NAQI was 1.3 and reported as part of the National Air Quality Officers' report. Data recovery has improved significantly, and this NAQI is a true reflection of the air quality in the country.
- For rehabilitation and restoration of land, a cumulative total of 13955,65 ha was achieved against the annual target of 21 686 ha, (64%).

Of the 10 targets for the Rural Economy component of **Priority 5**, six (6) are lagging. The targets that are not performing as expected and thus of concern are as follows:

- 50 000 ha earmarked for using water conservation technology agriculture methods were identified across provinces but no progress was reported
- Increase Ha of land under cultivation in traditional areas
- Reduction in degraded land rehabilitated to production
- Review the inhibit standards on SAGAP and Global GAP to enable small holder farmers' participation in the domestic and global GAP. Governance and operational Review of the National Fresh Produce Markets, and Agency role in market access for small farm holders' participation
- No agro-processing facilities were built
- No new Farmer Production Support Units had been established due to the lockdown regulations

Of the 13 targets for the Human Settlements component of **Priority 5**, eight (8) are lagging. The targets that are not performing as expected and thus of concern are as follows:

- 94 implementation programmes for PDAs completed
- 30 000 social housing/rental housing units in PDAs
- 12 000 community residential units (CRU)/ rental housing units in PDAs
- 1 500 informal settlements upgraded to Phase 3
- 45 535 pre-1994 title deeds registered
- 500 845 outstanding post- 1994 title deeds registered
- 346 842 outstanding post- 2014 title deeds registered
- 300 000 new title deeds registered

Of the 25 targets for the Basic Services component of **Priority 5**, thirteen (13) are lagging. The targets that are not performing as expected and thus of concern are as follows:

- 94 implementation programmes for PDAs completed
- 30 000 social housing/rental housing units in PDAs
- 12 000 community residential units (CRU)/ rental housing units in PDAs
- 1 500 informal settlements upgraded to Phase 3
- 45 535 pre-1994 title deeds registered
- 500 845 outstanding post- 1994 title deeds registered
- 346 842 outstanding post- 2014 title deeds registered
- 300 000 new title deeds registered
- Non-grid electrification connections to be implemented in the last semester of the 2021/22 financial year.
- Assessment of water and wastewater treatment works for compliance with the Blue and Green Drop Regulatory requirements, was not completed respectively.
- Non-commencement of the 9 refurbishment projects to address the functionality component of WSAs reliability implementation plans.
- 27 District Municipalities' Five-Year Reliability Plans have not been developed.
- DWS replaced a total of 536 of 12 221 (4,4%) bucket sanitation systems in formal settlements.
- Reduction of waste generated during manufacturing and industrial process.
- 100 per cent compliance in spatial referencing of the IPTNs.
- No rail stations modernised.

Of the 59 targets for the Social Cohesion component of **Priority 6**, twenty-four (24) are lagging of which 15 are critical and the remainder are operational. The 15 critical targets that are not performing as expected and thus of concern are as follows:

- Targets related to employment equity were not met. Employment Equity Act to be amended and enacted by 2024; and 1812 designated employers subject to the DG review process in order to enforce compliance with the Employment Equity Act by 2024.
- The Development and management of 27 Provincial Resistance and Liberation Heritage Route (RLHR) Sites.
- 100 per cent of public schools reciting the Constitution in the School Assemblies by 2024.
- Hate Speech and Hate Crimes Bill enacted by 2020.
- Coordination and the implementation of the NAP Action Plan to combat racism, racial discrimination, xenophobia and related intolerance.
- 100 per cent infrastructure upgrade of national archives by 2024.
- 36 Government departments and public entities monitored to implement the Use of Official Languages Act by 2024.
- Slow transformation in sport and recreation targets.
- Participation in sports particularly in schools.
- 30 Outreach initiatives to change behaviour in relation to gender and xenophobia
- 32 Workshops to advance knowledge of National Symbols, including the Flag by 2024.
- Mzansi Golden Economy programme and the production of films and documentaries telling the SA story, including the history of liberation were not met, because the industry could not operate optimally due to Lockdown regulations. As a result, against a target of 264, only 14 MGE projects were implemented.
- 400 Curriculum specialists, teachers, examiners and moderators were not trained on the revised History Curriculum Policy.

- 80 per cent Training of SGB members on school policies and code of conduct.
- The BrandSA's marketing platforms utilised to promote constitutional awareness per annum could not be implemented.

Of the 44 targets for the Safer Communities component of **Priority 6**, eighteen (18) are lagging and three (3) are not yet due for measurement. The targets that are not performing as expected and thus of concern are as follows:

- Freezing of money and assets that are the proceeds of crime: R2.4 billion annually (R12 billion over 5 years)
- Recovery of money and assets that are the proceeds of crime: R1.4 billion annually (R7 billion over 5 years)
- SA's border effectively defended, protected, safeguarded and secured: BMA established by 2020 and operational by 2021 at 11 Ports of Entry and 5 segments of the land line as well as 1 Community Crossing Point (BMA fully operational by 2024)
- Reduce drug syndicates through the implementation of the Narcotics Intervention Strategy and the revised National Drug Master Plan.
- Reduction of organized criminal groups and gangs (incl. implementation of the National Anti- Gang Strategy).
- Percentage increase in households who felt safe walking alone in their areas of residence during the night (STATSA)
- Reduction in violence against children: 6.7% reduction per annum
- Community in Blue Concept implemented in nine provinces by 31 March 2021.
- Traditional Policing Concept implemented in KwaZulu-Natal, Eastern Cape, Limpopo and Mpumalanga by 31 March 2023.
- Safer City Framework implemented at 10 pilot cities by 31 March 2021
- Perception of increase in police visibility in the Top 30 police stations.
- Percentage of victims satisfied with their interaction with the police (based on call backs) to a sample of victims in each police.
- Effective identification, tracking and management of all persons within the Criminal Justice System
- Architecture/design of the Integrated Cybersecurity Centre completed and approved.

Of the 18 targets for **Priority 7**, nine (9)) are lagging. The targets that are not performing as expected and thus of concern are as follows:

- Growth in tourism sector resulting in economic growth: 9.9% of GDP total (against 2018 baseline) by 2024
- E-Visa rolled out to 10 countries (2020/21), E-Visa rolled out to all selected countries (106) by 2025
- Develop and implement a destination brand strategy to promote South Africa as a preferred tourism destination
- Increased regional integration and trade: Improve Regional Integration Index from 531 (SADC) to 631
- 20 per cent of prioritised projects of the Regional Indicative Strategic Development Plan (RISDP) implemented

- Honour South Africa’s obligations towards SADC and the AU including the institutions hosted in South Africa (PAP, NEPAD, APRM, AFCONE, PAUSSI) and Trans Frontier Conservation Areas (TFCA’s)
- Implementation of identified Agenda 2063 Flagship Projects: Conduct Bi-annual assessment of national implementation of the 2030 Agenda
- Implementation of identified Agenda 2063 Flagship Projects: Progress of agreed partnership outcomes monitored.
- 100 per cent compliance with international protocols and commitments