

# **SOUTH AFRICA'S PROGRESS TOWARDS ITS DEVELOPMENT OBJECTIVES**

This document is an excerpt from the 2020 NDP Assessment Report that is published by the BER. The full report can be downloaded from [www.ber.ac.za](http://www.ber.ac.za).

## **Priority 2** *Enhancing economic transformation and job creation*

### **Economic transformation and job creation: How far are we from the targets of the NDP?**

Fixed investment can help stimulate economic growth and job creation — but environmental sustainability is just as important

*By Helanya Fourie & George Kershoff*

Questions we often get in response to the BER's National Development Plan (NDP) Assessment Report are — in what direction is SA trending? Are things worse or better today than when the NDP was published in 2012?

One cannot draw an average across different objectives, but perhaps the metrics that give the closest approximation are economic growth and job creation. Both of these outcomes are dependent on achieving many of the other NDP goals. Citizens need access to quality healthcare to be part of a productive labour force. Good education is needed to equip the labour force with the necessary skills. A capable and ethical state is a prerequisite for policy certainty, which translates into business and consumer confidence — both necessary inputs into economic growth, which creates jobs.

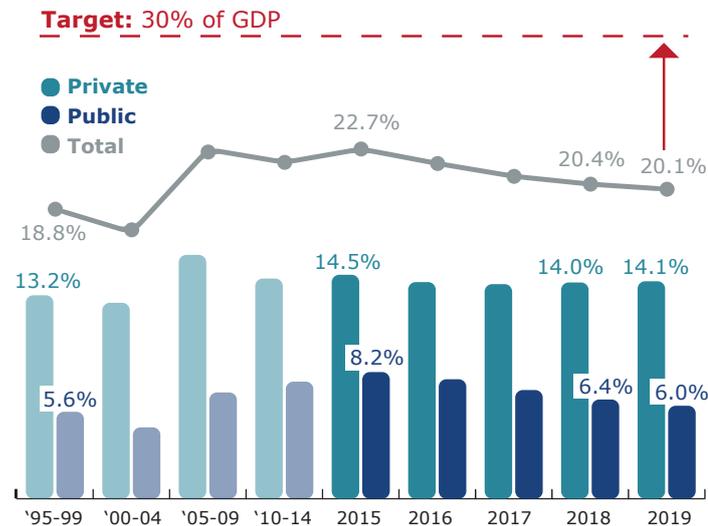
Over the past five years, the SA economy has been growing at a slower rate than the population. Between 2015 and 2019 (before the Covid-19 pandemic), the population grew by an average of 1.4% per annum. In comparison, the average annual economic growth rate in real terms over the same period was 0.8%. As a result, the average South African has become poorer.

Growth has been far below the target of 5.4% the NDP envisaged SA should average between 2011 and 2030. The country was, therefore, sliding backwards even before the onset of the pandemic.

The pandemic has made matters even worse. SA's economy in 2020 was 7% smaller than in 2019. The Bureau for Economic Research's (BER) most recent growth forecast for 2021 is for the economy to grow at 3.9%, but bear in mind the base effect: even if GDP remains at the same level as in the fourth quarter of 2020 for each of the four quarters of 2021, the economy will still have grown by 2.8% in the 2021 calendar year.

To eliminate poverty and make inroads in reversing the effects of decades of racial exclusion, economic growth must increase. However, now more than ever, economic growth must be sustainable and inclusive. With an unemployment rate of 28.7% in 2019 — which increased to 32.5% in the last quarter of 2020 — higher economic growth alone won't suffice. The NDP envisaged an unemployment rate of 14% for 2020; unfortunately we have missed that target by miles.

### **Private and public fixed investment as a percentage of GDP (%)**



Source: Stats SA (BER calculations)

Fixed investment can help stimulate economic growth and job creation. The public sector (specifically network industries), as well as the private sector (particularly to increase the output of the non-mineral tradeable sectors), need to play a role. In 2019, investment amounted to 20% of GDP — 14% by the private sector and 6% by the state — and was far below the 30% target of the NDP.

Other key NDP proposals to boost inclusive growth are to increase exports; hire more young, unskilled work-seekers; raise savings and investment through fiscal policy; lower the cost of transport and logistics; and strengthen the social wage. The NDP foresees that many jobs would be created in the services sector and in domestic-orientated activities.

