



THE SAICA 2022 ECONOMIC BLUEPRINT

**REVIVE AND
REBUILD**



A collective
approach to reigniting
a resilient economy.



CONTENTS



The South African Institute of Chartered Accountants (SAICA) recognises that it, its members, and all other business enterprises constitute our country, along with government and civil society. If we want a successful country, we must contribute towards the achievement of this, recognising that it is irresponsible to expect that government should undertake the fulfilment of this on its own. The Economic Blueprint deals with economic development and growth and has not directly delved into matters of social upliftment and development which, it is understood, will flow from broadening economic participation. SAICA believes that inclusive economic growth is an essential pre-condition for effective social development, and hence the vision focuses on this precondition rather than the resulting social development. This document:

- Is intended to be a collective view of what SAICA members believe that our economic priorities should be and will be launched at the planned national/global economic conference on 14 November 2022 (Durban, South Africa). The key focus areas will be used to guide the panel discussions and solicit further input during the conference and afterwards.
- Has been developed by reviewing the economic challenges in order to deliver an improved future for our country as well as future generations of chartered accountants. It will be circulated for input to SAICA members and stakeholders and will be periodically updated to remain current.
- It will be used as an input for SAICA's strategy process as part of the collective feedback for external environmental analysis and will also help guide the objective of increasing the economic relevance of the organisation and its members.
- Is not intended to address all areas (as an exhaustive list). However, it's a first step in developing a collective (widely engaged) view that can serve as a foundational document for the profession – which we can use as a guide/input for policy/advocacy and, more importantly, getting involved – via the 'Difference Makers' campaign.
- In addition, members will use this as an input in making economic decisions and instilling leadership in their organisations and ecosystems.
- The collective vision is intended to create collective thinking and a common ecosystem for SAICA and its members in creating an economic block for impact and implementation.
- We envisage that post the conference (this project is not an event – it's a new journey of which Day 1 is 14 November 2022) the blueprint will become a strategic project housed in the office of the CEO and will become a catalytic and foundational pillar of our organisation in the same way as Learning and Development and Technical Standards.
- The implementation is envisaged to:
 - Be adopted by SAICA and then evangelised
 - Craft an internal and external roadmap post the conference – set up a task team / war room that reports to the Board and Council via the CEO. This will include (without limiting):
 - Areas of focus
 - Implementation (how segmented)
 - Economic relevance: schools and youth
 - Projects with partners
 - Projects with members or projects championed by members
 - Feed into the strategy of the organisation: immediate, short to medium term and long term
- Annually reviewing this vision and the roadmap

In compiling this document, we have highlighted the key areas of focus upfront in the document via key challenges and what areas of focus our collective vision should include/prioritise (section 2). The context for these areas has been developed by a high-level literature review and can be found in sections 3–8 of this document. Thank you for reading the documents, inputting and being part of this incredible journey for our profession in making us more (collectively) economically relevant ... Thank you for helping to create this economic vision for our country and its people ...

Now get involved, become a Difference Maker and make this vision come alive!

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1. Background and Purpose

1.1 Introduction

Democratic South Africa, the Rainbow Nation, emerged from an unjust and repressive past which had resulted in its economic isolation and a deeply polarised economy characterised by a well-developed system serving the interests of a minority while the majority were relegated to poverty and underdevelopment. In its 28 years of democracy the country has faced numerous political, economic and social challenges, yet South Africans have demonstrated an ability to overcome adversity and to regroup, recover and rebuild. It is upon this resilience and adaptability that this plan draws in order to forge a new deal that is built upon the pillar of inclusive economic growth.

The early post-apartheid period focused on the stabilisation of the macro-economic fundamentals, coupled with the mass roll-out of social infrastructure to the economically marginalised. Substantial gains were made in the delivery of housing, basic services and healthcare, as well as the broadening of the social grant support package to the vulnerable. The education system was broadened and restructured to provide better outcomes while black economic empowerment policies were pursued with the aim of economic redress and social justice. Despite their shortcomings, most of the policies bore fruit in the early part of the 21st century as a rapidly growing black middle class and high commodity prices began to fuel economic growth. This reached its peak in the mid-2000s as gross domestic product (GDP) growth exceeded 6% per annum in 2007 for the first (and last) time since democracy and real GDP per capita increased at its fastest pace.

The combination of an increased pace of economic growth and broadening access to basic services and a concomitant underinvestment in electricity generation capacity resulted in rolling black-outs that state utility Eskom termed 'loadshedding'. While the plan to address this was being put into motion, the political context found itself in fertile ground for political-economic opportunism. The resultant decade of state capture – which, inter alia, experienced a tenfold increase in Eskom debt without the increase of generation capacity – destroyed the commercial viability of Eskom as well as other state-owned enterprises (SOEs). Not only did state capture weaken the viability of SOEs, but it also decreased the capability of the state at all levels and fundamentally altered the capacity of the state to address the socio-economic challenges it was tasked with by society.

While economic growth rebounded after the 2008 global financial crisis, it was buoyed by state expenditure and the 2010 FIFA World Cup. However, since 2015 real GDP per capita has declined, productivity growth has slowed, and unemployment

has increased from its already high levels. Moreover, while the structural nature of the economy was developed under apartheid, there has been limited restructuring to keep pace with a rapidly modernising global economy that demands continual improvements in efficiency and productivity. The sluggish economy has also entrenched poverty while high levels of income inequality has aggravated social discord which, in turn, has undermined economic growth.

Inequality has contributed to extremely divergent views which have made compromises difficult, and the resulting stalemate and policy uncertainty have contributed to economic weakness. COVID-19 exacerbated the weaknesses in an economy already struggling with a recession and deep challenges. However, a closer examination of economic performance and structural challenges in the South African economy provides clear pointers for intervention that can effect change.

1.2 Purpose

SAICA and its membership have an important role to play in advocating for such change and serving as change agents to contribute to getting the country back on the path of economic development and growth. SAICA's blueprint for economic recovery will be forged through a conference convened with the aim of raising awareness, collaborating with key stakeholders, and exerting pressure on the government to take appropriate action to strengthen South Africa's economy and to get involved and make a difference. Post the conference, SAICA and its members will be proactive in publishing the outputs from the Economic Blueprint and conference discussions to create media exposure in order to create awareness and advocate for proper economic development initiatives to be put in place to grow the South African economy. The blueprint document will also be used to influence the strategy of SAICA, driving the economic relevance of our profession, and creating an ecosystem for members to get involved and make a difference via the Difference Makers campaign. It is envisaged that this vision will be updated annually.

The purpose of the SAICA economic recovery blueprint is as follows:

- To be used by the profession, SAICA and its members to create a vision to drive policy and advocacy relating to the inclusive growth of the economy (as a collective economic block)
- To be used as input for SAICA's strategy process as part of the collective feedback for external environmental analysis and help increase the economic relevance of the organisation and its members

- We envisage that post the conference – this project is not an event: it's a new journey – Day 1 is 14 November 2022 – the project will become a strategic project housed in the office of the CEO and will become a catalytic one that will become a foundational pillar of our organisation (like Learning and Development and Technical Standards)
- To create a guideline/roadmap for members to use as a tool to drive economic and business decisions
- To stimulate engagement and participation in a way that will, in the long run, actively benefit all South Africans and create a better future for all
- To be used as the basis for complementing and influencing the work of other professional bodies and society at large

To consolidate key findings and themes that call for policy intervention and prioritisation, as well as identify workable solutions to further input into the blueprint, SAICA will host a conference (and dinner) on 14 November 2022 which will bring together industry specialists/experts to engage business leaders and share insights in relation to the proposed SAICA Economic Blueprint. In addition, as a collective, SAICA will be launching a few initiatives on this platform which will create an enabling environment for business to get involved.

The implementation of the United Nations' Sustainable Development Goals (UN SDGs) is part of SAICA's strategy and offers a significant opportunity for change in social, economic and environmental challenges; as a result, it is essential to link SAICA's economic recovery blueprint goals with the UN SDGs to establish practical solutions for a sustainable economy. This blueprint also draws on South Africa's National Development Plan (NDP), as well as various government policies.





2. Towards an economic blueprint

Problem statement:

There has been a failure to address the injustices of apartheid, which were characterised by high inequality, unemployment, and a skills deficit due to the deterioration of the business environment and the breakdown of state functions and structural inefficiencies, all of which threaten social cohesion and the constitutional democracy.

VISION
A reignited and resilient economy achieved through a modern, efficient and sustainable business environment supported by enhanced productivity, a sound constitutional democracy, a reliable infrastructure and strong social cohesion

CHALLENGES (not in order of priority)	GOALS
Challenge 1: There are high and increasing levels of unemployment which pose an existential threat to the country.	GOAL 1: The public and private sectors to drive programmes and adopt economic development policies and strategies that lead to the creation of meaningful and sustainable jobs in both sectors.
Challenge 2: The current low level of investment hinders economic growth and job creation.	GOAL 2: Vision: An investment environment which is attractive and hospitable to investors, both local and foreign, and which reflects an optimally constructive balance between the two.
Challenge 3: The business environment has become increasingly complex and imposes a huge cost on businesses while hindering entrepreneurship.	GOAL 3: A simplification of the regulatory environment to improve the cost and ease of doing business.
Challenge 4: Society and businesses are faced with rampant crime, grime and corruption.	GOAL 4: A safe and secure environment with strong institutions of justice and good governance, and a culture of accountability.
Challenge 5: The decline of the national and local network infrastructure in general, and electricity in particular, poses a fundamental threat to the economy.	GOAL 5: A national and local infrastructure platform that supports the growth of a dynamic modern economy.
Challenge 6: Small and micro businesses are struggling to survive and thrive.	GOAL 6: A vibrant small and micro business sector which creates start-ups and sustainable enterprises.
Challenge 7: There is a lack of meaningful partnerships between all sectors of society.	GOAL 7: Improved impact of collaboration and partnerships.
Challenge 8: Environmental vulnerability is increasing and supply chain disruptions are becoming more frequent.	GOAL 8: Build more resilient supply chains, cities, towns and rural areas, which are networked and adaptable.
Challenge 9: There is a shortage of skills for the modern economy.	GOAL 9: The public and private sectors will jointly promote the development of skills and education to ensure that the economy is well-served, especially in sectors which are identified as being of particular significance to the country's economic growth.

Challenge 1: There are high and increasing levels of unemployment which pose an existential threat to the country

It is clear from the analysis that South Africa is facing an unemployment crisis: the official unemployment rate stands at around 34% and the real expanded unemployment rate is much higher, at possibly over 44%. A failure to address this crisis will undermine progress in all other areas.

The unemployment levels in South Africa are among the highest in the world and are an important driver of the high levels of inequality and crime prevalent in society. Over the last 28 years, the rate of job creation in the formal economy has been slow: it was only between 2003 and 2009 that both economic growth and job creation made substantial progress. However, due to the end of the commodities super-cycle, this was not sustained and from about 2013, the declining levels of

economic growth have contributed to low levels of employment creation. To address the high levels of unemployment, there is a need for short- and long-term approaches. While the longer-term approaches are related to the economic fundamentals highlighted later, the short-term interventions are outlined below.

GOAL 1 The public and private sectors to drive programmes and adopt economic development policies and strategies that lead to the creation of meaningful and sustainable jobs in both sectors

- In this context, the role of the informal economy in absorbing labour and creating new informal businesses is of critical importance. The informal economy needs to be supported through government interventions, which have thus far been too few and disjointed.
- Red tape (bureaucracy) which stifles the establishment and growth of small and micro businesses needs to be removed and replaced with a more enabling environment for small business growth.
- Employment creation schemes such as the YES programme and others, including short-term public employment schemes, need to be promoted to roll out mass employment to young South Africans, while education systems should be fixed to ensure that the youth are more employable.
- Labour regulations need to be reviewed in line with global good practices to improve labour absorption in the economy, and the voice of the unemployed must be included in structures such as the National Economic Development and Labour Council (NEDLAC).

LINK TO MORE INFORMATION

Challenge 2: The current low level of investment hinders economic growth and job creation

While investment is a critical driver of economic growth and job creation, the levels of domestic and foreign direct investment in the South African economy has been reducing, particularly over the last 7–8 years. In addition, it is clear from the analysis that the decline in investment has occurred in the private sector as well as with government. The Presidential initiative around increasing investment levels is critical in turning this around. However, it is also fundamentally important to create an environment that is conducive to business and investment. Increasing business confidence is the cornerstone to improving investment into the South African economy. While the President's investment summit is an encouraging initiative, a lot more demonstrable action needs to be taken to roll out the red carpet, and not red tape, for both domestic and foreign investors.

GOAL 2 Vision: An investment environment which is attractive and hospitable to investors, both local and foreign, and which reflects an optimally constructive balance between the two

- There is a need for greater policy certainty on key matters such as the expropriation of land without compensation, as well as around the mining sector (among others), which

- seriously inhibit foreign and local investment
- Ensure the creation and maintenance of an environment conducive to the successful conducting of business across the critical sector
- Improve investment rating through an improved fiscal framework and macro-economic performance
- Improve business confidence through an end date to loadshedding (Day Zero) and a well-functioning efficient business regulatory environment
- Localisation initiatives need to gain traction across government and business with both supply-side support and demand-side implementation of a supportive policy environment
- Potential grey-listing by the Financial Action Task Force (FATF, an inter-governmental finance body that monitors compliance with anti-money laundering and countering terrorist financing practices) could have a serious impact on doing business and getting foreign investment into the country. South Africa's banks reported over 394 000 suspicious transactions and over 4,85 million large cash transactions to the Financial Intelligence Centre in 2021. The Anti-greylisting Bill which is currently open for public comment is an important step in addressing the current shortcomings.
- Government must ensure that its levels of debt are stabilised and reduced, as maturing debt presents a major challenge to the fiscus. To do this, it needs to turn around the SOEs which impose contingent liabilities on government.

LINK TO MORE INFORMATION

Challenge 3: The business environment has become increasingly complex and imposes a huge cost on businesses while hindering entrepreneurship

Over the 17-year period of the World Bank's Doing Business survey, South Africa slipped from its initial ranking in the 50s down to finally ending up in 84th place when the last survey was conducted in 2019. Several other African countries that were initially ranked lower than South Africa have made improvements and moved ahead of South Africa in the rankings. National Treasury implemented the Sub-National Doing Business Survey that was aimed at improving the ease of doing business within the country's metros in South Africa from 2015. Significant changes to the following are required to improve the business environment for service delivery: the departments of Home Affairs and Transport, the South African Revenue Service (SARS) and Customs, trade regulations and agreements, complex BB-BEE reporting, South African Police Service (SAPS) crime fighting and the Deeds Registry.

GOAL 3 A simplification of the regulatory environment to improve the cost and ease of doing business

- Benchmark and improve the processes associated with doing business in the country.
- Fast-track broadband spectrum availability.
- Rationalise and simplify regulations relating to small, medium and micro-enterprises (SMMEs): tax, BB-BEE, etc.



- A uniform definition of the terms micro, small and medium businesses is required.
- Upgrade land tenure systems of lower-income individuals and those living in rural areas to levels that allow land to be used as collateral in the formal banking sector, while simultaneously addressing the conservative approach of banks towards land tenure systems in former townships and traditional authority areas.
- Rationalise and integrate business support institutions and incentive instruments across government to ensure that they are more effective and responsive to business needs.
- Develop benchmarking and standards of service delivery for local governments as well as provinces and key national departments.
- Increase the take-up of Fourth Industrial Revolution (4IR) technologies and practices to improve government service delivery.
- Improve and extend financial services for the poor.
- Reduce the cost of banking and overall financial services.
- Improve and simplify tax compliance for small businesses while improving turn-around times for VAT refunds.
- Further key areas for intervention are listed under Goal 8.
- Improve IT systems and regulatory processes at government institutions to speed up the processes (the Department of Labour's UIF and COIDA registrations and queries; Master of the High Court for executor and trustee appointments; the Department of Home Affairs for work visas for foreign nationals who want to (or have) invest and work in SA)

[LINK TO MORE INFORMATION](#)

Challenge 4: Society and businesses are faced with rampant crime, poor urban management and corruption

Fundamental to improving business confidence and the business environment is the dire need to reduce the high levels of crime and violence in the country. The murder rate in South Africa ranks among the highest in the world and is a serious cause for concern. Crime is also the biggest driver of emigration and the cause for South Africa's haemorrhaging of skills and talent to other global locations. Apart from the high levels of crime and violence, the high levels of corruption in both the government and the private sector have placed a huge burden on government finances and on society in general.

Good urban management at the local level can reduce the impact of crime on businesses while ensuring that locations are maintained in a good condition, thereby improving business sentiment and encouraging investment. Tackling state capture has been a priority for the current government administration. However, the rot runs deep in both government and business and requires a renewed focus by professionals at all levels to turn the tide on state capture and improve the oversight role that professional bodies play. (State capture is everyone's business.)

GOAL 4 A safe and secure environment with strong institutions of justice, good governance and a culture of accountability

- Develop a coherent set of values that underpin what it means to be South African for teaching across all levels of society.
- Government, civil society and business to work together to build support for a constitutional democracy and the institutions that uphold the rule of law.
- SAICA and all professional bodies to review and uphold their code of ethics and to hold members accountable, while business chambers and formations must hold their members accountable.
- All government officials must also be held accountable to a code of ethics.
- Business must be committed to employment creation, which is a cornerstone for reducing crime and as such relates to all the other goals as well.
- Strengthen crime intelligence and the investigative capacity of SAPS and other law enforcement agencies to ensure speedy conclusion and appropriate sentencing of cases, along with visible policing.
- Work with the legal fraternity to improve victim support and rights, including gender-based violence (GBV).
- Ensure the public accountability of SAPS and institutions upholding the rule of law.
- Work with government departments and municipalities to promote good governance.
- Promote the development of a peaceful dispute resolution mechanism that actively promotes peace and harmony at community level – this should intervene where there are service delivery protests, build bridges and tolerance among communities, and undertake nation-building.
- To break the system of political patronage and nepotism within government administration, government officials should not hold any political office.
- Business should support strong and independent media, an unbiased judiciary, and unaffiliated leadership of Chapter 9 institutions tasked with supporting the constitution.
- A more integrated approach is needed to tackle extortion-linked business forums and organised crime syndicates – thereby targeting illicit financial flows.
- Implement strategies to prevent corruption – this should start from a young age and the development of ethics should be taught to school learners. For example, learners should be provided with tools they will be able to use to develop ethics in their business one day.
- Certain work should be rewarded by not only hours worked (for example an employee gets a salary whether the person is at work or on annual leave, sick leave, maternity leave, family responsibility leave, etc). Reward could be split between hours worked and per deliverable (output based), thereby encouraging the employee to come to work and deliver something of value for which the employee will then be rewarded.

- The poor performance of many municipalities must be addressed and management held accountable (a functional municipality and effective basic services will drive economic development).

[LINK TO MORE INFORMATION](#)

Challenge 5: The decline of the national and local network infrastructure in general, and electricity in particular, poses a fundamental threat to the economy

Over the last 15 years, owing to state capture, mismanagement and inefficiencies, government has not been able to increase the amount of electricity generated in the country. Government must now privatise and democratise the energy generation sector with far greater urgency. While this is happening, all electricity distribution entities, including municipalities, should be allowed to purchase electricity privately using the King IV codes of good governance rather than the complex red tape of the Public Finance Management Act (PFMA) and Municipal Finance Management Act (MFMA).

The analysis clearly demonstrates that over the last 10 years there has been a decline in government infrastructure spending on network industries. These sectors create the platform for the economy to function and the declining levels of investment have been accompanied by declining efficiency and effectiveness of infrastructure. At national level the decline has been noted in electricity, freight rail, ports, roads and water. However, the decline has not only been prevalent in national departments and SOEs, but also in almost all of the larger cities.

It is important to note that if the country cannot ensure that its largest cities remain competitive and well-functioning, there is little chance of secondary towns and rural areas being functional. The electricity crisis has been particularly harsh to the South African economy and is largely responsible for the economic down-turn that the country has experienced. At the same time the fiscal position of government is such that it has a limited ability to address the country's infrastructure crisis. Hence, investment into network industries will need to be driven by through public-private partnerships (PPP) and other partnership models of infrastructure investment.

GOAL 5 An infrastructure platform that supports the growth of a dynamic modern economy

- Electricity generation requires an urgent and collective intervention plan between government in partnership with business to rapidly increase the private electricity generation capacity in the country. This must be supported by a Day Zero for the ending of loadshedding. The King IV codes of good governance should be applied to the electricity sector as a framework for independent power purchasing by electricity distribution entities (including municipalities), while the independent power producer (IPP) legislative process should be streamlined and simplified.
- To meet this vision requires turning the current downward cycle of infrastructure investment into an upcycle – particularly among the SOEs and in the 10 largest cities in the country.
- There is a need to rapidly grow investment into the freight rail network to allow a shift of containerised freight and break bulk to be transported by rail, particularly

between Gauteng and KwaZulu-Natal (KZN). This should be done through a combination of state investment and concessions to the private sector.

- Due to the financial limitations of the state, investment in the economic infrastructure must be driven through partnerships with the private sector with a view to ensuring that such infrastructure is optimally productive.
- Infrastructure performance standards and benchmarks should be set across key operations such as ports, freight rail, electricity, water, sanitation, etc, which are linked to the performance plans of ministers, management and staff within those sectors.
- Restructure all SOEs to promote competition and limit the inefficiencies associated with state monopolies in the economy with reference to ports, rail, electricity, postal, etc.
- Promote PPPs aimed at alleviating infrastructure challenges at local government level in electricity, water and wastewater, while local government, starting with the metros, must meet minimum benchmarks relating to infrastructure investment (for example >15% of budget to go to capital works).
- There should be a re-evaluation of the institutional structure in the water provision sector to reduce the administrative burden and hence the cost of water.
- The further deregulation of electricity should be pursued to allow for the private generation and distribution of electricity linked to renewable energy and environmental policies. In addition, households should generate their own electricity through the use of renewables. Individual households should be rewarded for pushing back excess electricity into the grid.
- Individual households should capture rain water, which can be used for watering gardens and for toilets, in at least one water tank per household.

[LINK TO MORE INFORMATION](#)

Challenge 6: Small and micro businesses are struggling to survive and thrive

In comparison with other developing economies, the SME sector in South Africa contributes far less to GDP and jobs. SMEs also experience a high failure rate which is driven by a range of factors such as their inability to access affordable finance, the lack of coherence in government support and incentives, a complex business regulatory environment, and a lack of business skills.

GOAL 6 A vibrant small and micro business sector which creates start-ups and sustainable enterprises

- Having carefully considered the factors that determine either the success or failure of micro and small businesses, government and the private sector must implement strategies to enable the growth of the small business sector and the sustainability and growth of enterprises within it.
- The 4IR presents significant opportunities for start-ups in various sectors. The role of government support institutions and business should be to extend essential infrastructure and greatly reduce the cost of Internet



access across the whole country. In addition, policy implementation, monitoring and enforcing are required to ensure that mobile network operators fulfil the licensing requirements, including providing rural areas with network access.

- Support institutions need to be integrated across departments and spheres of government while reducing the barriers of access.
- The informal sector needs to be supported and assisted, as they represent a major opportunity for addressing unemployment.
- The high costs of compliance and a complex legislative environment need to be unburdened and simple legislation that enables growth needs to be put in place.
- More space should be provided for small businesses at minimal rent, for example a big space within a shopping mall can be divided into small stalls for small businesses to sell their goods –hence the concept of a fleamarket / pop-up businesses in a shopping mall.

[LINK TO MORE INFORMATION](#)

Challenge 7: There is a lack of meaningful partnerships with all sectors of society

Strong partnerships and collaboration between government, business, trade unions, civil society and all sectors of society are critical to building a strong democracy that is economically inclusive and protects the economy against sabotage. The breakdown of such broad partnerships was instrumental in fostering the environment that enabled state capture and the destruction of public corporations. In addition, the absence of such meaningful partnerships contributed to the economic sabotage experienced during the July unrest of 2021, as well as the burning of trucks and blockading of national routes and lately disrupting power delivery at Eskom.

GOAL 7 Improved impact of collaboration and partnerships

- Government, business and civil society should engage in participative, facilitative and accountable governance characterised by the development of a meaningful and co-operative relationship between the different sectors.
- In addition, the fostering of social compacts between labour, business, government and the economically marginalised or disenfranchised must be pursued so that the economy becomes more inclusive and labour absorbing. The current representation on NEDLAC excludes the unemployed and those excluded from the economy.
- Concessions by all parties are critical to achieve an economy that is more inclusive and works for all of society.
- Structured partnerships between the private and public sectors are essential for the revival of key network industries, including ports, rail, electricity, water and sanitation.
- There needs to be a strong partnership between government, business, and civil society to collaborate around disaster planning.

Challenge 8: Environmental vulnerability is increasing and supply chain disruptions are becoming more frequent

There has been a growth in the impact of environmental risks on the economy and society in general. Apart from the growth in zoonotic diseases risk that became evident through COVID-19, numerous extreme weather events globally have caused disruptions to global supply chains. Recent floods in Pakistan and heatwaves in Europe and North America have taken a high toll on human lives and the economy. In South Africa, recent extreme weather events include droughts in Cape Town and Gqeberha, while KwaZulu-Natal have been devastated by extreme flooding on multiple occasions. The slow response to repairing economic infrastructure in eThekweni has resulted in catastrophic levels of pollution and biodiversity loss along the region's catchments, as well as a negative impact on tourism because of the declining quality of beach water. The July 2021 unrest, as well as disruptions along the N3 between Durban and Gauteng, highlighted the vulnerability of supply chains in general and the logistics sector in particular.

[LINK TO MORE INFORMATION](#)

GOAL 8 Build more resilient supply chains, cities, towns and rural areas which are networked and adaptable

- A clear environmental policy path is required that balances long-term environmental imperatives and sustainable economic growth. This is made possible by our abundant natural resources.
- Planning for climate change must become an essential part of short- and long-term planning at all levels of government, as well as of business continuity planning for firms.
- The economy must adopt approaches that work with nature – approaches such as circular economy principles, energy efficiency, eco-tourism and carbon efficiency should become important ways of doing business across the country.
- The shift away from fossil fuels must incorporate an appropriate energy mix that ensures energy security while minimising environmental impact.
- Disaster planning at all levels needs to be more responsive while the recovery efforts need to ensure greater speed and co-ordination (than has been the case in Durban). There needs to be a strong partnership between government, business and civil society to collaborate around disaster planning.
- Critical supply chains need to be mapped and resilience strategies developed to ensure continuity.

Challenge 9: There is a shortage of skills for the modern economy

The International Monetary Fund (IMF) review of the education sector in South Africa highlighted the poor education outcomes in the country's schooling system relative to the high levels of government spending on education. The key challenge to achieving better outcome relates to early childhood development, as well as teacher competencies in rural and

township schools and the lack of effective performance management systems. The result is that the schooling system does not produce the skills to enable effective tertiary education or employment. In addition, the dysfunctional Technical and Vocational Education and Training (TVET) sector holds back the economic potential of this sector to create meaningful employment.

[LINK TO MORE INFORMATION](#)

GOAL 9 The public and private sectors will jointly promote the development of skills and education to ensure that the economy is well-served, especially in sectors identified as being of particular significance to the country's economic growth

- Performance systems for teachers and principals at schools must be implemented, as well as an associated system of recognition and rewards for performance improvement. Consistently poor-performing schools should undergo performance counselling while consistently poor-performing teachers and principals should be fired.
- Move to a purely merit-based system of employment and promotion in the private and public sectors, with particular attention (and piloting) at local government level.
- Develop a skills strategy relating to the digital economy, including the 4IR.
- Establish national and local level partnerships between education and industry to bridge the skills mismatch. Industry bodies must have direct input into curriculum development in the TVET sector.
- Development of a public-private investment plan into the revival of the TVET sector, along with the introduction of a system of performance management and minimum standards.
- The culture of entrepreneurship and performance should be engrained from basic education to tertiary education level through incorporation in curriculum development and creating partnerships between the education system, professional bodies and industry.
- Development of skills from a basic education level should be re-encouraged.

2.1 Draft proposed conclusion for the SAICA Economic Blueprint

Where to from here?

The advent of the publishing of the SAICA Economic Blueprint and its launch Economic Conference represents the start of a new journey for SAICA and its members.

In order to reignite the South African economy, a new economic policy and implementation block are necessary to create a groundswell of influence in order to facilitate such change.

The chartered accountancy profession thrives in a growing economy, and who better to create and drive such an economic

block than CAs(SA)?

The mission of SAICA is to Develop, Influence and Lead and thus SAICA launching this initiative will increase the relevance of the CA(SA) profession, its members, and SAICA in terms of our involvement in facilitating the rebuilding of the South African economy.

So what does this mean for CAs(SA) and SAICA?

SAICA and its members need to proactively adopt the achievement of the nine goals set out in this blueprint and strongly advocate and lobby for these goals to be achieved in partnership with the private and public sectors for the benefit of everyone in South Africa.

SAICA will use the blueprint to also influence and update its strategy – in particular its economic relevance.

To begin this journey we invite all our members to actively join us in creating a better future in the public interest by adopting the pursuit of these goals. Members are also encouraged to use the blueprint for their organisations in influencing planning strategy and operations. In addition, members should also implement elements of the blueprint, if possible and appropriate in areas where the relevant influence or control exists.





The Economic Blueprint for SAICA is based on an overview of the economic performance of South Africa over the recent past. It is important that the strategy of SAICA is driven from an informed perspective, and hence this brief contextual overview of the performance of the South African economy sets the context for the vision and goals of the blueprint set out above.

3.1 Macro-economic performance

3.1.1 Monetary policy

South Africa's consumer price inflation has remained fairly stable between the South African Reserve Bank's (SARB's) targeted 4% and 6%. The exceptions to this have been driven mainly by external shocks, including:

- The depreciation of the rand in 2001 due to speculative trading, while its subsequent appreciation was driven by a stronger current account surplus (Hodge, 2005, HSRC).
- The impact of the 2008 global financial crisis.
- The impact of COVID-19 lockdowns in 2020 led to many nations introducing stimulus packages. This subsequently pushed up inflation, which brought higher interest rates and resultant stabilisation.

According to National Treasury, headline inflation is projected at 4,8% in 2022 and 4,4% in 2023. However, the annual inflation rate accelerated to an over 13-year high of 7,8% in July of 2022, from 7,4% in June, above market expectations of 7,7% and above the upper limit of the SARB's target range of 3-6%. Food and energy prices, especially higher municipal rates due to rising electricity prices, high domestic food inflation and elevated fuel prices, are expected to be the key sources of inflationary pressure in 2022. Fuel prices were up 40,4% in the year to December 2021 owing to higher global crude oil prices. Fuel prices are expected to ease during 2022 but remain

elevated and above the 2019 average price level. Global supply demand imbalances triggered an acceleration in the price of raw materials and intermediate inputs, which will continue to put upward pressure on consumer inflation (National Treasury, 2022).

While there has been criticism of the SARBs conservative approach to monetary policy, in general it has done a good job of maintaining inflation at levels that have created economic and financial stability. The continued independence of the SARB and its conservative approach to monetary policy will create a stable platform for growth. However, sustainable growth requires that the structural challenges to growth be addressed rather than relying on currency manipulation to promote growth.

3.1.2 Fiscal policy

Democratic South Africa inherited a large debt burden from the apartheid state, and despite the acceleration of social infrastructure spending through the Reconstruction and Development Programme (RDP), the debt-to-GDP burden was reduced from 45% in 1994 to 23% by 2008. From 2009 there was an acceleration of state spending and debt was projected to reach 80% of GDP by 2022/23.

Government has failed to close the large gap between revenue and expenditure that has emerged since the 2008 global financial crisis. Since 2009, rising expenditure, unmatched by revenue growth, has led to primary deficits and a sevenfold increase in public debt. Government debt amounted to R627 billion in 2008/09, which rose to R2,02 trillion in 2015/16 and was projected to increase to R4,35 trillion in 2021/22. Inflation-adjusted public debt in 2008/09 was equivalent to R22 869 per capita, which increased to R69 291 per capita in 2022. Over the same period, the real interest costs on this debt more than doubled from R1 984 to R4 278 per person per year. This trajectory far exceeds per-capita GDP growth and cannot be

sustained. In 2021/22 interest repayment on debt was the single largest budget item, exceeding education, health care and social cluster spending.

The consolidated budget has grown from R712,8 billion in 2008/09 to R2,08 trillion in 2021/22 – an average annual increase of 8,6% that was not matched by gains in efficiency or effectiveness. Much of the growth was absorbed by rising public-service salaries and debt-service costs. The composition of public spending has also deteriorated with spending that supports long-term growth (such as infrastructure investment) now accounting for a smaller proportion of the total. Government expects to achieve a primary surplus where revenue exceeds non-interest expenditure by 2023/24. In 2024/25, National Treasury expects the main budget non-interest expenditure to grow slightly above CPI inflation. The consolidated budget deficit is projected to narrow from 6% of GDP in 2022/23 to 4,2% of GDP in 2024/25. Gross loan debt is expected to stabilise at 75,1% of GDP in 2024/25. Debt-service costs consume an increasing share of GDP and revenue and are expected to average R333,4 billion per annum over the medium term. Total consolidated government spending will amount to R6,62 trillion over the next three years and the social wage will take up 59,4% of total non-interest spending over this period. Additional allocations of R110,8 billion in 2022/23, R60 billion in 2023/24 and R56,6 billion in 2024/25 are made for several priorities that could not be funded through reprioritisation. These include the special COVID-19 social relief of distress grant, the continuation of bursaries for students benefiting from the National Student Financial Aid Scheme (NSFAS) and the P residential employment initiative. The bulk of the spending is allocated to learning and culture (R1,3 trillion), social development (R1 trillion) and debt service costs (R1 trillion) over the Medium Term Expenditure Framework (MTEF). Economic development and community development grew faster than other functions, at 8,5% and 7,9% respectively over the medium term (National Treasury, Budget review 2022).

The result of the ballooning debt burden is that government must maintain a careful balance between expenditure drivers such as public service wage increases and the social wage and spending needed for economic growth. A precondition of the latter is structural changes to SOEs to ensure greater efficiency and lower contingent liabilities for government. Economic liberalisation holds the greatest potential for improving efficiency while reducing debt.

3.2 Structure of the real economy

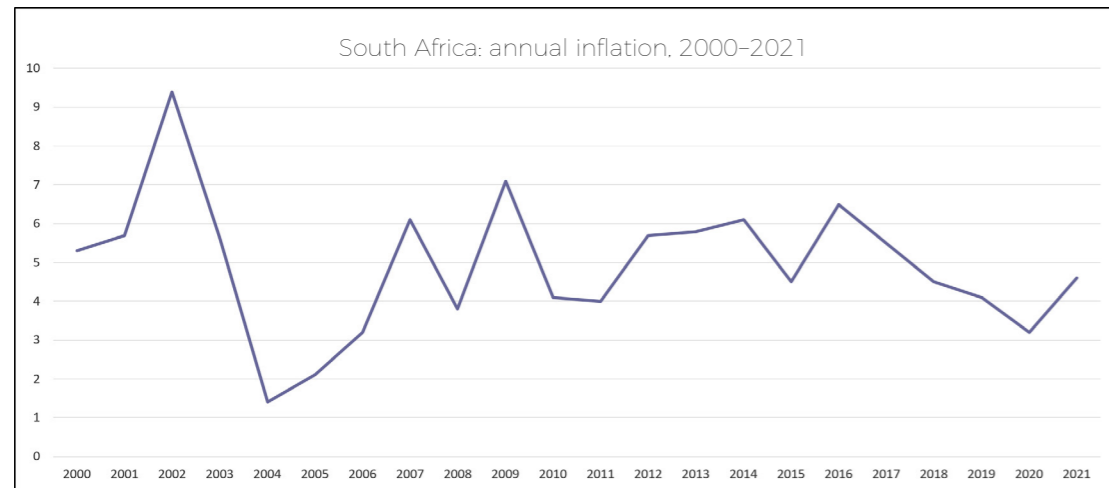
The structure of the South African economy has changed over time from its strong base of agriculture and mining in the early 20th century to an economy driven by industrialisation and manufacturing by the late 1900s. The 21st century has been characterised by strong growth in community services and finance. In general, the services sectors have come to dominate an increasingly post-industrial economy. However, due to the high levels of unemployment, driven by low levels of skills among the unemployed, the role of mining, agriculture and manufacturing is critical in driving employment. Network industries such as electricity, transport, water and digital infrastructure create the platform for growth and are hence critical enablers for the growth of all other sectors of the economy. Weaknesses in these network industries, which are dominated by state ownership, have held back economic performance and job creation over the last 10 years.

3.3 Performance of the real economy

After the resurgence of COVID-19 infections towards the end of 2021, the IMF lowered its expectation for global growth in 2022 from 4,9% to 4,4%. Alongside new restrictions, elevated inflation, the withdrawal of the US fiscal support package and the consequences of volatility in China's troubled real-estate sector have reduced growth projections. A key risk is that new COVID-19 variants will prolong the pandemic and disrupt economic activity. Vaccination rates in developing countries are much lower than in their developed counterparts, and the emergence of new variants increases global vulnerability. There remains a high degree of uncertainty over the trajectory of the virus and policy responses. The shape of the global recovery has exacerbated inequality across countries and sectors. By the end of 2022, developed countries will have returned to pre-pandemic output levels, but developing countries will not have fully recovered. In many cases, employment continues to recover more slowly than GDP.