It also notes that "some 90% of jobs will be created in small and expanding firms" and that, as a result, as SA expands access to employment a large proportion of working people would receive low pay. This emphasises the importance of strengthening the social wage, which we consider in a later contribution to this series.

Another vital but often overlooked component of economic transformation is environmental sustainability. The economic cost of climate change is becoming increasingly apparent. In the past, these costs were, in many ways, indirect and far removed; this is rapidly changing. Extreme weather events illustrate the direct economic costs of climate change. Impoverished households are especially vulnerable to the physical and economic effects of extreme weather events such as droughts and floods.

An example close to home is the impact the 2017 drought had on the Western Cape's tourism industry, and those it employed.

The NDP highlights the need for environmental sustainability and achieving an equitable transition to a low-carbon economy — the "just energy transition". SA's efforts to help mitigate climate change can contribute to the goals of economic transformation and job creation.

The NDP sets a target for 20GW of electricity to be generated from renewable sources by 2030. In 2019, SA's power generation capacity from renewable energy was 6.5GW (compared to close to 38GW from coal). The 11.8GW to be procured from independent power producers (IPPs), gazetted in September last year, brings us closer to that target.

Investing in renewables is not only crucial from an environmental perspective but also for economic growth. Eskom's energy availability factor (EAF) — which measures its electricity production as a share of the maximum that could have been produced — has been declining since 2017. The Integrated Resource Plan sets an EAF target of 75%; in 2020, Eskom missed this target by 10 percentage points. Investment in additional capacity through the Renewable Energy IPP Procurement Programme and the recent announcement that South Africa's embedded generation threshold will increase to 100MW, will help address our energy crisis and, through attracting investment, stimulate economic activity. But for that to happen we urgently need to move beyond the planning phase and into operation. Only then can we begin to alleviate the plight of the 7.2-million South Africans unable to find jobs.

*An earlier version of this article was originally published as a Business Day opinion piece on 31 March 2021. Fourie is a senior economist and Kershoff deputy director at the Bureau for Economic Research.*

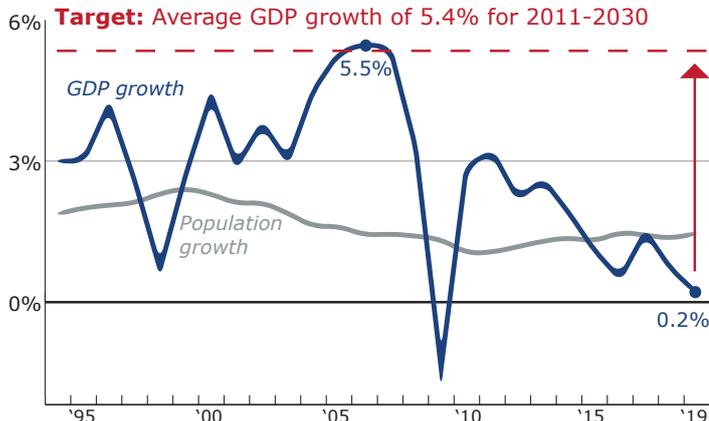
# Economy and employment

Economic growth is the cornerstone of Priority 2: Economic transformation and job creation. **NDP Chapter 3** aims to double the GDP growth rate to 5.4% and add an additional 11m jobs by 2030. This would help to reduce the level of inequality from a Gini-coefficient of 0.7 in 2010 to 0.6 in 2030. It would also reduce the share of the population that falls below the poverty line from 39% in 2009 to zero in 2030.

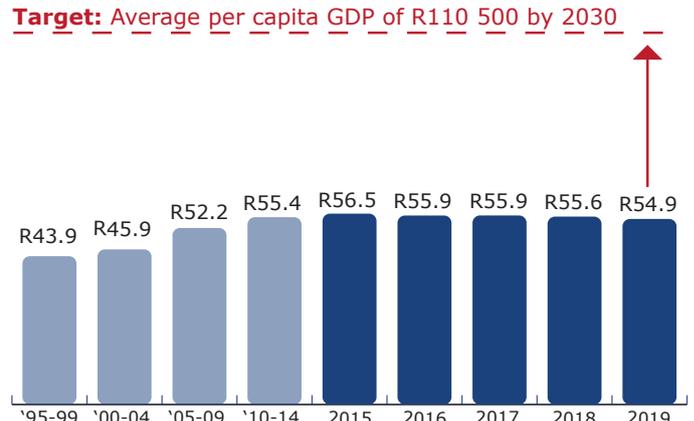
## Economic growth

SA's economic growth performance already deteriorated a few years before the COVID-19-induced lockdown hit in 2020. Since 2015, the economic growth rate has fallen below the population growth rate, primarily due to the weaker international demand for minerals, as well as the energy constraint and policy uncertainty in SA. As a result, per capita GDP<sup>1</sup> declined by 2.8% from 2015 to 2019.