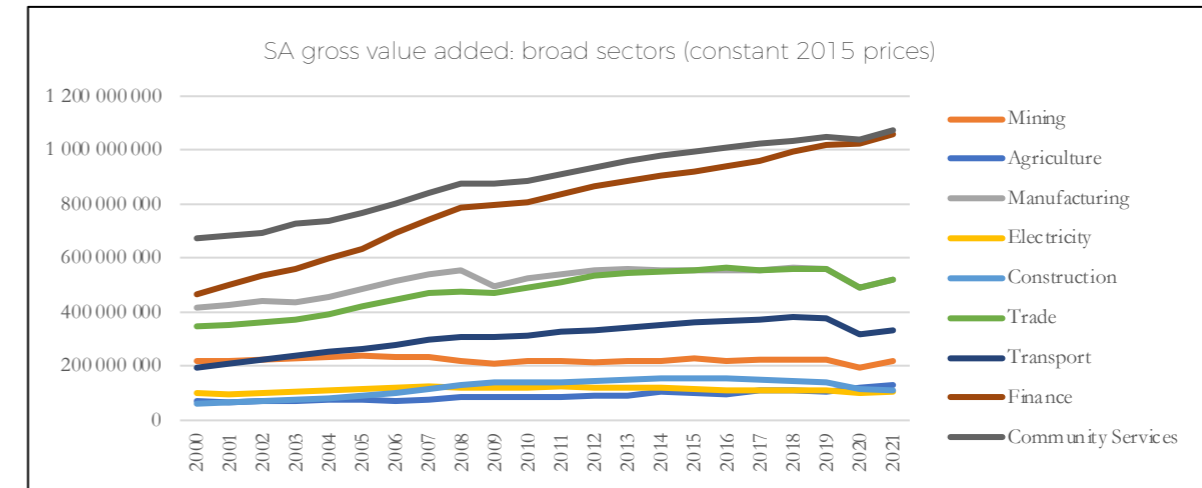
The South African economy grew by an estimated 4,9% in 2021 compared with the 5,1% projected by National Treasury in the 2021 Medium Term Budget Policy Statement (MTBPS). The downward revision reflects a sharp third-quarter contraction driven by a new wave of COVID-19, the outbreak of public violence in July 2021, heightened global uncertainty, and modest growth expectations for the fourth quarter following

Figure 1 South African annual CPI



Source: SARB (2022)

Figure 2 Gross value added among nine broad sectors of the South African economy



Source: IHS Markit Global Insight (2022)



renewed power cuts. South Africa's real GDP is expected to grow by 2,1% in 2022 and average 1,8% over the medium term. The country's GDP expanded by 1,9% in the first quarter of 2022, representing a second consecutive quarter of upward growth, but declined by 0,7% in Q2 following the impact of the KZN floods. The size of the economy is now at pre-pandemic levels, with real GDP slightly higher than what it was before the COVID-19 pandemic.

The recovery has been extraordinarily bumpy and the volatility of growth in the past seven quarters has been almost 10 times as large as the average for the rest of the democratic era. The standard deviation for quarterly GDP growth was 0,6% from 1993 to the first quarter of 2020 and even if the extraordinary decline in the lockdown in the second quarter of 2020 is excluded, the volatility was 5% from the third quarter of 2020 to the first quarter of 2022 (TIPS, 2022).

In 2021, the agriculture, mining and construction sectors declined (all labour-intensive sectors that impact on poverty levels the greatest), while growth was driven by personal, business and government services. The manufacturing sector grew by an unimpressive 1% in 2021 but surged by 4,9% in Q1 of 2022. The KZN floods in April 2022 had a negative impact on a number of industries, most notably manufacturing. Manufacturing is the largest industry in KwaZulu-Natal, according to 2019 data, accounting for a fifth of national manufacturing production. The damage to factories and plants, and disruptions to logistics and supply chains, pulled national manufacturing output down by 5,9%. The biggest drags on growth were petroleum and chemical products, food and beverages, and transport equipment, driven by the shutdown of Toyota, Sapref, Engen, Mondi and several large factories in the South Durban industrial basin.

Manufacturing is one of the country's most globalised sectors and responds to both global and local shocks. In general terms, manufacturing grew in its share of GDP from the 1990s until the global financial crisis in 2008, as export markets were greatly impacted. Following the 2008 global financial crisis, manufacturing failed to make further gains due in part to global as well as local factors. The key local contributor was South Africa's electricity crisis, coupled with rising electricity costs and inefficient ports and rail. The sector declined sharply in 2020 due to the COVID-19 pandemic, which posed both demand and supply side challenges. However, the sector returned to pre-pandemic levels by about March 2021 before experiencing another sharp decline because of the July unrest and the floods of April 2022.

Significant risks to the economic outlook include new COVID-19 variants leading to new waves of infection, continued interruptions in the power supply, rising inflation and fiscal risks. In addition, rapid global interest rate increases would also have negative consequences for the economy. Nevertheless, the growth outlook for 2022 has improved slightly since the 2021 MTBPS. Structural constraints have reduced potential economic growth for the past decade and remain an impediment to the recovery. During 2021, the economic effects of the pandemic – lost jobs and delayed investments – were exacerbated by the inadequate electricity supply, with the highest levels of loadshedding to date. There are signs that this combination of factors has led to scarring defined as medium-term economic performance below pre-pandemic projections. Higher global inflation, monetary policy adjustments, commodity price changes and emerging geopolitical risks also contribute to elevated uncertainty over the medium term. The initial recovery in economic growth during 2021 was not matched by higher employment or investment.

The South African government's previously announced economic reforms are under way (through Operation Vulindlela),

though at an uneven pace. More rapid implementation of these reforms, complemented by fiscal consolidation, will provide a stable foundation for growth and ease investor concerns about South Africa while supporting a faster recovery and higher levels of economic growth over the long term. Reducing regulatory constraints, providing effective services delivery, and coordinating and sequencing economic interventions will bolster public and private investment which will, in turn, increase resilience and support economic transformation.

In the 2022 State of the Nation address, the President noted that 'the key task of government is to create the conditions to enable the private sector – both big and small – to emerge, to grow to access new markets, to create new products, and to hire more employees'. Reforms that promote growth and employment are needed to build on the recovery observed over the past year. These include interventions to stimulate demand through investment in infrastructure, complemented by employment programmes and social transfers that will boost household consumption. Modernising network industries will support an increase in the economy's productive capacity, increase electricity production and reduce the cost of doing business. Progress has been made in structural reforms through Operation Vulindlela, including lifting the registration threshold for embedded electricity generation (initially to 100 MW and then removing the cap), corporatising the Transnet National Ports Authority, implementing an eVisa system, and overhauling the water-use licensing system. Further progress is required in the approval process to register embedded electricity generation plants, complete the analogue to digital migration and auction spectrum, and clear the backlog of water-use licences.

The pandemic and the public violence in July 2021 took a severe toll on the labour market, with 2,1 million fewer jobs in Q3 of 2021 compared to Q4 of 2019. There is a real risk that many of the jobs eliminated will not return. Reforms that lead to job creation and expand entrepreneurship would raise incomes and consumption expenditure over time and lead to growth of the middle class. Post-COVID-19 recovery strategies have converged around job creation and income support. This includes stimulating the economy through public employment programmes and tax incentives while implementing reforms that ease the skills constraint and make it easier to do business.

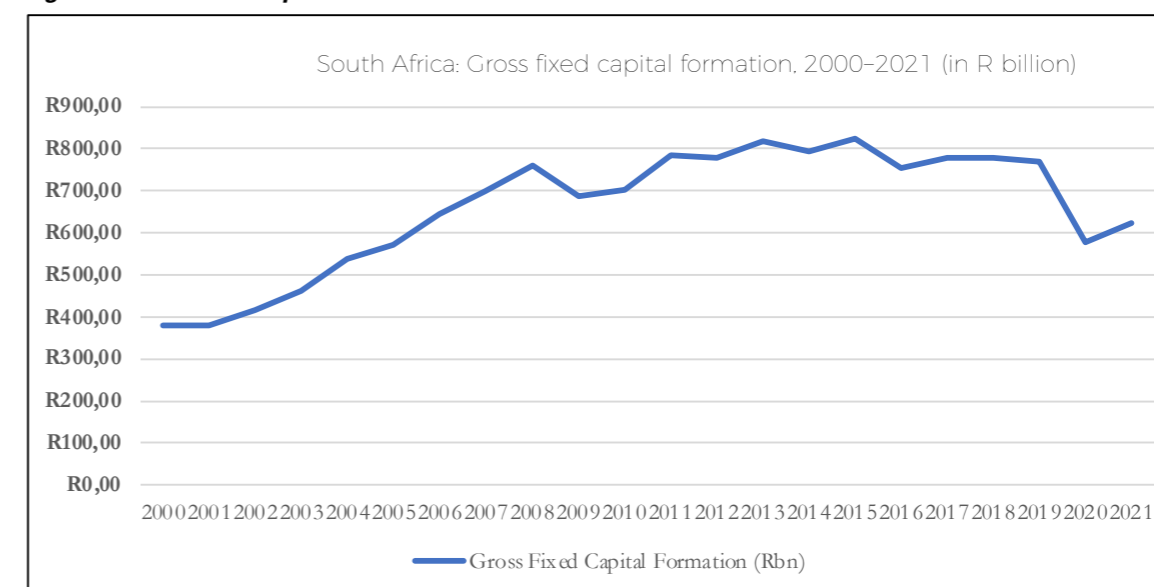
However, urgent attention is required to ensure that labour-intensive export-oriented sectors (such as tourism and agriculture) find the right growth environment. Policy uncertainty around land reform (expropriation without compensation), as well as trade barriers, continues to impact the agricultural sector. Crime and perceptions about crime in South Africa play a major role in hindering the growth of tourism and emigration of scarce skills while imposing a large cost burden across all major sectors of the economy. Increasing business confidence is critical in stimulating investment.

3.4 Trade and investment

Investment is an important driver of growth and often provides a good indication of business sentiment in the investment environment. Gross fixed capital formation (GFCF) increased markedly between 2000 and 2008 and declined sharply between 2008 and 2009 due to the global financial crisis. However, the decline was followed by a moderate recovered driven by investment and improved sentiment around the 2010 FIFA World Cup.

The period from 2015 has experienced declining levels of investment, as the impact of loadshedding and state capture

Figure 3 Gross fixed capital formation



Source: IHS Markit (2022)

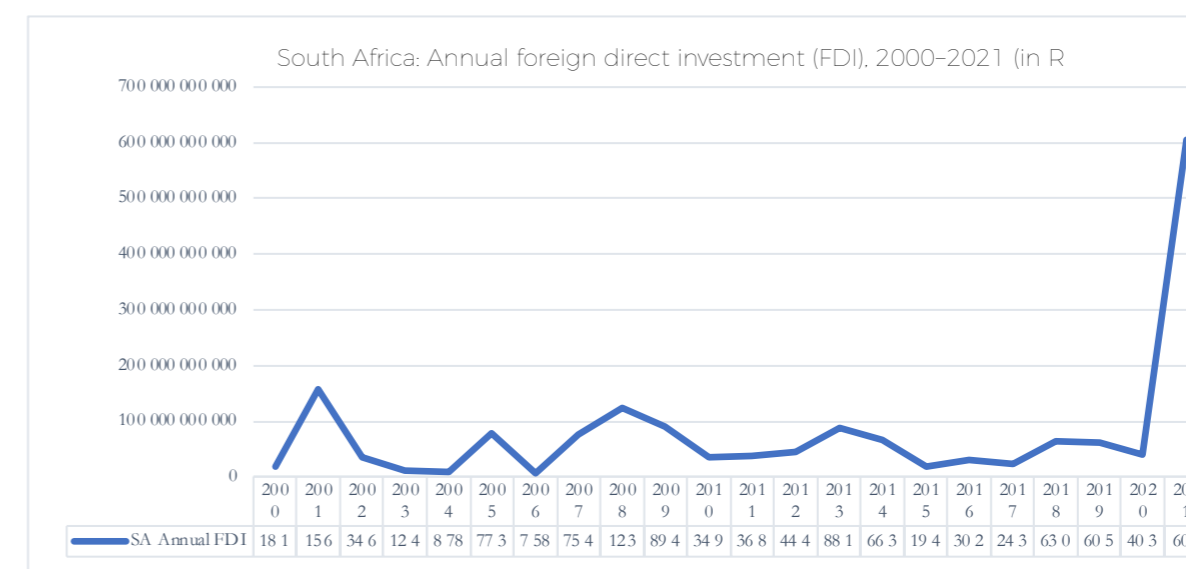
drove down business confidence and investor sentiment. The period also experienced a slow-down in government infrastructure investment. Gross fixed-capital formation contracted in the third quarter of 2021, and as a result, investment remains about R84,6 billion below pre-pandemic levels – with private investment, the largest component of fixed-capital formation, accounting for 84% of the shortfall. Renewed investment in fixed capital is vital for economic recovery and growth. Higher and more effective public-sector investment, specifically in network industries such as transport and energy, is needed to catalyse a sustained recovery.

Structural constraints, weak demand and low confidence are expected to weigh on private investment prospects in the short to medium term. As government stabilises and reduces its debt, real interest rates are likely to decline, creating

more space for private investment. The rollout of energy infrastructure planned through the Renewable Independent Power Producer Programme (REIPPP), embedded generation projects and investment in bulk infrastructure will support both public and private investment over the medium term. However, a concern remains around government's ability to execute infrastructure projects in line with its plans.

Foreign direct investment (FDI) also reflects a net inflow of capital and skills into the South African economy and is an important component of economic competitiveness and performance in general. FDI rates have remained low since 2015, while some pent-up demand was realised in 2021 through the Dutch-based Prosus acquiring a 45% share of its South African parent, Naspers – this single acquisition distorts the overall trend.

Figure 4 Annual foreign direct investment (FDI) SA 2000 - 2021



Source: FDI Markets (2022)



3.5 Where is the economy? (Space matters)

A greater proportion of the world's population is gravitating towards cities. Evidence suggests that the growth is happening in larger cities, which present economies of scale for higher-order consumption and economic opportunities. As these cities grow, they merge with other towns and secondary cities to create city-regions and urban corridors. UN Habitat (2009) identifies these regions across the globe. Mega-regions evolve as economic units that grow and converge, resulting in the spatial spread of geographically linked metropolitan areas and other urban agglomerations. These city-regions are polycentric urban clusters surrounded by low-density hinterlands that tend to grow faster than the host nations, both in terms of population and economy. These cities become the centres that drive economic growth, innovation and the progress of a nation. In South Africa about 60% of economic activity is concentrated in just five of the country's largest cities (Johannesburg, Tshwane, Ekurhuleni, eThekweni and Cape Town), which are concentrated in just three economic regions (Gauteng, Durban-Pietermaritzburg and Greater Cape Town). That figure increases when the Gqeberha-Buffalo City region is included. In addition, nearly 80% of all personal and payroll taxes in the country are paid by the 10% income earners concentrated in these urban centres.

Corporate income tax (CIT) and VAT are 4,6% and 6,5% of GDP respectively. Both CIT and VAT have decreased as a proportion of tax revenue since 2011. But do South Africans in the top decile, who spend about 20% of their market income on tax, get 'value for their money'? In Econ 3x3, Maya Goldman and Ingrid Woolard argue that while the bulk of the tax collected is from the 'rich' and upper middle class, tax is not used for services for them, but redistributed to the poor. They argue that South Africa has one of the most progressive tax systems in the world and is one of a few countries that uses direct taxes as a means of redistribution.

From the experience of citizens to the performance of the economy, it is clear that the performance of spaces is central to the lives of people and the performance of businesses. If South Africa is to succeed, it can only be through the success of these major metropolitan economies, and if it declines, it will be through the poor performance of those city-regions. While politicians typically promote the uniform or equal development of regions across space, economies (and the economics of

location) tend towards agglomeration as this drives efficiency, innovation, and ultimately regional competitiveness. It is therefore essential that the major economic regions (as well as others) work efficiently and are managed to perform at the highest levels possible in the country. For this to be realised, the best and most competent talent in the country should be employed at both an administrative and political level within these cities.

The graph below shows the performance of the five largest cities in South Africa. It is clear that prior to 2008/09 growth was driven by regional competitiveness, while after 2008/09 growth in the cities tended to be driven by national factors such as loadshedding, hence resulting in similar levels of performance. However, over the long term, Tshwane has experienced the highest level of growth, followed by Johannesburg and Cape Town.

3.6 Tax collection

According to a 2021 PwC study, it is estimated that in 2021/22 the country will obtain 38% (9,7% of GDP) of its tax revenues from personal income tax, 27,1% from VAT (6,9% of GDP) and 15,6% (4% of GDP) from corporate income tax. The study notes that the structure of tax collection has changed since the 2008 global financial crisis in that the contribution of personal income tax has increased substantially over the period while the contribution of corporate income tax has decreased and the contribution of VAT has remained relatively constant.

PwC, in a 2021 post-budget submission to Parliament, pointed to specific issues with the country's heavy focus on corporate and personal income taxes and noted that personal income taxes are collected from a decreasing small pool of taxpayers. It is estimated that just 25% of those who pay income tax pay 80% of all personal income tax that is collected, and since 2015 a smaller proportion of taxpayers has become responsible for an increasingly large portion of total personal income tax payable. In the 2019/20 tax year, SARS noted 22,2 million registered taxpayers, of which 6,3 million were expected to submit tax returns. In effect, this means that around 1,58 million people are shouldering the bulk of all income tax paid. PwC also noted that South Africa has very high-income tax burden relative to other countries, which is far above its GDP peers. High-income taxes result in lower levels of consumption and savings. These in turn translate into lower economic growth. This is in stark contrast to the growing number of social

grant beneficiaries (highlighted later in this report).

PwC stated that one of the key issues with corporate income tax revenues is that they are highly exposed to volatile corporate profits. In this regard, it is noteworthy that the higher-than-expected revenue collections for the final three months of the 2020 calendar year were partly driven by higher corporate tax revenues, which (in turn) were driven by a strong performance in the commodities sector for that period due to favourable terms of trade in the form of high commodity prices and a weak currency. Notwithstanding these surges in prices, the mining sector performed relatively weakly in 2020 because of regulatory uncertainty and a failed rail system. These drove a lack of investment and electricity shortages, which continue to hamper output. According to PwC, this underlines the risk arising from an over-reliance on corporate tax revenues, with corporate taxes also having the greatest distortionary effect on economic growth.

To illustrate this point: although corporate income tax is paid by a company, the burden of a high corporate tax rate is ultimately borne by three parties – the owners of capital, labour (through lower wages) and consumers (through higher prices). A high corporate tax burden therefore translates into lower economic growth. The high tax burden on South African companies means that our corporate tax system is relatively uncompetitive compared to those of our main trading partners and countries with whom we compete for investment. South Africa's relatively high corporate income tax rate creates an incentive for profit shifting to jurisdictions with lower tax rates, thereby affecting SARS' efficiency in administering CIT and ultimately reducing revenue collections overall.

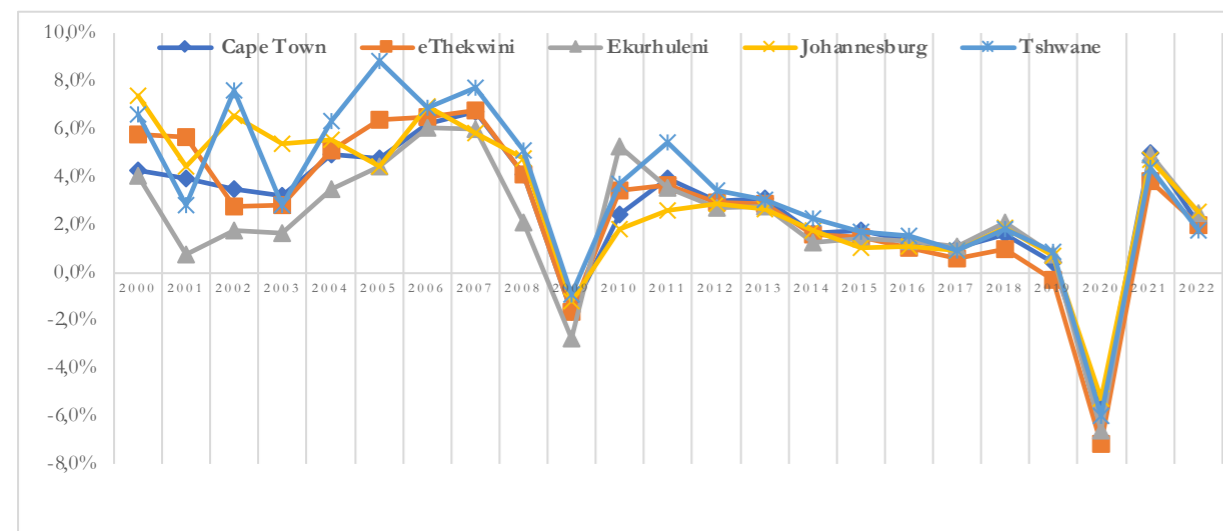
They further highlighted that consumption taxes (such as VAT) have been shown to be less damaging for economic growth. This is because they do not distort savings and investment and are levied on a broader base. Similarly, recurring taxes on immovable property – for example municipal property rates – have been shown to be the taxes that are most conducive to economic growth, as they have a limited effect on the demand and supply of land. Despite PwC's assertion, it must be noted that recent issues raised by the South African Property Owners Association (SAPOA) in the City of Johannesburg and eThekweni on the overburdening of the middle class through property taxes are likely to have a negative impact on growth in these regions. However, PwC's submission highlights that direct taxes reduce economic activity to a greater extent than indirect taxes and therefore have more of a negative effect on economic growth than indirect taxes. Conversely, PwC said that a decrease in direct taxes will have more of a positive effect on economic growth than a decrease in indirect taxes. It is also widely accepted that direct taxes serve as a disincentive to save and invest. Consequently, relief from direct tax, such as a reduction in personal income taxes, could result in an improvement in the country's poor level of household savings.

The firm further pointed out that high tax rates also act as an incentive for taxpayers to avoid or evade the taxes, with SARS' tax statistics showing a marked decrease in the levels of compliance in recent years. The proposed personal income tax (PIT) relief should therefore help reduce the incentive to avoid and/or evade taxes by improving taxpayer morale. They further supported the need to reduce the corporate income tax rate and personal income tax rates over the medium term through broadening the tax base in a revenue neutral manner, which will be done by broadening the income tax base. This will not only address the concerns outlined above, but also contribute to economic recovery and growth. In addition, measures announced to review or eliminate tax incentives and certain expenditure deductions with a view to limiting favourable treatment of certain taxpayers and or groups of taxpayers

will enhance the overall progressivity of the tax system, notwithstanding the reduction in income tax rates.

Apart from the purely economic indicators, the socio-economic performance of the country is important, as it illustrates how the economy has performed in relation to people as well as the important socio-economic contextual issues that inform the vision going forward.

Figure 5 GDP growth among the five largest cities



Source: IHS Markit (2022)



4.1 Employment and unemployment

According to Stats SA's Quarterly Labour Force Survey (QLFS) the fastest pace of job creation in the country was experienced between 2004 and 2008, during which time the economy added over 2 million jobs, while the fastest pace of job loss was experienced from 2020 to 2022 where about 2,1 million jobs were lost. The official unemployment rate breached a previous high in Q4 of 2021, reaching 35,3% before declining to 33,9% in Q2 of 2022. Between Q1 and Q2 of 2022, 648 000 jobs were added. The biggest job gains were recorded in Community and Social Services (276 000), Trade (169 000), Finance (128 000) and Construction (104 000). However, there were job losses in Manufacturing (73 000) and Transport (54 000). The total number of persons employed was 15,6 million in the second quarter of 2022. The number of unemployed persons increased by 132 000 to 8,0 million in the second quarter of 2022 compared to the previous quarter. The number of discouraged work-seekers decreased by 183 000 (4,9%) and the number of people who were not economically active for reasons other than discouragement decreased by 452 000 (3,3%) between the two quarters, resulting in a net decrease of 635 000 in the not economically active population.

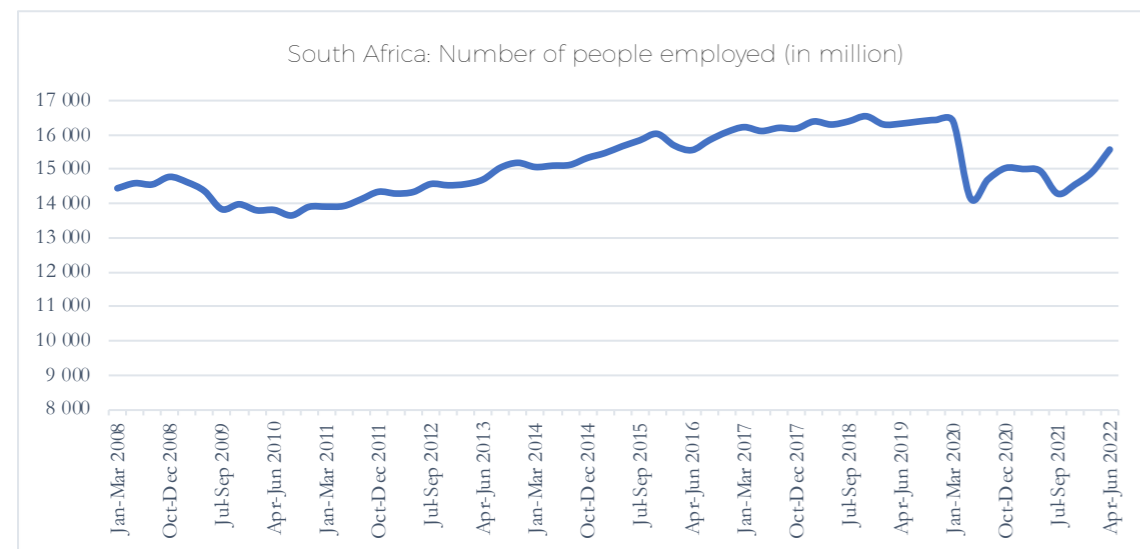
The above changes in employment and unemployment resulted in the official unemployment rate decreasing by 0,6% from 34,5% in the first quarter of 2022 to 33,9% in the second quarter of 2022. The unemployment rate according to the expanded definition of unemployment also decreased by 1,4% to 44,1% in Q2 of 2022 compared to Q1 of 2022. Therefore, it may be argued that **the real unemployment rate in the country is currently 44,1%**, making it among the highest in the world (Stats SA, 2022).

The labour market came under strain in 2020 and 2021 amid renewed COVID-19 lockdowns and the outbreak of public violence in July 2021. In Q3 of 2021, of the 660 000 jobs that were lost, 309 000 were in the trade sector (retail trade, wholesale trade, motor trade, catering, and accommodation), which was severely affected by the July violence. Trade sector employment fell to the lowest level since the QLFS began in 2008. While job numbers bounced back by Q2 of 2022, it is worth noting that about 78% of unemployed people are in long-term unemployment – defined as unemployment for a year or longer. Job losses have tended to be more pronounced in lower-skilled occupations such as sales and services, craftspeople, clerks and elementary workers, many of which were highly sensitive to the pandemic restrictions. In Q3 of 2021 the number of people employed fell to its lowest level since the start of the QLFS in 2008, with 14,282 million people employed – well below the highest level reached in Q4 of 2018 with 16,529 million people in employment. In Q4 of 2021 there were 15,562 million employed, which represented a claw-back of job numbers. However, this is still well below the pre-pandemic levels and as such, government's reform agenda is crucial for growth and employment.

In addition, the job numbers should be viewed in the context of population growth, the highly youthful population and the growth of the social wage, which has been considered elsewhere in this report as unsustainable.

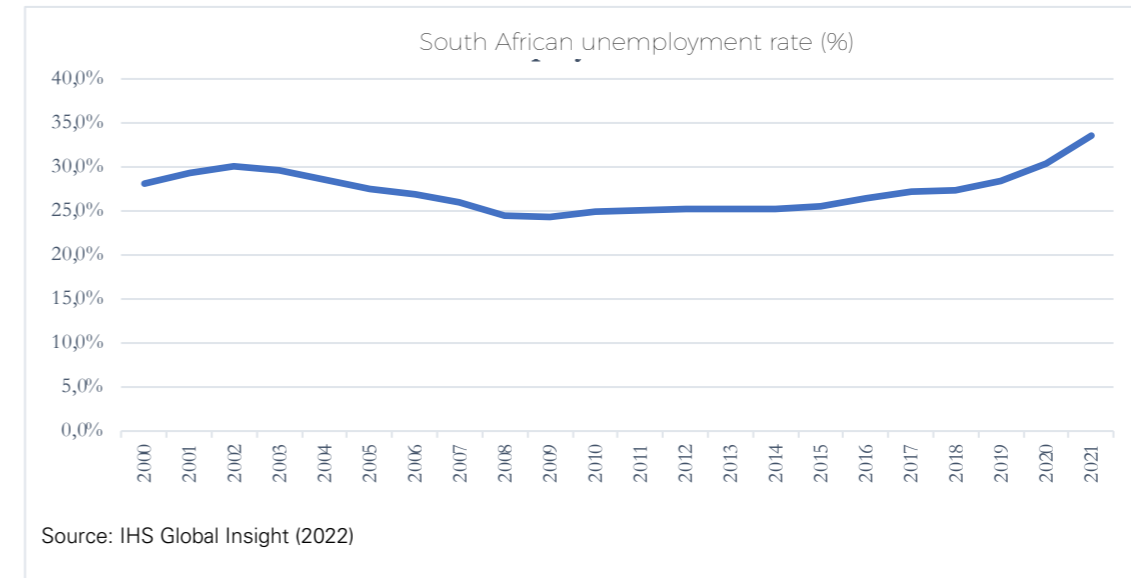
The steepest decline in unemployment was experienced in the period 2003–2008, while the steepest growth in unemployment has occurred from 2019 to 2021. In 2000 unemployment was 28,1% (4 296 800 people) while in Q4 of 2021 unemployment peaked at 35,3% before declining for two

Figure 6 Number of people employed in South Africa



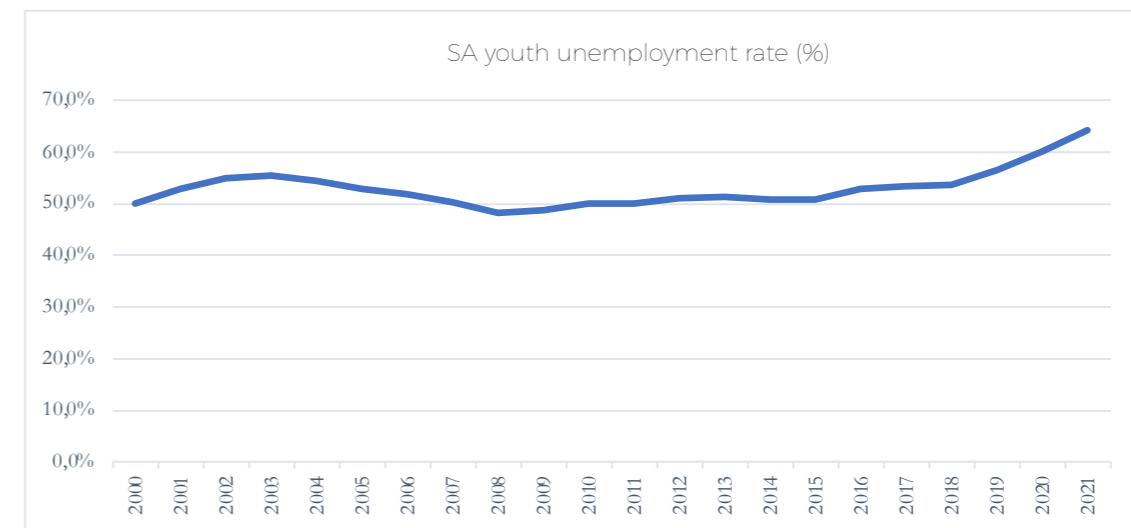
Source: Stats SA (2022)

Figure 7: Unemployment rate in South Africa (strict definition)



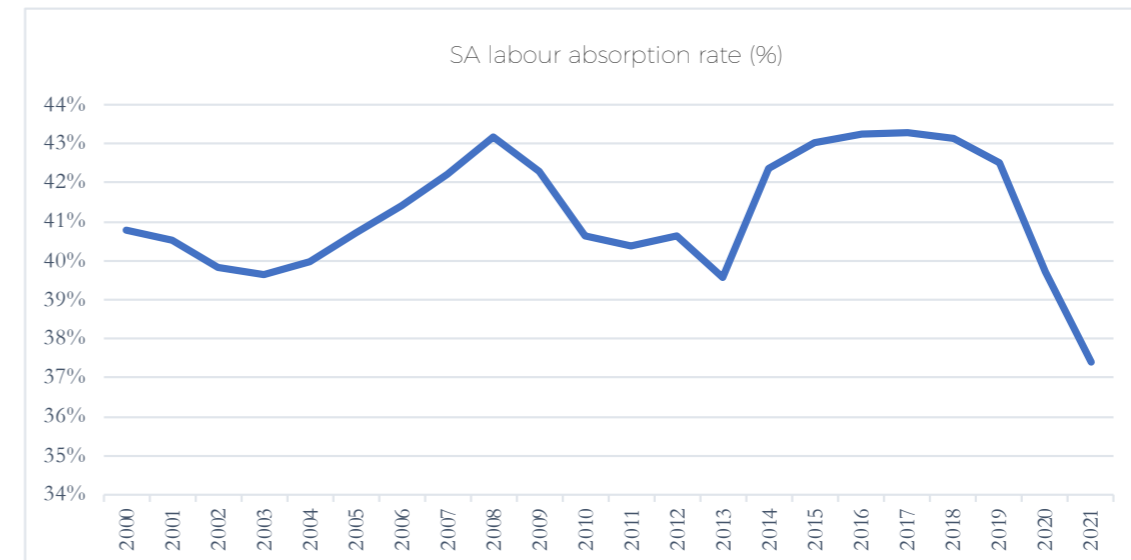
Source: IHS Global Insight (2022)

Figure 8 SA youth unemployment rate



Source: IHS Global Insight (2022)

Figure 9 SA labour absorption rate



Source: IHS Markit (2022)



consecutive quarters to reach 33,9% in Q2 of 2022. This is as per the strict (international) definition and excludes discouraged work seekers.

The high level of youth unemployment in South Africa is a particular area of concern for the country. In 2000 youth unemployment was reported at 50% and by 2021 had reached 64,3%.

The labour absorption rate is measured as the number of people in employment as a percentage of the total labour force and is a good measure of the employment intensity within the economy. The South African economy has long had a very low absorption rate ranging between 40% and 43%. The trend in the graph below is indicative of the employment gains made between 2004 and 2008, followed by a decline and then relative stability between 2015 and 2019. The sharp decline in 2020 and 2021 was as a result of the COVID-19 lockdowns and the July unrest and is expected to recover to pre-pandemic levels in 2023.

4.2 Education and skills for a dynamic economy

The IMF in 2019 concluded that South Africa suffers from weak educational quality despite relatively high levels of public spending on education. The country spends on average the equivalent to over 6% of its GDP on education, which is on par with many developed countries. However, a significant number of sub-Saharan Africa (SSA) countries that spend far less per learner have much better educational outcomes. South African Grade 9 learners were second to last in a ranking of 39 countries by the International Association for the Evaluation of Educational Achievement for Grade 8 learner mathematics performance and last in science performance in 2015. About half of South Africa's students drop out of school before completing secondary education. Among the learners who write the end of high school examinations, about a quarter fail. Moreover, less than 5% of students who start primary school end up with a university qualification. (IMF, 2019.)

The micro-economic returns of education are threefold. Firstly, education is one of the determinants of the productivity of the labour force and thus affects economic growth through the human capital factor of production. Secondly, education reduces the duration and incidence of unemployment. Finally, education improves the welfare of citizens by reducing poverty incidence and income inequality. Studies have found that increasing average years of school reduces income inequality, particularly for developing countries and emerging economies, while educational enrolment is negatively related to poverty incidence. At the macro-economic level, the quality of education affects long-run growth. Hanushek and Woessmann (2012) argue compellingly that looking at only years of schooling, as is frequently the case, is insufficient. What matters more are the levels and changes in educational achievement – in other words qualitative aspects – since schooling is not the same as learning. What matters over and above enrolment in education is the quality of education (World Bank, 2018).

It is the extent to which education enhances the cognitive skills of learners that leads to improvements in employment, individual earnings, distribution of income and economic growth. As a result of the low quality of education, South Africa ranks 127th out of 157 countries in the World Bank's Human Capital Index (HCI), below several countries with much lower levels of income (World Bank, 2019). Since democracy, the South African government has made significant strides in expanding access to primary and secondary education with

relatively limited socio-economic returns. A South African learner can expect 9,3 years of basic education by the age of 18, but when adjusted for quality, this is equivalent to 5,1 years of learning (World Bank, 2019).