### GDP growth rate<sup>2</sup> (y-o-y change)



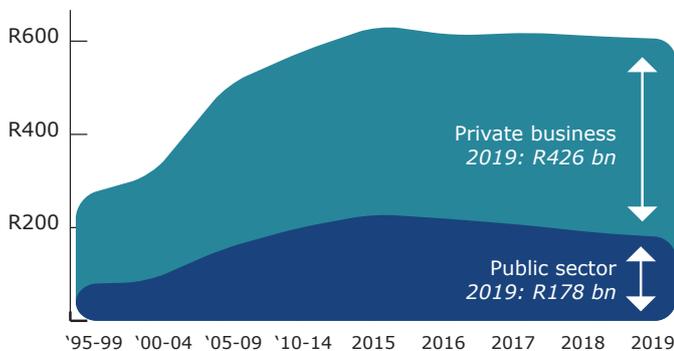
### Annual per capita GDP ('000 Rands, real values<sup>2</sup>)



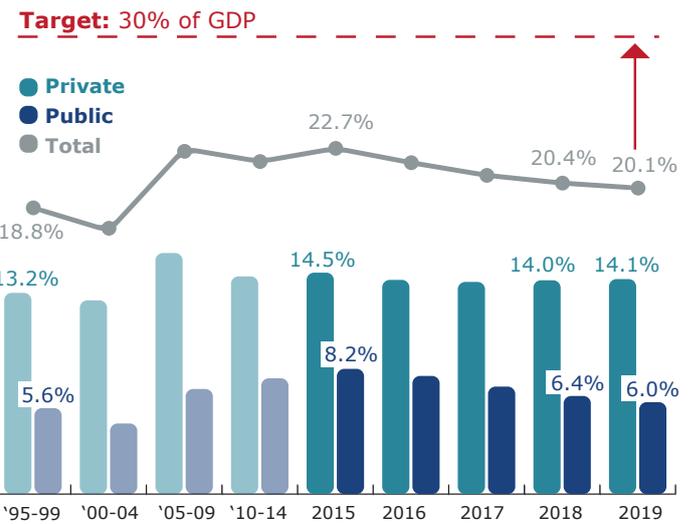
## Fixed investment

Investment is crucial for SA to accelerate its economic growth. Private business investment has largely tracked GDP growth since 2015, but public investment<sup>3</sup> declined by over 2% of GDP. Total fixed investment equalled 20% of GDP in 2019.

### Total fixed investment (Billion Rands, real values<sup>2</sup>)



### Private and public fixed investment (% of GDP)

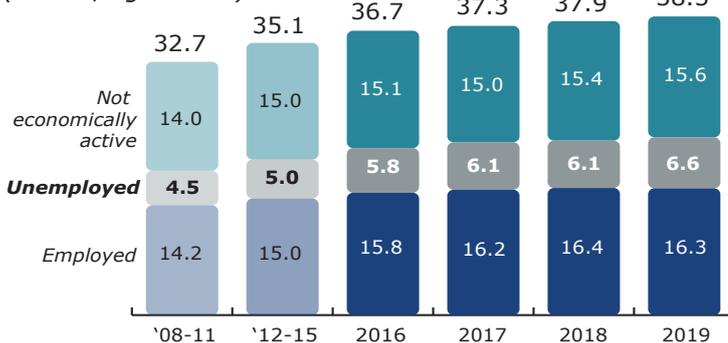


## Employment

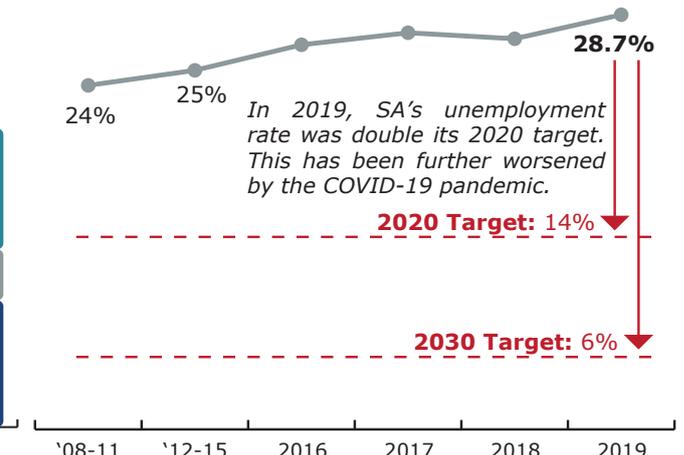
Slower economic growth has caused a deterioration in job creation. Combined with steady population growth, this resulted in higher unemployment.

### Working-age population

(million, age 15-64)



### Unemployment rate<sup>4</sup>



**Notes:** <sup>1</sup> inflation-adjusted production/income per person; <sup>2</sup> 2010 constant prices; <sup>3</sup> Investment by government and SOEs/network industries; <sup>4</sup> The number of people unemployed as % of the labour force. **Sources:** Stats SA (BER calculations).

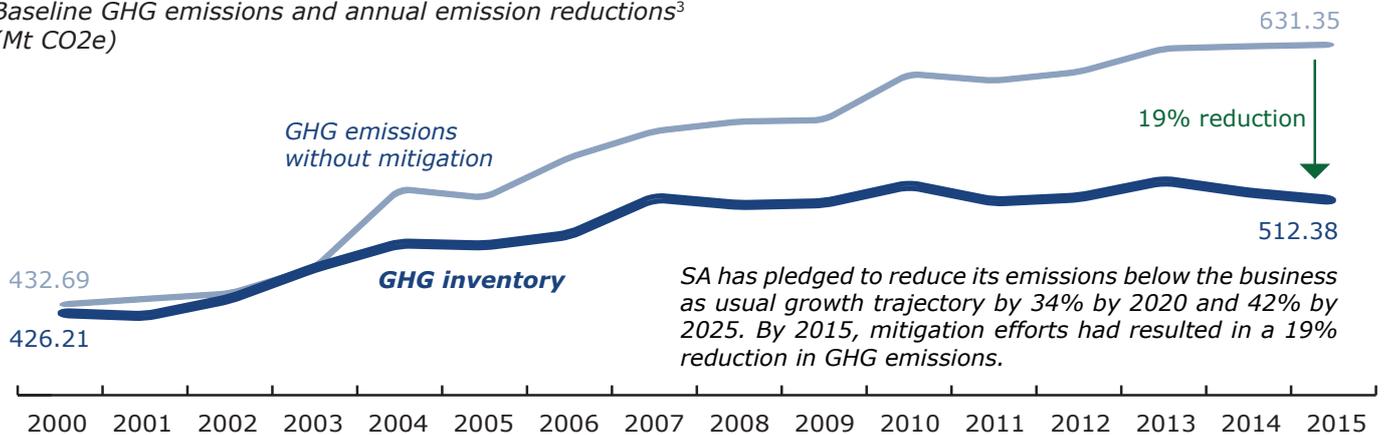
# Environmental sustainability

Environmental sustainability is an important component of economic development and transformation, as captured in **NDP Chapter 5**. SA has a rich endowment of natural resources and mineral deposits and an abundance of sources of renewable energy (RE). To ensure environmental sustainability, greenhouse gas emissions need to be reduced, ecosystem vulnerability needs to be addressed, and climate, environmental and social risks must be incorporated into financial metrics and decision-making.

## South Africa's greenhouse gas (GHG) emissions

SA is the 14<sup>th</sup> largest emitter of GHG in the world, contributing 1% to global emissions. Global warming is causing changes in rainfall and temperature patterns and instigating more extreme and frequent events such as droughts, floods and cyclones. Impoverished households are especially vulnerable to these changes.