The IMF in its 2019 working paper titled 'Struggling to make the grade' found the following:

- South Africa has achieved significant improvements in access to education, but the quality of education is significantly lagging. Due to conscious government efforts since the fall of apartheid, access to education at the primary level is almost universal. Enrolment at the secondary level has also been expanding. However, enrolment into tertiary education is lagging, which is in part due to the low quality of basic education. In 2017, only 55% of South Africa's learners successfully completed secondary school.
- The battle is usually won or lost at primary school level. A substantial part of the low rates of retention is caused by learning deficits acquired at the primary level due to the low quality of education. In a group of Grade 4 learners from 49 countries, South African Grade 5 learners ranked last in Trends in International Mathematics and Science Study (TIMSS) test scores. Progress in International Reading Literacy Study 2016 results show that 78% of South Africa's Grade 4 learners cannot meaningfully read in any language. Moreover, secondary education is failing to address these gaps. In a group of 39 mathematics and science Grade 8 learners, South Africa's Grade 9 learners ranked bottom and second last, respectively, in TIMSS test scores. Peer countries such as Kenya, Swaziland and Botswana out-rank South African learners in reading and mathematics scores.
- The learning deficits in South Africa's secondary education, in turn, make the transition from secondary education to tertiary education difficult. In 2015, only 14% of the cohort of learners who started primary education enrolled for tertiary education after 12 years. Moreover, more than a quarter of students enrolled for tertiary education dropped out in their first year of study.
- The causes of South Africa's low quality of education are complex and multifaceted. The consensus in the literature is that inadequate funding is not the primary cause of lagging performance, although the distribution of resources may be problematic. Indeed, the country spends 20% of its budget on education. What is clear, however, is that historical factors explain a significant part of the current status quo. This is evident in that the population groups that the apartheid government denied quality education are the population groups that have the poorest educational outcomes today. At a primary and secondary level, South Africa's education system is bimodal. The poorest 75–80% of learners depend on dysfunctional public schooling and achieve poor outcomes, while the wealthiest 20–25% of learners enrol in private schools and functional public schools and achieve better academic outcomes.
- The bimodality of South Africa's education system is perpetuating economic inequality through employment and earnings channels. Poverty incidence rates and unemployment rates are distributed according to the level of education and race. The highly educated were the primary beneficiaries of skills-intensive economic growth in the early 2000s. During this period, the share of employment in the tertiary sector expanded at the expense of the share of the primary sector, while primary school completion expanded and tertiary education remained stagnant. At a macro level, given the international evidence, it appears likely that the general low

quality of South Africa's education has partly contributed to the sluggish long-run economic growth.

- While South Africa has made good progress in the poorest and lowest-performing schools, there is a need for more improvement. About 80% of dysfunctional schools are in townships and rural communities. While management in these schools tends to have limited capacity, what is most worrying is that teachers from these schools tend to have lower subject content knowledge and that few systems hold them accountable. This challenge is exacerbated by the political influence of teacher unions in the education system.
- Most of the increase in educational spending in South Africa has been aimed at increasing access and inputs, but quality has significantly lagged. Put differently, more resources do not unconditionally improve student outcomes. For instance, while South African teachers are well compensated by international standards, the structure of the pay system is inflexible and inefficient. Fundamentally, in the context of South Africa, improved teacher training to close gaps in knowledge, improved school management and greater teacher accountability are some of the possible measures that have the greatest potential to improve educational performance in the long term. In the short term, continued efforts to improve the availability of quality textbooks and related learning materials and improving parent involvement (for instance through biannual or quarterly meetings between parents and teachers) are likely to positively impact learner performance. Mbiti (2016) best sums the bottom line in terms of policy recommendations. A large variety of input-based policies on their own are largely ineffective in increasing learning outcomes in the absence of complementary initiatives to improve accountability and pedagogy. Unfortunately, the political economy seems to favour input-based policy measures mainly because they are visible – politicians love ribbon-cutting after all – and they provide resources that can be captured, a highly relevant issue in South Africa.
- Based on the conclusions above, the public education system is poorly equipped for producing skills that are required in the 4IR to drive up productivity and meet the requirements of the modern economy. Universities SA have repeatedly pointed out the poor quality of skills coming from the basic education sector as a major contributor to the high drop-out rate at universities. While bridging interventions are put in place by universities, in many respects, the problems created at the foundational level are difficult to address at tertiary level. The further inability of the university system to cope and extend quality tertiary education has resulted in the growth of private colleges, as well as an increasing cost being invested by the private sector in training and upskilling graduates to meet the requirements of the modern business environment.

4.3 Technical and Vocational Education and Training (TVET)

In many industrialised and industrialising countries, the TVET sector plays a pivotal role in providing the skills that the private sector requires to drive productivity and growth. In addition, the TVET sector in many contexts is an important generator of small and micro businesses, as the skills that people are equipped with are well suited to the creation of start-ups. In the context of the 4IR, the TVET sector is critical for producing workers and entrepreneurs with skills in (for example) drone training, call centre agents, data captures, electrical and

electronic technicians, artisans, film and animation, etc, as well as bakers, baristas, chefs, jewellery designers and fashion designers. These trades are conducive to the creation of start-ups and a strong and vibrant TVET sector contributes greatly to thriving entrepreneurship.

However, in South Africa the TVET sector underperforms and plays a comparatively small role in the economy relative to other countries. This is in part due to a lack of coherence in the TVET policy environment and a resultant fragmentation of the system. A Training Needs Assessment Study commissioned in 2014 and a National Treasury Expenditure Review both revealed several major academic challenges facing college leadership. The most pressing issues were poor leadership and management skills and challenges facing lecturers in various aspects of teaching and learning, among which were blatant shortcomings in their capabilities to meet the competencies required for effective lecturing. These ineffective and fragmented leadership and management practices may be to blame for this situation, with the lack of capacity compounded by a lack of clear performance management of academic staff. The expenditure review further highlights a chronic lack of investment into the TVET sector, both from government and the private sector. In countries where the technical and vocational sector is playing a critical and dynamic role in the economy, there are higher levels of investment by the private sector in facilities, specialised schools and student support. By contrast, in South Africa the private sector tends to conduct their own in-house training.

4.4 The digital economy (Fourth Industrial Revolution)

Digitisation is accelerating globally and countries and populations that are not keeping up will be left even further behind. In South Africa this will most likely lead to deeper inequalities. The process of ensuring universal access to affordable broadband and digital public services has become even more critically important and should be prioritised. A report by industry group Business for South Africa titled *Post Covid-19: A New Inclusive Economic Future for South Africa* identifies digital economy acceleration as an opportunity before and after the COVID-19 pandemic. It says digital migration and spectrum allocation are key to ensuring inclusive economic growth, job creation and a culture of delivery. Digital migration is the process of moving broadcasters such as SABC and eTV, which use analogue signals to broadcast, away from this to satellite-based digital signals. This frees more data-carrying capacity in those analogue bands, which then can be used for third-, fourth- and fifth-generation (3G, 4G, 5G) mobile broadband services.

Despite this being identified in 2006, this process became so delayed that it has taken over a decade to auction broadband spectrum – which has resulted in data being unaffordable to the poor and depriving most learners of the necessary access to the Internet: a cornerstone of the new economy. The literature suggests that the reasons for the massive delays have been 'policy dithering, political and commercial infighting, chronic instability in the government's communication portfolio and the super profitability of the country's two main mobile service providers – MTN and Vodacom' (Musgrave, 2022), all of which have sabotaged the process.

The evidence clearly demonstrates that the industries that are creating employment the fastest are those that are linked to digitisation and the 4IR – these include global process outsourcing, digital-based deliveries, finance, and other service-related industries. The new forms of work are growing, and government needs to fast-track and integrate 4IR into labour



market reskilling and upskilling, accompanied by free Wi-Fi access in townships and rural areas.

In July 2019 the first Digital Economy Summit took place, which promised to kick-start the process of collaborative and coherent policymaking on the digital economy. This was followed with the release of a report by the Presidential Commission on 4IR which put forward recommendations on the country's digital economy future. The report states that the commission (which comprises academic leaders in the sector and the government) is focused on the role of the state and plans to position outputs with stakeholders with a view to generate strategic pathways that will enable ownership and implementation of the strategy across society (Presidential Commission on 4IR, 2020). The report starts off with a basic history of industrial revolutions and ends with a suggestion that a 'strategic pathways committee' be established. This should include the state's basic and higher education departments, trade and industry, the sector education and training authorities (SETAs), universities, the South African College Principals Organisation, Universities South Africa, community colleges and industry. Essentially the commission proposes a committee to do what the commission itself was tasked with doing. It also recommends establishing an artificial intelligence institute and a 'platform for advanced manufacturing and new materials' and proposes securing and making data available to enable innovation. However, the COVID-19 onslaught has in many ways propelled the country forward in digitisation. South Africa suddenly had to be ready for that it was discussing. Despite these gains, the majority of the country's future workforce has no access to Internet data or laptops.

South Africa can learn from the approach taken by Rwanda. Rwanda focused on the niche market of drone technology, which the government supported by drafting and speedily implementing regulations on the use of drones. This was largely because of the willingness of different stakeholders to understand the risks without neglecting potential technology advances and its advantages. The need for drones in Rwanda was initially to get blood and other medical necessities to isolated rural communities. By adopting and adapting a new 4IR technology to meet this need, Rwanda has created a tech ecosystem that is now reaching out into the broader economy. Not only has healthcare improved, but the knock-on effects have been substantial. These include start-ups mushrooming, some of which use drones to spray pesticides in Rwanda's marshlands to help combat malaria, and talking to other African countries such as Ghana and Tanzania about how they can adopt and benefit from Rwanda's drone programmes. While South Africa has far greater advantages than Rwanda, Ghana and Tanzania don't, but these countries have a simplicity of policy and process management which is lacking in South Africa.

The issues relating to skills for the 4IR are addressed in sections 3.3 and 3.4.

4.5 The brain drain

Numerous reports in the media have highlighted a sustained loss of skilled people who have left South Africa in search of better prospects in other (mostly English-speaking) countries. However, following the unrest in July 2021, emigration agencies have reported a surge in the number of people leaving South Africa. From all accounts it is clear that the majority of those leaving are skilled professionals and high-income earners. This is hugely detrimental to the economy, as skilled people are critical in driving economic growth in the era of the 4IR. In addition, the loss of professionals and high-income earners is a drain on the tax system – not only as a result of the loss

of taxes, but also because significant resources were spent on educating individuals (at the expense of others) who can create value, only to lose such individuals once that investment matures.

According to a 2021 study commissioned by the Inclusive Society Institute, 11,13% of South Africans with higher education indicated that they were seriously considering emigrating to another country in the next year or two. 'For a country that is already experiencing a skills shortage, it would be a serious blow to the economy should an exodus of this magnitude suggested, materialise,' the study noted. The survey also pointed out that the main reason for emigration was better economic opportunities and that there was little evidence to suggest that the migration was driven by politics, race, or cultural assimilation: only 1,76% of respondents cited political issues as the reason for them to want to emigrate. The study found that 25,68% of South Africans with higher education and 32,91% of high-income earners cited better job opportunity as the rationale for their consideration, while 8,36% suggested overall better opportunities and 5,42% cited a better life or standard of living as the reason. Just over 11% of white South Africans indicated a slightly higher desire to emigrate, followed closely by black South Africans at 9,73%, Indians (9,76%) and coloureds at 8,96%. South Africans in the 18–24-year-old category were three times more likely to be considered emigrating than those over the age of 50.

The African Youth Survey 2022, which interviewed 4 500 people between the ages of 18 and 24 in 15 African countries, found that about 50% of this group were considering emigrating to another country in the next three years to secure employment and better educational opportunities. While many Africans see South Africa as the most appealing destination, South African youth increasingly want to seek their fortunes elsewhere.

4.6 Migration of skilled people between provinces

In South Africa, Gauteng and the Western Cape stand out as the most attractive destinations for labour migrants. The flow of migrant labour at a domestic level involves the movement of people from rural to urban areas, or from poorer areas to richer ones. Skilled transfers from the source to the destination province presents a significant loss for the source province, as it reduces the stock of human capital, lowers growth and constrains the province's ability to innovate and adapt new technologies.

The annual labour absorption rate among the provinces for the period 2012–2021 was the highest for the Western Cape, followed by Gauteng. The labour absorption rate was on average 52,6% in the Western Cape followed by Gauteng (49,6%) and KwaZulu-Natal (35,4%). Thus the main reason that those with skills are keen to move to Gauteng or the Western Cape is to seek more employment opportunities and better salaries. The ideal way of determining the movement of skilled labour across the provinces is by comparing data from the last two censuses. However, the last two censuses were conducted in 2001 and 2011, both of which are now outdated. The 2022 census results, which will be available in May 2023, may provide the most up-to-date information on migration trends.

According to a study on internal migrants by Professor Derek Yu of the University of Western Cape, it was found that most migrants into the Western Cape came from the Eastern Cape (5,6%) and Gauteng (20,9%). In contrast, migrants into Gauteng were more evenly spread from Limpopo (30,9%), KwaZulu-Natal (19,3%), the Eastern Cape (14,2%) and

Table 1 Migration between provinces

Province	2011–2016			2016–2021		
	Out-migrants	In-migrants	Net migration	Out-migrants	In-migrants	Net migration
Eastern Cape	492 983	172 917	-320 066	516 264	192 412	-323 851
Free State	157 714	132 917	-24 797	163 408	147 666	-15 742
Gauteng	479 461	1 459 549	980 088	548 456	1 596 896	1 048 440
KwaZulu-Natal	344 302	275 920	-68 382	366 150	307 547	-58 602
Limpopo	389 290	248 413	-140 878	412 269	279 755	-132 513
Mpumalanga	193 479	258 374	64 895	212 116	286 154	74 038
Northern Cape	71 678	75 606	3 929	76 512	83 000	6 489
North West	191 729	288 204	96 475	210 096	317 830	107 733
Western Cape	157 210	449 308	292 099	175 613	486 617	311 004

Source: Stats SA, 2018

Mpumalanga (11,2%). The study also indicated that most migrants from other provinces into the Western Cape settled in Cape Town (over 70%) while over 90% who migrated into Gauteng resided in Johannesburg, Tshwane and Ekurhuleni districts. The report suggested that these popular destinations are most likely associated with better living conditions and labour market prospects.

The report also revealed that both short and long-term migrants into these provinces were likely to be young, aged 15–34 years, and were mostly unmarried African urban residents with 11–12 years of education on average. Moreover, the migrants into Gauteng and the Western Cape enjoyed lower unemployment rates than the permanent residents. The study also showed that the proportion of workers involved in skilled occupations was the highest for the intra-provincial migrants.

The table shows the migration trends for the period 2011–2021 and shows that Gauteng continues to absorb the highest number of migrants, at 1 596 896, of all the provinces. KwaZulu-Natal has a net outflow during this period with 58 603 – this is the third lowest after the Eastern Cape and Limpopo. Migration is cited as one of the main factors contributing to the decline in KwaZulu-Natal's share of the national population, and consequently its share of the equitable share grant. Job-seeking migration from KwaZulu-Natal to other provinces may continue if the latter have better economic conditions and job prospects. Migrants are likely to cluster in districts with more lucrative job opportunities and a better quality of life such as Cape Town, Ekurhuleni, Johannesburg and Tshwane. The impact of the unrest of July 2021 and KZN floods of April 2022 is not currently available, but anecdotal indications are that they have further contributed to an outmigration of skilled individuals from KwaZulu-Natal to the Western Cape and Gauteng.

4.7 The social wage

South Africa's progressive fiscal policy has a large redistributive effect in that taxes from the rich are used to fund social transfers, both as direct transfers in the form of a social wage

and through the provision and extension of essential services such as housing, health care, basic services and education. However, over the last two decades the burgeoning social wage has become unsustainable. About 31% of the South African population relies on social grants. This excludes the 6,1 million beneficiaries of the social relief of distress grant, which from June 2020 to March 2021 cost the fiscus R19,5 billion.

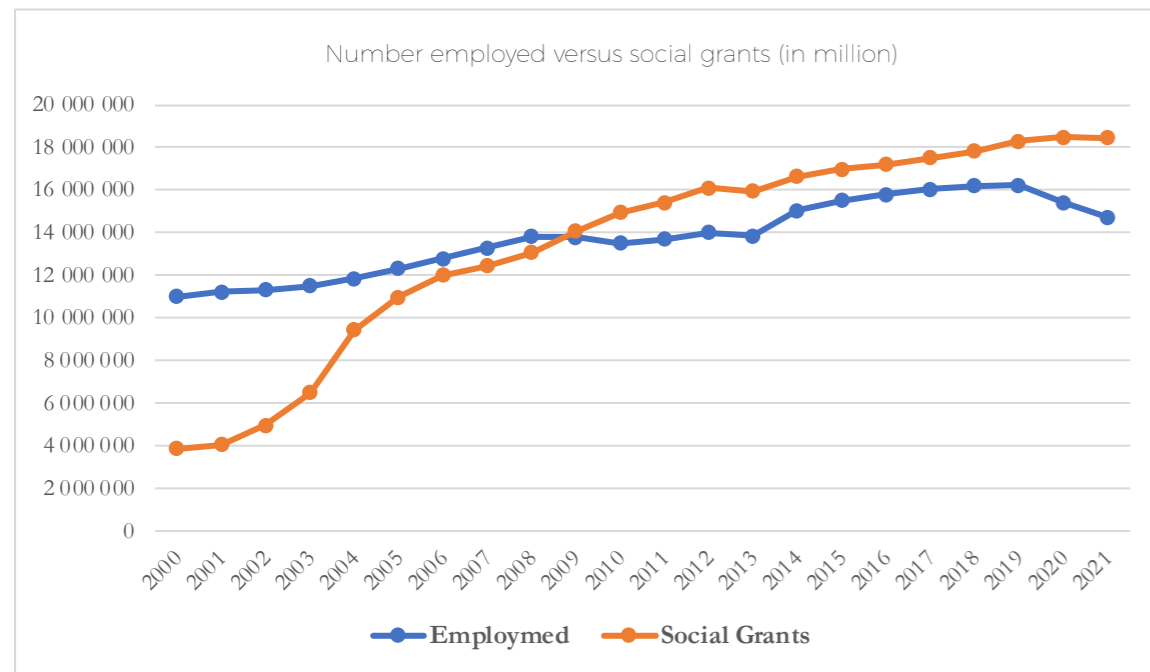
In 1996/97, 3 018 909 social grants were paid. This represented 7% of the population, which increased marginally to 3 864 463 by 2000/01, thus making up 9% of the population. A marked increase began to manifest from 2005/06 when the figure increased to 10 974 076, which constituted 23% of the total population. The number of social grants then steadily increased to reach 18,44 million grants being paid in March 2021. In 2021/22 the Department of Social Development spent R218 billion on various programmes and grants.

The bulk of the grants are allocated to the child support grant, which currently benefits 12,5 million poor children, and the old age grant, which benefits 3,5 million people older than 60. The national prevalence of disability is 7,5% and as such, the disability grant in 2018/19 was provided to more than 1 million people. KwaZulu-Natal has by far the greatest number of people receiving social grants with 2,4 million recipients, followed by Gauteng at 1,9 million, 1,7 million in the Eastern Cape and 1,5 million in Limpopo.