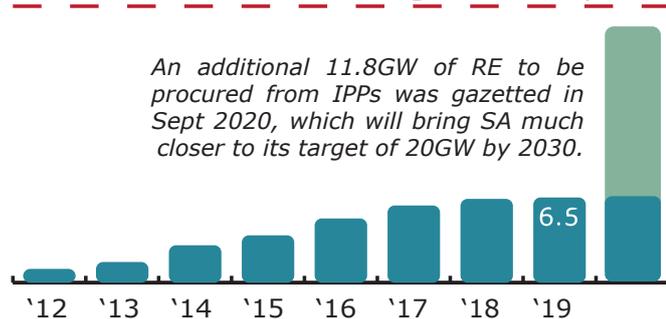
Baseline GHG emissions and annual emission reductions<sup>3</sup>  
(Mt CO<sub>2</sub>e)



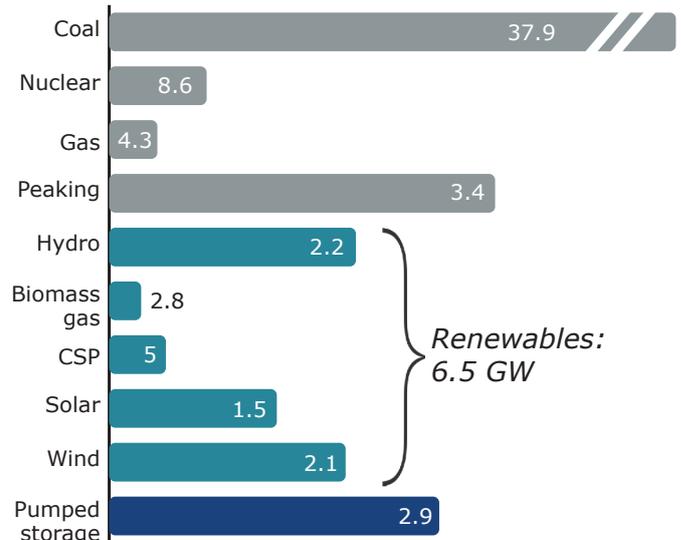
## Renewable energy

Total existing RE generation capacity  
(GW)

**Target: 20 GW by 2030**



Existing generation capacity in SA (2019)<sup>2</sup>  
(GW)



## Protecting biodiversity

Threatened state of biodiversity in SA  
(% classified as threatened)

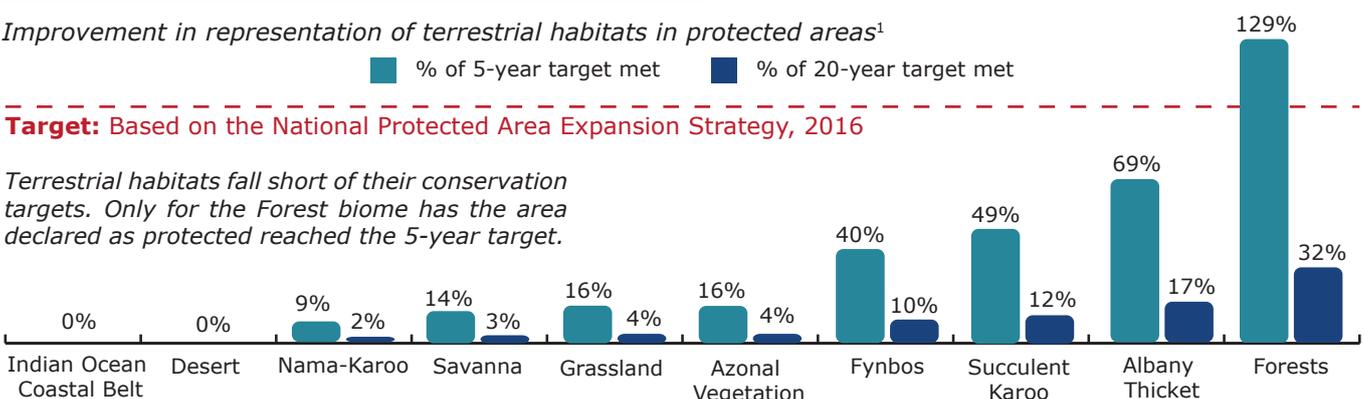
Wetlands	75%
River ecosystems	64%
Indigenous plants	14%
Endemic mammals, birds, reptiles, fish, butterflies and amphibians	66%

Improvement in representation of terrestrial habitats in protected areas<sup>1</sup>

■ % of 5-year target met ■ % of 20-year target met

**Target:** Based on the National Protected Area Expansion Strategy, 2016

Terrestrial habitats fall short of their conservation targets. Only for the Forest biome has the area declared as protected reached the 5-year target.