Several researchers have identified the high level of inequality in South Africa as unsustainable, pointing to lower levels of inequality which sparked political uprising in several other countries. However, in comparison to many such countries, the strong nature of South Africa's democracy, coupled with the higher level of social transfers, has enabled relative stability in the socio-political environment of the country. Despite this, from the graph above it becomes clear that the substantial growth in social transfers has not been supported by a concomitant growth in the number of people employed or in economic growth. This renders the social transfers unsustainable, with job creation and economic growth being preconditions for the level of social transfers to be sustained.



Figure 10 Number of employed persons compared to the number of social grants



Source: Dept. of Social Development (2022), Stats SA (2022)

4.8 Crime and corruption

4.8.1 Violence

South Africa continues to be home to one of the highest crime rates in the world, which imposes an immense cost burden on businesses and society at large. However, the research on the cost of crime to South Africa is fragmented and generally limited in scope. In 2016 the Institute for Economics and Peace (IEP) produced a Global Peace Index which identified South Africa as the 10th most violent country in the world. The index found that the national cost of violence in South Africa stands at 19% of the country's GDP – the 16th highest rate in the world. The group said that total violence containment spending in South Africa amounted to U\$66,7 billion (R989 billion) in a single year. Expressed in purchasing power parity terms, this is about U\$124,3 billion (R1,84 trillion), which equates to roughly R34,160 per person in the country (in 2016). This was significantly higher than the per capita GDP and per capita income of the country. The same index in 2020 estimated the cost of violence containment spending in South Africa at 13% of GDP and ranked the country 22nd globally (in terms of the economic cost of violence). The economic effect of violence in South Africa was estimated to be U\$145,3 billion, excluding the impact of corruption and state capture on government and the economy in general. Violence and the fear of violence create significant economic disruptions. Violent incidents generate costs in the form of property damage, physical injury, or psychological trauma. Fear of violence also alters economic behaviour, primarily by changing investment and consumption patterns. To calculate these numbers, the IEP focuses on internal security expenditure, which is made up of police services, law courts, prisons, and other national public safety expenditures. Expenditure on preventing and dealing with the consequences of violence divert public and private resources away from productive activities and towards protective measures.

The IEP further said that the direct costs associated with violence include the immediate consequences for the victims,

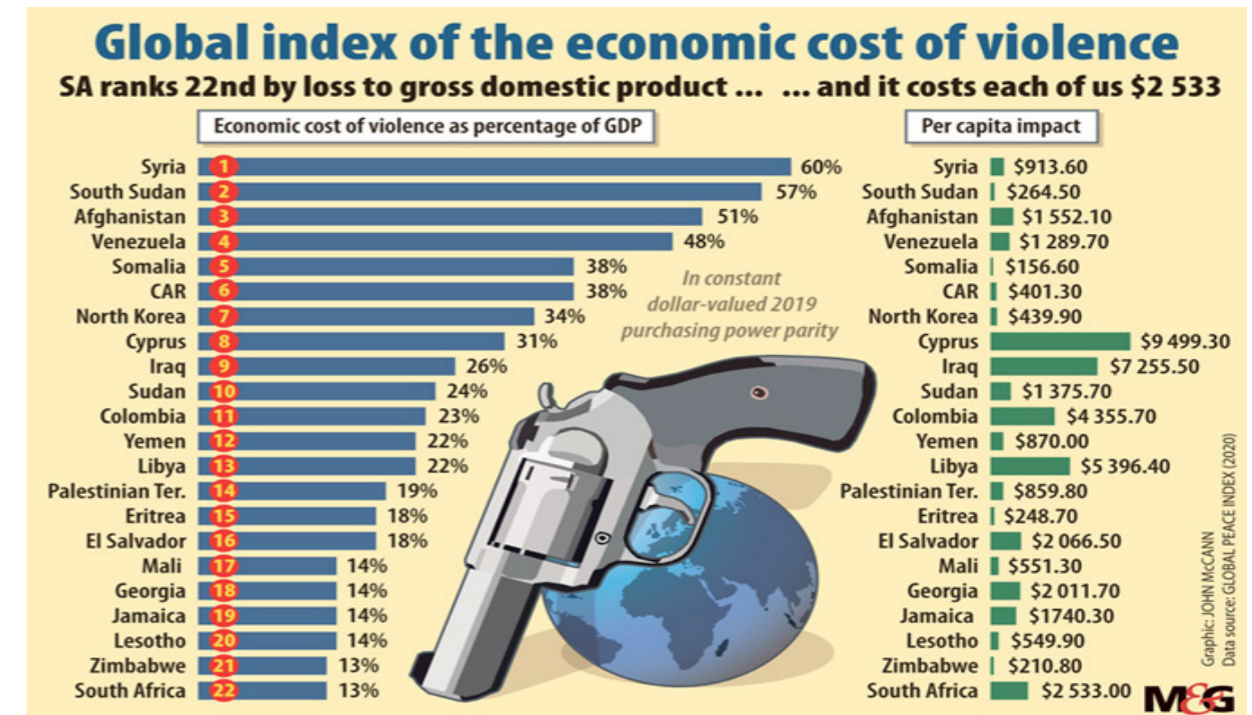
perpetrators and public systems, including health and judicial and public safety. The indirect cost of violence refers to longer-term costs such as psychological harm and the effect of violence on the perception of safety and security in society. In addition, violence results in economic losses in the form of productivity shortfalls, foregone earnings and distorted expenditure.

Apart from these numbers, the BNP Paribas Group South Africa and its subsidiary company RCS released a study saying that violence has long-lasting effects on people, which impair their productivity at work. The inaugural research surveyed more than 100 respondents living in South African 'crime hot spots' such as Eldorado Park in Gauteng and areas on the Cape Flats such as Mitchells Plain. It found that 81% of respondents said they or a family member or colleague had been late for work because of violence or crime, while 72% reported having missed work altogether.

The murder rate is a useful indicator of the violence within a society and is expressed by the number of murders per 100 000 people in a year. India's murder rate decreased from a high of about 5,5 in the 1990s to a current rate of about 3 murders per 100 000 people. The relatively dangerous perception of several South American countries is reflected in high murder rates, which in 2020 included Brazil's murder rate at 22, Argentina at 5 and Colombia at 23, while the murder rate in Mexico was 28. In comparison, the murder rate in South Africa in 2020 was 33, which increased to 41 in 2021.

It is likely that the July unrest contributed significantly to the increase in murders in 2021. Even though the murder and crime rate in South Africa is extremely high, it should be viewed in the context of its troubled past, during which time the murder rate was closer to 70. In 1994 the murder rate was 64, and in the late 1990s and early 2000s the murder rate gradually decreased and in 2010/11 reached its lowest level at 29. Since then, the murder rate has slowly increased to between 33 to 36. In general, there appears to be some correlation between employment gains and reducing crime.

Figure 11 Global index of the economic cost of violence



Source: The Mail & Guardian (2020)

Vikas Khandelwal, head of territory for BNP Paribas South Africa, said corporations need to bolster peace efforts not only to assist employees, but also to alleviate the negative effect on productivity and to support a thriving economy. Khandelwal said for this to be done there needs to be a deeper understanding of the complex and deep-rooted challenges facing people.

Crime statistics for second quarter of 2020 show that offences such as commercial crimes have increased by 2,2%, from 21 518 in the same quarter in the previous year. However,

shoplifting decreased by 9,1%, from 15 192 in the same period in 2019. And although the pandemic forced many companies to close earlier, there has been an uptick in crimes on commercial premises: 123 murder cases and 214 attempted murder cases were reported nationally in the second quarter at business premises such as malls, restaurants, workplaces, office parks and entertainment centres. The highest number of these cases were in Gauteng, followed by KwaZulu-Natal. North West had a lower number of cases, while the Free State, Mpumalanga and Northern Cape had none.

Figure 12 South Africa's murder rate over time



SAPS (2022)



4.8.2 Corruption and state capture

The impact of state capture and poor governance extends far beyond the actual theft of finances reflected in the crime statistics but includes the erosion of numerous state entities, government departments and municipalities, to the extent that such organisations are no longer able to perform the role that they have been tasked with by society. On 11 September 2017, former Finance Minister Pravin Gordhan estimated the cost of state capture at R250 billion in a presentation at the University of Cape Town Graduate School of Business, while in 2021 the State President estimated that the cost was more than R500 billion. What has come to light through the Zondo Commission suggests that the figure is closer to the latter, but possibly even higher than that.

State capture resulted in the financial demise of SOEs such as Eskom, Transnet, South African Airways, Denel and Prasa. In addition to state capture associated with the SOEs, there is a massive cost to society in terms of the impact of corruption on provincial and local governments. (A key question for SAICA is how such wholesale obliteration of state funding was allowed to happen in a period when the quality of South Africa's auditing profession was ranked among the best in the world ...)

A panel discussion held in May this year at the University of Pretoria (UP) titled 'The Zondo Commission Report: What's next for our captured state?' discussed the report of the Judicial Commission of Inquiry into Allegations of State Capture, Corruption and Fraud in the Public Sector (the Zondo Commission). The implications of corruption for economic development are usually felt more by the ordinary citizen than by the people who are actually implicated in the corruption, said UP alumna Dr Carolyn Chisadza, a senior lecturer. She added that 'the corruption that has been revealed by state capture has weakened the state's capacity to perform efficiently for its citizens; this negatively affects progress towards development goals such as economic growth, addressing unemployment, reducing poverty and inequality, attracting investments, and strengthening the quality of institutions. State capture poses a serious threat to the progress that we have achieved to date in obtaining development in South Africa.' Dr Chisadza pointed out that corruption has left South Africans vulnerable to shocks

such as the COVID-19 pandemic and the KwaZulu-Natal floods. During these crises, resources are not available, because they have been diverted to underperforming entities.

Lord Peter Hain, former UK Cabinet minister and anti-apartheid activist, focused his attention on the global corporations that aided the looting. 'The prodigious looting, corruption and money laundering has an international dimension, because it would not have been possible without the connivance of bail-in companies like KPMG, McKinsey, [German software company] SAP and UK-based banks like HSBC and Standard Chartered,' he said. 'Global corporations were critical to this looting,' he added. 'They obtained state contracts, helping former President Jacob Zuma's business associates, the Gupta brothers, to loot the state and move their stolen billions out of South Africa and then sometimes back in, undetected. Banks like HSBC and Standard Chartered admitted opening their electronic banking channels to the Guptas, and [allowing] their associates to transfer billions of rands through their digital pipelines to less regulated jurisdictions like Dubai and Hong Kong, and then to clean the money by mingling it with other funds, thus disguising its origins and enabling it to be more easily spent. These banks should have spotted the suspicious activities much sooner or immediately.' (Lord Peter Hain, May 2022, at the University of Pretoria.)

Minister Ronald Lamola, Minister of Justice and Correctional Services, commented on the capacity in the justice system and the measures that are in place to ensure that investigations are carried out effectively. He indicated that the crimes that have taken place were highly sophisticated and that an equally high level of sophistication is required when it comes to investigating them. For that reason, the National Prosecuting Authority received about R1,1 billion to put in place anti-corruption measures. As to how the government can restore public trust and reframe how the world views South Africa, Minister Lamola said: 'It will be a collaborative effort between the government and civil society; it will not only be left to government to deal with issues that relate to corruption, but also the various facets of government services. Government must be held accountable; government must play its role in terms of the procurement processes, particularly preventative measures. The public and private sectors have got a bigger role

to play because they pay the bribe; they are the ones who often finance grand-scale corruption. (University of Pretoria, 2022.)

Figure 13 below looks at commercial crimes per province and illustrates that commercial crimes are most prevalent in Gauteng, followed by the Western Cape and Free State. While the number of cases recorded per province experienced a decrease after 2010, there has been an upswing since 2021. These figures consist of the number of commercial crimes committed and are not a useful measure of state capture, which is often not associated with crimes reported at a police station, and further does not include the value of corrupt activities. Corruption is not limited to the state, and the private sector has been complicit and a key driver of corruption and state capture.

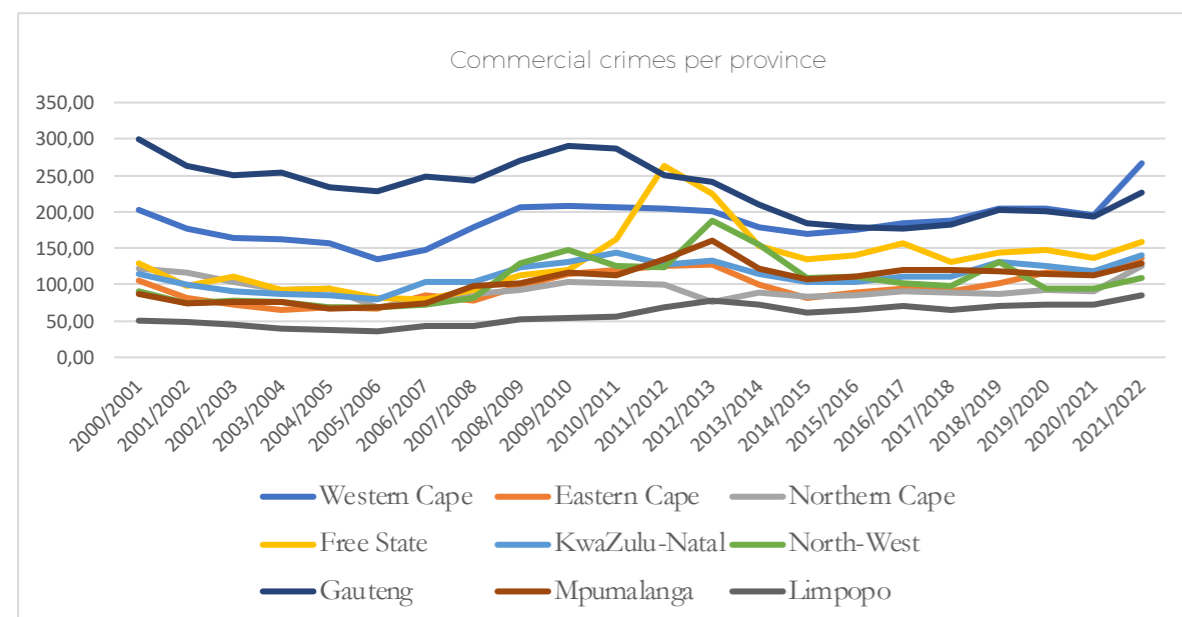
4.8.3 'Extortion-nomics' and economic sabotage

A recent paper by Jenni Irish-Qhobosheane in June 2022 titled 'Extortion or transformation? The construction mafia in South Africa' outlines the development and subsequent growth in the extortion-linked business forums, initially in KZN and then in the rest of South Africa. These forums, which front as a drive for transformation in the construction industry, have created a difficult investment and development environment in KwaZulu-Natal and the country. The forums extort money from businesses that are conducting construction activity, and emerged in eThekweni before spreading to the rest of KwaZulu-Natal and later the rest of South Africa. However, they have faced little legal consequence to the extortion and hold construction projects to ransom. There have also been reports

of these forums broadening into other sectors of the economy.

Despite the challenges that these forums pose to the business environment, thus far there has been little in the way of arrests, whether directly for extortion or in-directly for illicit financial flows. From the various incidents recorded it is evident that the forums readily extort from small and large businesses alike and have little to do with transformation, but rather with criminality. Apart from the risk associated with business forums, there is an increasing trend of economic sabotage in the form of blocking of key national roads such as the N3 and the disruption of the freight logistics supply chain. This is often associated with protest action by truck drivers, the taxi industry, and in some instances service delivery protests that spill over onto national roads. A recent trend has been noted around the hijacking of delivery vehicles and appropriating cargo. All of this increases the burden on the freight logistics system, which is forced to absorb the higher costs, or in some instances, is passed onto the consumer. Encouraging the greater use of rail for freight transport will diversify the transport modes and reduce the high levels of risk to cargo owners and the economy.

Figure 13 Commercial crimes by provinces over time



Source: SAPS (2022)



Infrastructure plays a pivotal role in the economy, as it forms the platform upon which the economy operates. While infrastructure investment has traditionally been the domain of government, this is fast changing around the world, with the private sector increasingly playing an important role.

5.1 State infrastructure spending

Capital expenditure represents the money that is spent on construction, machinery, equipment, land, buildings and other fixed assets. This form of investment has an impact on communication, travel, logistics and the provision of services. Fiscal consolidation in the post-apartheid period was necessary due to the inherited debt burden of the preceding era. Despite the state spending on the extension of social and basic services, fiscal consolidation was achieved, arguably by an underinvestment in platform economic infrastructure.

A substantial increase in state infrastructure spending was experienced in the period leading up to and around the 2010 FIFA World Cup. While infrastructure spending increased and remained buoyant in the post-World Cup period, there has been a notable slow-down in infrastructure spending after 2015. This slow-down has been driven mainly by a decline in capital expenditure by SOEs. What is notable is that public-sector capital expenditure has steadily waned since 2016, declining by R82 billion. This represents a decrease of 29%, according to Stats SA's Capital expenditure by the public sector report (Stats SA 2021).

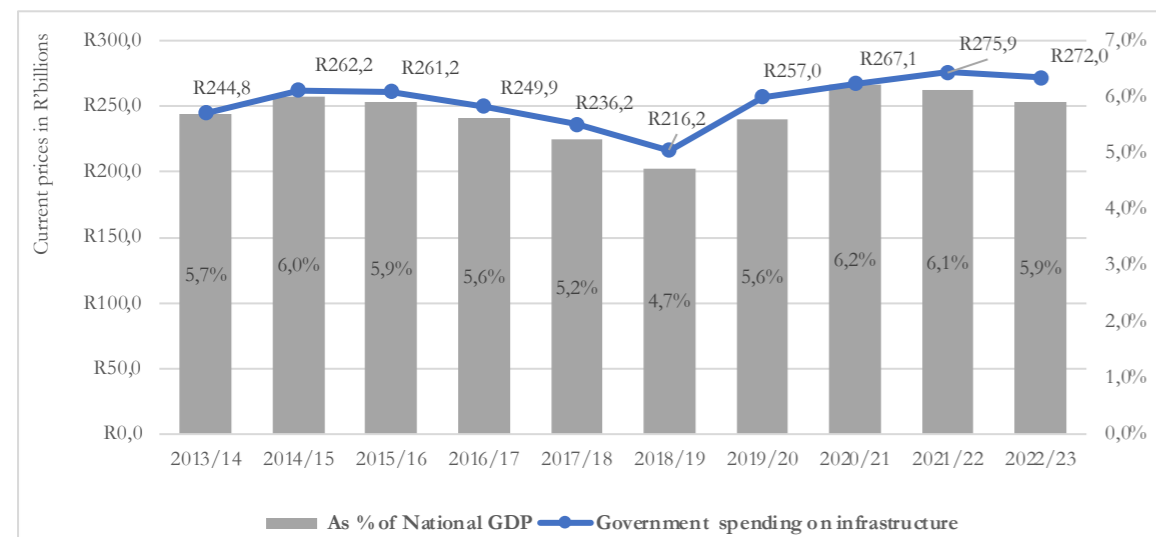
State-owned entities (public corporations) accounted for the

bulk of public-sector capital expenditure (38%), followed by municipalities (27%) and provincial government (16%). Higher education institutions contributed the least (3%). Capital expenditure by SOEs declined by 42% between 2016 and 2021.