**Notes:** <sup>1</sup> Includes forestry and land-use changes. <sup>2</sup> Excludes capacity that might already have been procured but is not yet installed; includes imported hydro. <sup>3</sup> Water bodies, the Polar Desert biome and the Subantarctic Tundra biome make up a small area of terrestrial habitats and so are not shown on graph. **Acknowledgements:** Sustainability Institute; Meridian Economics. **Sources:** SANBI State of Biodiversity reports; National Protected Area Expansion Strategy for South Africa 2016; Meridian Economics, CSIR, Systems analysis to support increasingly ambitious CO<sub>2</sub> emissions scenarios in the South African electricity system; IRENA; South Africa's 3rd Biennial Update Report to the United Nations Framework Convention on Climate Change.

# An integrated and inclusive rural economy

Economic transformation and job creation also needs to extend to rural areas. Issues related to agriculture, agro-processing, job creation and land reform are central to achieving an integrated and inclusive rural economy and are illustrated in **NDP Chapter 6**. Two key outcomes are (1) to expand agriculture, and (2) to ensure meaningful land reform. It is encouraging that the gross value of agricultural production has increased by 44% since 2010.

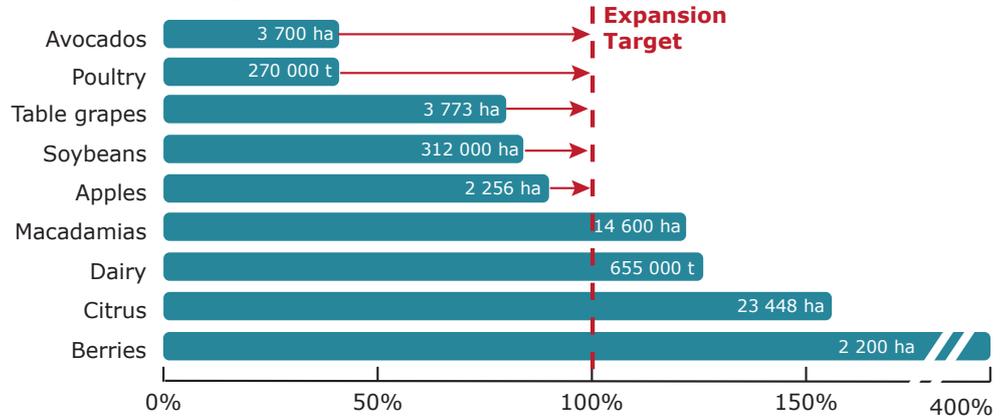
## Growth in gross value of production since 2010<sup>1</sup>

Agriculture	44%
Horticulture	70%
Animal products	43%
Field crops	22%
Agro-processing	13%

## Growth in volume of production since 2010<sup>1</sup>

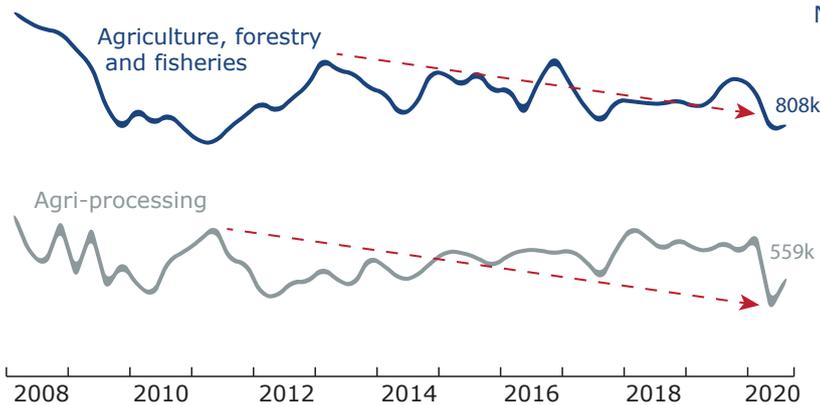
Agriculture	19%
Horticulture	23%
Animal products	21%
Field crops	12%
Agro-processing	n/a