Public corporations curtailed their spending from R90 billion in 2019 to R76 billion in 2020. The decline in 2020 was largely attributed to Eskom, which reduced spending across all capital expenditure types. The total capital expenditure by public-sector institutions decreased by R28 955 million, from R230 150 million in 2019 to R201 195 million in 2020. Capital expenditure decreased on new construction works (-R25 280 million), plant, machinery and equipment (-R2 255 million), land and existing buildings (-R2 052 million), transport equipment (-R531 million) and 'other' fixed assets (-R248 million). Capital expenditure increased only on leased assets and investment property (R1 411 million). South Africa's provincial government departments recorded a 13% decrease in capital expenditure in the 2016–2020 period. The KwaZulu-Natal Department of Transport recorded the biggest decline in capital expenditure in 2020 as the entity scaled back on new construction projects. This department's erosion of skills and ability to implement and operate efficiently is of major concern to regional stakeholders.

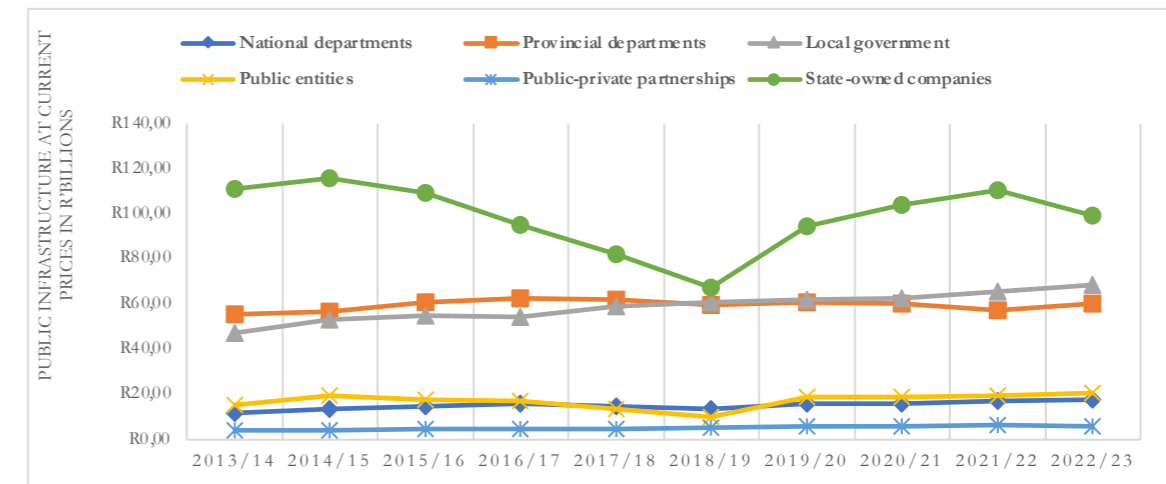
Since 2016, extra-budgetary accounts (EBAs) have registered a 32% fall in capital expenditure. In 2020, capital expenditure declined by R1,9 billion compared with 2019. The South African National Roads Agency (Sanral) was the major contributor to this decrease. The entity recorded a decline of R2,1 billion as it scaled back on new construction works. National government departments registered a 27% decrease in the 2016–2020

Figure 14 Government infrastructure spending



Source: National Treasury (2022)

Figure 15 Expenditure by government and public corporations



Source: National Treasury (2022)

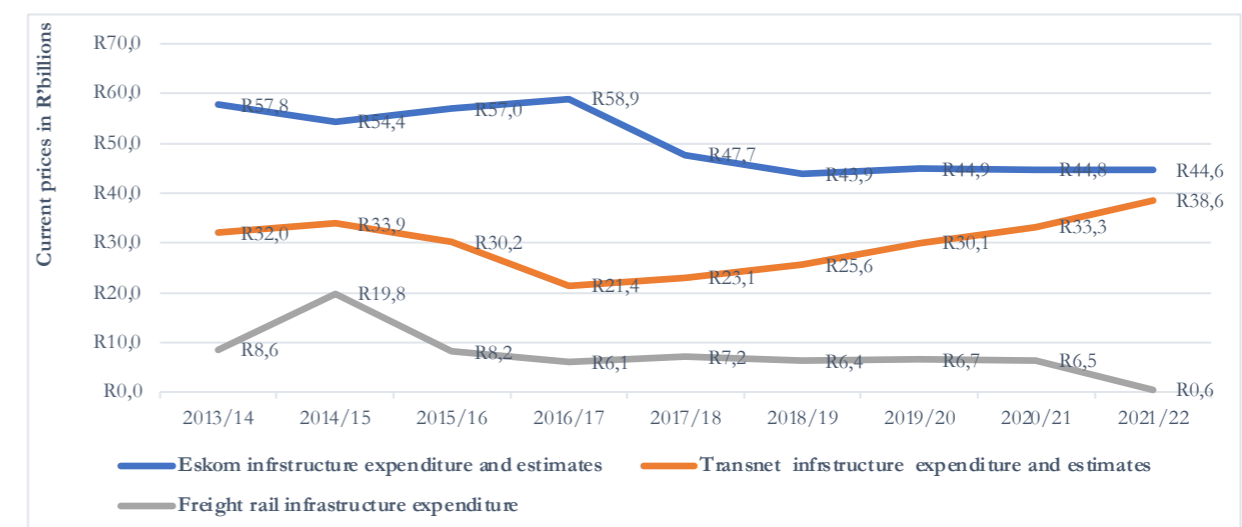
period. The sharp decline in 2020 was largely a result of decreased spending by the national Department of Water Affairs.

South Africa's higher education institutions spent less on fixed assets in 2020 compared with 2016, but only by a marginal -0,1%. In 2020, however, higher education institutions recorded a sharp decline of R1,7 billion. The Vaal University of Technology was a major contributor to this fall, recording a decrease in spending on leased assets. In addition, the Eastern Cape Department of Education faces constant challenges regarding the timeous and efficient delivery of school infrastructure. Part of the problem stems from the legacy of apartheid and its continuing effect on spatial and demographic patterns. Concerted efforts to improve the planning, design, contracting and procurement of school infrastructure will enable the Eastern Cape Department of Education to realise considerable savings and efficiency gains in the delivery of infrastructure. National Treasury's spending review reveals that it takes between four and five years to complete school infrastructure projects. Only 10% of school infrastructure projects were completed and ready for use in the four years under review

– a cause for concern with the ability of the Public Works Department to implement capital projects.

While Eskom spending has declined since 2017/18, it is notable that the acceleration of spending in the preceding period has not resulted in capacity gains. Eskom's infrastructure spending in recent years has focused mainly on the maintenance of its ageing fleet of power stations, as well as the rectification of work on newly constructed generation units. The trend of increased spending being accompanied by reduced performance is not limited to Eskom. Transnet's increased infrastructure spend has not resulted in any efficiency gains in its ports and rails network. While there is a massive demand and need for infrastructure investment in ports and logistics, at the same time the country's ports have been ranked at the bottom in terms of port efficiency across the globe (World Bank, 2021). In addition, while Transnet has long-standing plans to increase port container capacity at its main container Port (Durban), all such plans were premised on an improved rail network on the Durban–Gauteng corridor, which would assume a large proportion of freight traffic. However, the failure for such advances in rail to be realised has resulted in most of

Figure 16 Eskom and Transnet infrastructure spending



Source: National Treasury (2022)



the freight traffic finding itself on road. State spending on rail infrastructure has declined dramatically since 2015.

The National Development Plan's review indicates that government is prioritising 55 new infrastructure projects with an investment value of R595 billion that will significantly boost long-term GDP growth. One-third of the 62 strategic integrated projects gazetted in 2020 are under construction or completed. The remaining projects, which are in the early stages of development, are receiving additional project preparation support. The review indicates that the Infrastructure Fund and Infrastructure South Africa will improve the scale, speed, quality and efficiency of growth-enabling infrastructure spending. The Infrastructure Fund is collaborating with other public agencies to prepare six projects with an investment value of R96 billion in higher education accommodation, social housing, telecommunications, water and sanitation, and transport.

5.2 Electricity

The lack of energy security resulting from poor management and state capture relating to the power utility Eskom has been a long-standing blight on the South African economy. Loadshedding (as it is known) comprises eight stages, with each stage signifying load curtailment by 1000 MW of electricity (for example Stage 2 implies 2 000 MW of load curtailment, stage 3 3000 MW, etc). The higher the loadshedding stage, the more frequently customers experience periods without electricity in order to meet the required load reduction to ensure that the grid does not collapse. Over the years loadshedding has had a catastrophic impact on the South African economy thought to be larger than COVID-19, the July unrest of 2021 and the KwaZulu-Natal floods of April 2022 combined. Dr Francois Stofberg, senior economist at the Efficient Group, has previously estimated that the country's economy is between 8% and 10% smaller than it could have been if we were not plagued by Eskom's inefficiencies and ongoing loadshedding. Based on Stats SA's estimated size of the South African economy, in today's terms the economy would have been between R360 billion and R450 billion larger, with well over 1 million more jobs.

According to Alexander Forbes, the South African economy loses R4 billion of GDP every day that the country is on Stage 6 loadshedding. An estimate by the Institute for Risk Management South Africa (IRMSA) indicates that loadshedding causes lost economic output of about R700 million per stage per day (or R4,2 billion per day on Stage 6). Loadshedding is estimated to have contributed to more than a million job opportunities lost. The IRMSA's risk report for 2022 warns that this energy-threat situation holds risks of lower productivity and plant availability, slow progress on unbundling, a prohibitive cost of alternatives and poor capacity which could result in a drastic decline in economic growth, service delivery and social cohesion across the country. South Africa is on its lowest energy availability ever recorded, with Eskom warning that the situation would get worse this year because of operational problems and breakdowns at the Koeberg nuclear power station. Loadshedding is not new to the South African economy, however: the country's electricity generation problems span well over a decade. A study by Ariel Goldberg estimated that loadshedding in the first six months of 2015 cost South African retailers R13,72 billion in lost revenue.

In response to the current energy outlook, IRMSA proposes a series of risk treatment options and opportunities, including the fast-tracking of unbundling Eskom into three separate units, accelerating the 100 MW self-generation initiatives, and having country-level plans for modern technologies that have the potential to be localised and spur economic growth

through projects such as green hydrogen and storage. The institute further recommends that other, non-energy-specific options should include a concerted push for policy certainty to encourage greater foreign investment and greater co-operation between the private and public sectors. This would allow the economy to develop and lead to greater privatisation of SOEs. IRMSA estimates that the average profitability of SOEs, measured by return on equity, is -7,9% as a result of weak revenue growth, high costs and debt-servicing costs.

Attaining energy security is a key priority for government, while the process of increasing energy generation holds significant growth potential for the South African economy. Between 2009 and 2017 Eskom's debt burden increased tenfold, while at the same time its energy generation capacity declined. According to analysis by the Organisation Undoing Tax Abuse (OUTA), the rapid growth in debt was driven by a combination of increased operational purchases (including over-priced coal and fuel), staff salaries and wages, and other non-productive expenditure. What has come to be known as the decade of state capture transformed Eskom from a global award-winning utility into an unviable concern in the space of 10 years. While state support has ensured the survival of the utility, its ageing fleet of power stations (average age being 40 years) requires ever-increasing investment in maintenance in order to remain operational.

It has been clear for some time that the future of energy generation in South Africa lies outside of Eskom. Independent power producers (IPPs) are becoming an increasing important component of the energy generation mix. In October 2021, the Minister of Mineral Resources and Energy announced 25 projects for the fifth bid window of the Renewable Energy Independent Power Producer Procurement (REIPPP) programme with a total contracted capacity of 2 583 MW. Proposals for the sixth bid window are expected to procure additional capacity of 2 600 MW. In total, the programme is expected to procure additional capacity of 6 783 MW, with investment of at least R128 billion over the medium term. In addition, the risk mitigation power projects that are ready to proceed can generate up to 800 MW. Embedded generation projects in the mining sector can produce an estimated 4 000 MW and various municipalities are securing an estimated 1 400 MW of their own power.

Calls to diversify and divest from a dependence on coal are growing, and South Africa is under pressure to reduce emissions and accelerate its transition to a low-carbon economy in order to meet its Paris Agreement goals. It is important to put in place appropriate policies to drive the transition. The Presidential Climate Commission was established in 2020 to enable policies to support South Africa's just transition. Many of South Africa's key trading partners support the adoption of low-carbon policies and intend to reduce emissions and impose trade restrictions on carbon-intensive goods. Without fundamental moves toward green manufacturing, South Africa risks losing its global competitiveness and export markets. Efforts by government are important, as they provide a signal to the private sector to encourage investment in building resilient energy systems, sustainable agriculture and green industrialisation, and in reshaping value chains.

The National Energy Regulator of South Africa (Nersa) has approved registration applications for 16 generation facilities. Government notes that the registration process took place in just 19 days. Eleven of these generation facilities will be generating electricity for their own use and five will be for commercial purposes. Twelve applicants will be connected to the Eskom network and four to municipal networks, namely the City of Ekurhuleni, Emfuleni Local Municipality and two to the City of Tshwane. Fifteen applicants use solar photovoltaic (PV) technology and one applicant uses wind turbine technology.

Since the increase of the registration threshold from 1 MW to 100 MW, Nersa has approved 216 registration applications. In the first quarter of the 2022 calendar year, 54 generation facilities with a total capacity of 29 148 MW were approved. The total investment value is approximately R452 million. However, the country still found itself on Stage 6 loadshedding in the third week of September 2022, as the impact of independent generation projects are still too small and will take time to be implemented. After 15 years of loadshedding, the country has done too little too late and now finds itself in a self-created energy emergency. While an emergency plan has been outlined, there is as yet no date for the end of loadshedding.

5.3 The state of local government

Declining levels of service delivery have become a persistent feature of the local government landscape in South Africa. In 2019 the Finance Minister reported in Parliament that 163 municipalities were facing financial distress. According to Municipal IQ (2022), local government news stories or living in an ill-functioning municipality are no longer a shock, or even news. They point to the Auditor-General's finding of an Eastern Cape municipality that bought the mayor a new car with COVID-19 relief funds, noting that such findings are hardly isolated. Other, more concerning issues include Clover packing up shop in Lichtenburg because the local municipality, Ditsobotla, was unable to provide a minimum level of services. This is of little surprise in a municipality which had two contesting mayors and a state of provincial section 139 intervention. Other examples include the threat by beverage maker Twizza in Enoch Mgijima (Komani) to stage a similar relocation due to service interruptions, despite repeated attempts by residents to engage provincial structures. Also in the Eastern Cape, Makana residents have taken court action to dissolve their municipality where provincial interventions have failed as miserably as they have in Ditsobotla. Most recently the Eastern Cape provincial government has spent most of its time resisting court-ordered dissolution of the potholed water-deprived municipality. (Municipal IQ 2022.)

From a policy perspective: if manufacturers move from dysfunctional towns to more functional cities, it will result in the hollowing out of fragile rural economies, simply because municipalities are failing to provide basic services. It also means there will be more pressure on larger cities and metros which are already under pressure from in-migration – one of the contextual reasons cited by Moody's Investors Service in its four-notch downgrade of the Tshwane metro. Indeed, the larger cities have not been immune to failing service delivery, be it eThekweni's crumbling sanitation infrastructure because of chronic underinvestment being exacerbated by floods or Nelson Mandela Bay Metro's failure to plan for the current drought that it faces. Municipal IQ, which combines proxies for service delivery with governance and compliance indicators, has reported that 42% of municipalities are flagged for worryingly poor performance, with 18% falling into high-care or ICU status. In North West, 82% of municipalities are on this list, followed by 74% in the Eastern Cape, 56% in Limpopo and 48% in the Free State. Among those municipalities that are flagged, most (more than 40%) are B2 municipalities populated with medium and smaller towns, followed by B3 municipalities which incorporate groups of small towns (20%) and B4 rural municipalities (13%). B2 municipalities rely heavily on local sources of revenue and the careful management of its own revenue generation. By virtue of their constrained local revenue bases, B3s and B4s have ironically been able to rely on more predictable grant funding for their revenue, which may explain why these municipalities do not face the same challenges and contractions in revenue as B2s.