## Commercial agricultural expansion for select commodities relative to their NDP targets



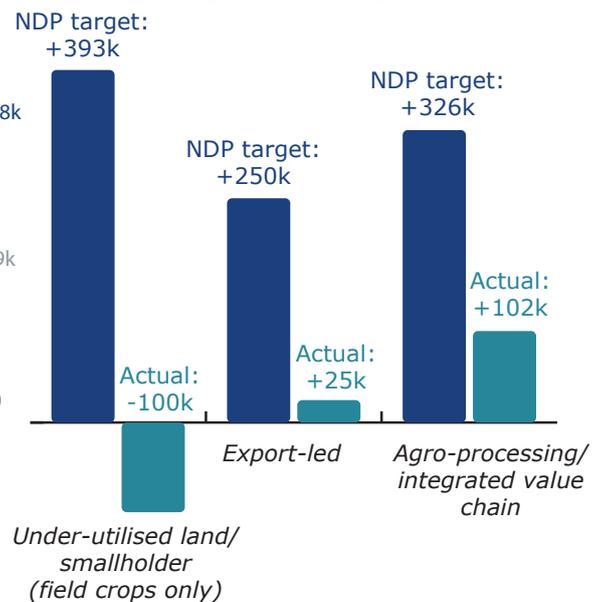
Four high value, export-led and labour intensive agricultural industries have exceeded their Vision 2030 expansion targets.

## Total agricultural employment: number of jobs

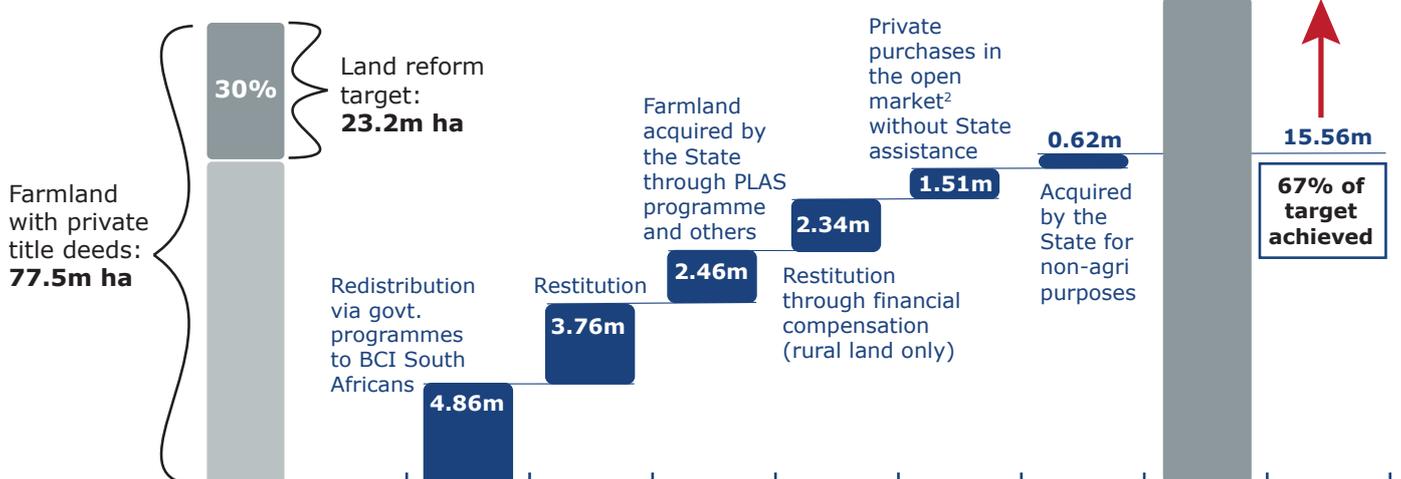


Progress in terms of creating new employment opportunities focusing on smallholder and land-reform farms and under-utilised farmland, exports and agro-food value chains has been low: there was a decline in employment in the agricultural sector until 2011, and a net gain of only 27 000 jobs created since 2011.

## Employment: targets and progress since 2011



## Land reform progress: 1994 to September 2020



**Notes:** <sup>1</sup> 5-year moving average; <sup>2</sup> By Black, Coloured and Indian (BCI) South Africans

**Sources:** BFAP; Department of Agriculture, Land Reform and Rural Development; Agri Development Solutions; Hortgro

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