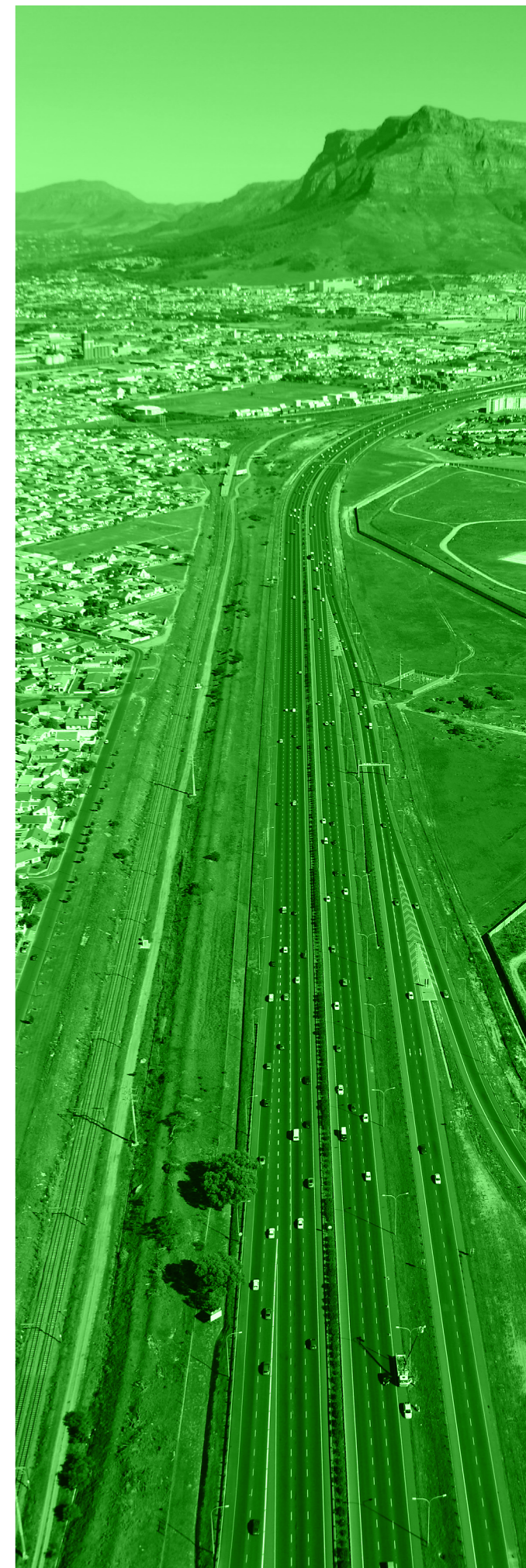
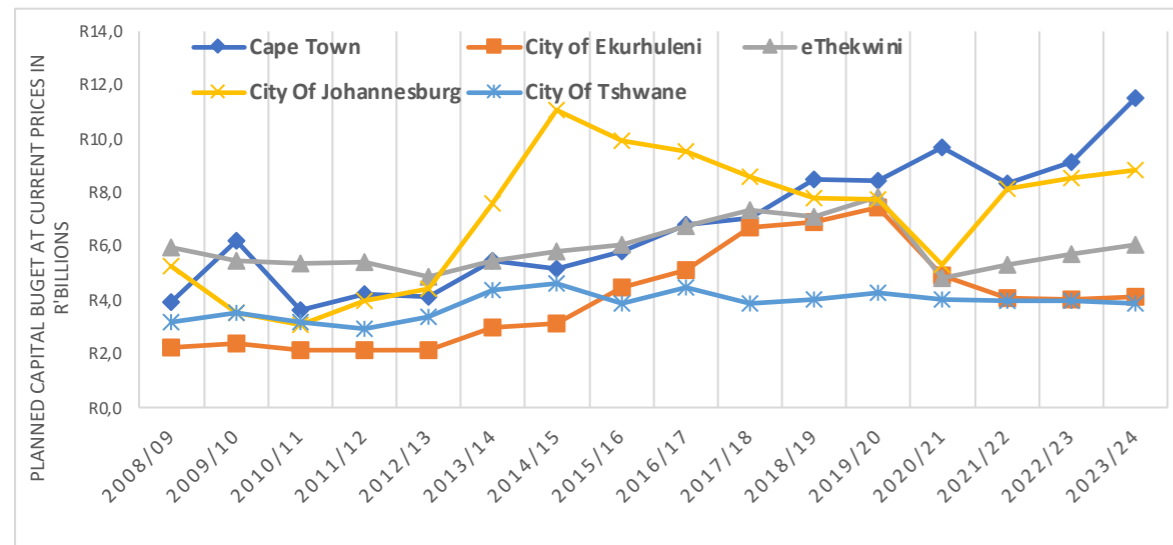


Figure 17 Capital budgets of the five largest cities



National Treasury (2022)

The names of these municipalities have become synonymous with municipal incompetence, malfeasance, failure and collapse: Ditsobotla, Madibeng, Kgetlengrivier, JB Marks, Emfuleni, Lekwa, Matjhabeng, Maluti-a-Phofung, Enoch Mgijima and Makana, to name but a few that have hit the headlines.

Each of these municipalities is being run by a group of elected councillors led by a mayor and a speaker employing officials managed by a municipal manager, CFO and departmental heads, all of whom are being paid salaries that would be considered attractive by most in the private sector. The issue is not so much that such high levels of dysfunction and failure exist, but rather that it is allowed to continue and worsen. Critical reasons for the failures include:

- The poor levels of accountability of elected and administrative officials to communities
- Systems of political patronage which have rewarded incompetence
- Severe loss of technical skills at municipal level
- The diversion of funding meant for service delivery towards corruption
- The failure of provincial governments to perform duties and play an oversight role

In 2022, the Auditor-General (2022), Tsakani Maluleke, in her audit of local government compliance with the MFMA for 2020/21, highlighted the slight increase in the number of clean audits – 27 municipalities were able to maintain their clean audit status throughout the administration, while 14 achieved a clean audit for the first time. However, clean audit outcomes continue to represent less than a fifth of the local government budget. A clean audit outcome is not always an indicator of good service delivery and does not always directly correlate to the lived experience of all the communities in a municipal area, explains Maluleke. ‘However, we have seen that municipalities that have the controls and systems in place to plan, measure, monitor and account for their finances and performance, and to stay within the rules, often also have a solid foundation for service delivery that will benefit their communities. This provides these municipalities with opportunities to shift their

focus to ensuring the delivery of services for the benefit of all their residents.’ She drew attention to Senqu – a small, rural Eastern Cape municipality – that has received a clean audit for five consecutive financial years. Reports show that the municipality has used its firm controls and systems to benefit its community through effective service delivery (News24, 2022).

After recording a brief recovery in 2019, local government capital expenditure declined in 2020 as municipalities reduced their spending on construction, plant and machinery, and leased assets. According to the data, 148 of South Africa’s 257 municipalities cut back on capital expenditure in 2020. Municipalities provided various reasons for the decrease in 2020. Several municipalities indicated that they had spent less due to the completion of large-scale construction projects that were active in 2019. On the more concerning side, other municipalities indicated that the decrease in capital expenditure was the result of project delays related to a range of issues, such as procurement delays, the COVID-19 pandemic, protest action and business forums.

The capital budgets of the cities represent their investment in socio-economic infrastructure, which is a key enabler of growth. In addition, it is indicative of the infrastructure replacement and rehabilitation work municipalities need to be undertaking continually. A general benchmark is for municipalities to invest 20% of their total budgets in infrastructure. While their operating budgets are generally dominated by staff costs, bulk purchases and general upkeep, the capital investment ensures that the condition of infrastructure is conducive for doing business, which in turn creates employment and generates rates and taxes.

A notable trend in all cities apart from the City of Cape Town is that there has been a decline in the real value of infrastructure spending by cities and a declining proportion of capital expenditure relative to overall budget. A notable example is eThekweni municipality, which in 2015 budgeted 18% of its budget to capital expenditure. However, this proportion has gradually decreased to its current (2022/23) level of 9% despite the impact of the April 2022 floods.

Apart from the capital expenditure by local governments, the lack of appropriate skills and talent in leadership and technical

roles and the diversion of funding for corrupt activities remain critical challenges. The number of chartered accountants in leadership roles in local governments and cities remains extremely low, despite market-related salaries in these cities. This is primarily due to a unwelcoming culture for internal controls, as well as personal physical threats.

5.4 Infrastructure: conclusions

Apart from the slowdown in government infrastructure spending over the last seven years, two notable issues of concern have arisen. Firstly, the increased spending in the preceding period has not resulted in a proportional improvement in productive capacity, and secondly, there is a declining capacity of the state to implement critical infrastructure projects. In addition, it has been clear that SOEs that hold a monopoly in key sectors such as ports and rail have operated inefficiently due to the lack of competition. This has arguably been the single biggest factor responsible for the slow-down of economic growth. Given the fiscal position

of the state, the experience of state capture and the poor performance of state monopolies, there are two important policy considerations for the future of infrastructure provision in the South African economy:

- The future of electricity generation should be a diverse mix of independent generation projects both for the national grid, as well as for local areas.
- The future of rail and port investment should be driven based on business principles, incorporating innovative forms of partnerships with the state as owner and business as implementer/operator. The increasing cargo volumes that are forced onto South Africa’s roads, particularly in the Durban–Gauteng corridor, are not sustainable and significantly greater investment and improved performance is required on the rail network.
- The stability and good governance of the metro cities are critical for economic growth. Given the constraints that cities face in funding bulk infrastructure required for growth, partnerships and innovative forms of finance need to be implemented.





SMEs are small and micro enterprises. The SBP SME Growth Index forms the comprehensive assessment of the performance of SMEs in South Africa. Nieman and Nieuwenhuizen (2009) confirmed that SMMEs form 97% of all businesses in South Africa, generating 35% of the GDP.

In 1994, SMME development was identified by the new South African government as a priority in creating jobs to solve the high unemployment rate in the country, and the promotion of entrepreneurship and small business development was seen as a way of addressing the many developmental goals in the country. According to Borat et al (2018), SMMEs in South Africa contributes 56% to employment and around 45–50% to GDP, compared to 95% and 70% respectively for other middle-income economies. According to Bowmaker-Falconer and Herrington (2020), in 36 countries in the Organisation for Economic Co-operation and Development (OECD), small and medium enterprises constitute 99% of all firms and contribute between 50% and 60% to total value added.

Worldwide, about 90% of private businesses are SMEs, and these contribute more than 50% of employment opportunities (World Bank, 2021). SMEs in Western Europe, Japan and the USA, for instance, generate 55% to 80% of total employment. Approximately 23 million SMEs in the USA contribute more than 50% to the country's GDP, and these SMEs are pivotal in creating new jobs, improving product quality, increasing competition and driving innovation. In the African context: in countries such as Egypt, Nigeria and Kenya, SMEs have been estimated to contribute over 70% towards employment and 30–40% to GDP. In Ghana, about 92% of businesses are SMEs, contributing about 85% towards employment and about 70% to GDP. By comparison, according to Stats SA, SMEs in South Africa account for about 91% of the formal business entities, contributing to about 51% to 57% of the GDP and providing almost 60% of employment opportunities. With an unemployment rate of approximately 35% and high levels of poverty and inequality, the performance of SMEs becomes a critical subject for investigation as they hold substantial potential for employment creation, competitiveness and innovation. SMEs have the potential to advance both inclusive growth and development and to generate 90% of new jobs by 2030 in South Africa.

The South African government, through the Department of Trade, Industry and Competition (DTIC), the Industrial Development Corporation (IDC), the Small Enterprise Development Agency (SEDA) and the Small Enterprise Finance Agency (SEFA), supports entrepreneurial ventures and growth. Nevertheless, SMEs in South Africa continue to record low performance, low growth and high failure rates, with the Family Business Association of Southern Africa (FABASA), the official representative of family businesses in South Africa, continually reporting the low performance of SMEs.

Unlike several emerging and middle-income countries, South Africa does not have a regular census or a periodic survey

that tracks the performance of small, medium and micro-enterprises in their complete variety. The absence of reliable, comprehensive and consistent data has led to wide-ranging estimates of the number of SMEs in South Africa and of their contribution to GDP and employment. For instance, the survey of employers and self-employed, which was last published in 2014, estimated that there are approximately 1,5 million non-VAT-registered businesses. On the other hand, the Finscope 2010 study put the number at an estimated 5,9 million small businesses in South Africa. The Bureau of Economic Research 2016 study estimates the number of small businesses to be in the region of 2,2 million. Definitions often relate to the grouping of firms by the number of 'person years' of employment, micro (0–10), small (11–50), medium (51–200) and large (201+), while others relate to turnover.

The literature across the board tends to agree that the SME sector in South Africa has performed poorly, which is evidenced by the high failure rate. This can be attributed to the entrepreneurial environment, which is not conducive to business growth and development. Furthermore, there is often a lack of adequate innovation because of the inability to source funding for R&D expenditure. The business discontinuance rate as shown by the 2019/2020 Global Entrepreneurship Monitor (GEM) study was 4,9%, while the established business ownership rate (the percentage of the adult population that has owned or managed businesses for a period of more than 42 months) was 3,5%. This is an indication that the business failure rate is greater than the rate at which businesses are created.

In 2019, South Africa was ranked 49 out of 54 participating countries in the GEM's National Entrepreneurship Context Index (NECI), which is a measure of the entrepreneurial environment for business start-ups and growth (Bowmaker-Falconer and Herrington, 2020). In realising the continued challenges of financial access for SMMEs, the Minister of the Department of Small Business Development announced the creation of a Small Business Innovation Fund designed to provide loans and grants for SMMEs with high growth potential. One of the objectives of the fund is to encourage SMME's innovation and growth, which are crucial for strengthening competitive advantages.

According to data from the World Enterprise Survey (conducted by the World Bank in 2020), which comprises SMEs in Gauteng, KwaZulu-Natal, the Western Cape and Eastern Cape, most of the firms (37,19% out of 917) are located in Gauteng. This is expected, given that the province is the major economic hub of South Africa. Due to its large population size and high economic activity, Gauteng presents more opportunities for SMME growth and development. Most of the SMMEs (over 60%) are small, which is encouraging given the higher productivity scope for small firms compared to medium and larger firms. In addition, most SMMEs operate in the services industry, with 30% being in the wholesale and retail trade industry, 23% in the community and social services industry, and 14% in

the financial services industry. This is as expected, given that the services sector is the largest contributor to output and employment in South Africa.

According to Small Business Project (SBP), in partnership with the Small Business Institute (SBI) (2019), South Africa's formal employing SME segment in the economy is much, much smaller than originally thought, consisting of just over 250 000 businesses – far off the mark of current estimates:

- While formal SMEs make up nearly 98,5% of the number of formal firms in the economy, they only account for 28% of the jobs. Based on international trends, this should be about 60% to 70%.
- The majority, 56% of jobs in South Africa, come from only 1 000 larger employers, including government – and these jobs are growing at a faster rate than what SMEs are creating.
- Small firms pay more to retain staff than the larger firms (as a percentage of turnover) but are not employing people at a desirable rate. What is clear from the breakdown of the number of firms and employment by size group and year shown in the tables is that micro firms are the most numerous and the number of firms falls as size increases. In 2016 there were 176 333 firms defined as micro (66% of the total), 68 494 small firms (26% of the total), and 17 397 medium ones (6,5% of the total).
- South Africa's formal, employing SME segment of the economy is much, much smaller than originally thought. Collectively, there are only some 250 000 formal employing micro-, small and medium enterprises in South Africa. While formal SMEs contribute nearly 98,5% of the number of formal firms in the economy, their employment numbers are the inverse: only 5,1% of employment occurs in micro firms, 11% in small firms, and 12% in medium ones. Combined micro, small and medium firms only employed 3 863 104 people, or just over 28% of the total formal jobs.

The concentration of employment is even more noticeable if employment is ranked by the size of the company – recent SBP findings showed the largest 1 000 companies in South Africa, including government, created 56% of all employment. Larger firms have also dominated employment growth (in terms of both the number of jobs added and growth rates) over the five-year period prior to 2016. Large firms added 1 248 430 jobs, medium 202 423, small 114 493 and micro 26 931. Growth rates over this period, from large to micro firms, were 15%, 14%, 8% and 4,1%.

These figures suggest that over time, employment is becoming more concentrated in larger firms (including government). In addition, SBP analysis of company income tax (CIT) data shows that on labour productivity (turnover per worker) and employment costs (wages), unlike in many other similar countries and what might have been the case previously in South Africa, across many sectors formal smaller firms have higher labour productivity and employment costs than larger ones. What this means is that, on average, small and micro firms pay better and have more turnover per person employed than larger ones. These also seem to be increasing faster

over the recent past than those for larger firms. These results suggest that formal small and micro firms – at least over the past five years – are not where jobs for the lower-skilled are being created in the South African economy. Rather, it suggests that small South African firms are becoming more skills intensive.

SBP notes that proxies used to define enterprises are outdated and complicated to apply, track and verify. While the National Small Business Act (NSBA) of 1996, as amended in 2003 and 2004, explicitly sets out definitions for five enterprise categories – micro, very small, small, medium, and large – across 11 sectors, they are not applied in any of the laws, policies and strategies reviewed, save in one other Act: The Preferential Procurement Policy Framework Act, 2017. The NSBA Schedule 1 that defines enterprises is particularly data intensive, given that it relies on data for employment, for turnover, and for assets employed with thresholds applied for each of the five enterprise categories in each of the 11 sectors.

Despite some criteria being specified in monetary terms, the NSBA Schedule has not been updated in 15 years, irrespective of the impact of factors such as inflation have had on the nature of business. Only a few pieces of legislation refer to SMMEs as a collective term or to sub-categories of small firms and when reference is made to specific size-related indicators, these are for exemption purposes or for specific requirements. The exception are the several pieces of B-BBEE legislation which have specific categories of small enterprises that directly relate to size, namely qualifying small enterprise (QSE) and exempted micro enterprise (EME) based on turnover figures. Start-ups or 'emerging enterprises' are also distinguished from other enterprises by using a time-bound criterion, in which start-ups are enterprises in the first year of their formation or incorporation, irrespective of their turnover.

B-BBEE legislation is not systematically adopted and while threshold levels for enterprises are set out in the main B-BBEE legislation, some sector codes introduce new categories of small entities to reflect sector specificities – for instance 'qualifying small financial institutions' differ in the financial sector code and 'small growers' likewise in the forestry sector code. Hence there is fragmented and disjointed approaches to referencing SMME in legislation. The complexity of B-BBEE regulations creates red tape rather than fostering an environment where black ownership and economic participation can be maximised.

Policy and key support strategies refer to SMMEs in only broad qualitative terms. Increasing attention has been given by government to supporting SMMEs in key policy documents and support strategies. However, no clear-cut definition is applied and references to SMMEs are presented collectively and in broad qualitative terms. In addition, the distinction between what constitutes a formal and informal enterprise is not explicitly defined. What is clear is that there are divergent and siloed approaches at play across government in terms of identifying and supporting SMMEs. In turn, it means that there is no policy or regulatory coordination, no harmonisation across laws, and no co-ordination across government to understand the impact of its interventions.





The World Bank Group is formulating a new approach to assessing the business and investment climate in economies worldwide following the discontinuation of the Doing Business Survey in 2019. Updates on the development of the new Business Enabling Environment (BEE) project will be published on their website as they become available. South Africa ranked 84th in 2019, the last year the survey was conducted, while Mauritius ranked 20th, Rwanda 38th and Kenya 56th. South Africa has consistently slipped down the ranking from 2003 and has not kept pace with the technological changes that have occurred.

According to the World Economic Forum (WEF) Global Competitiveness Index for 2019, South Africa ranks 60th of 141 economies, which is an improvement over its 2018 ranking of 67. While the country performs relatively well with regard to its check and balances related to democratic institutions (16th), the financial system (19th), social capital (34th), market size (35th), and meritocracy and incentivisation relating to labour remuneration (39th), it is negatively impacted by the state of its security (135th). In addition, the country ranks poorly with regard to labour relations (111th) and in the sub-categories of co-operation in labour-employer relations (139th), flexibility of wage determination (134th), hiring and firing practices (129th), digital skills (126th), quality of technical and vocational training (119th), health (118th), government's responsiveness to change (110th), government's policy stability (108th) and electricity access (107th).

In the current digital era, new technologies like artificial intelligence and automation are reshaping economies and societies. While they hold great promise for boosting economic prosperity and increase human welfare, they also highlight, and can deepen, economic and social fault lines across advanced and developing economies. Indeed, economic inequality has been rising in many countries over the period of the boom in digital technologies, stoking social discontent in those left behind across industries, across the workforce, and across different segments of society. An increasingly unequal society can weaken the trust in public institutions and undermine democratic governance. Mounting global disparities can imperil geopolitical stability.

The adoption of digital technologies holds substantial benefits for improving the way in which government operates and delivers services. However, in doing so, government must ensure that it broadens access to technology to people residing in underdeveloped areas, while building digital skills in the poorest communities to ensure that technology plays the role of an enabler rather than a dis-enabler. A team tasked with cutting red tape was set up in the Presidency to identify priority reforms, including mechanisms to ensure government departments pay suppliers within the required 30 days. It will support current initiatives to simplify processes relating to property registration, cross-border trade and

construction permits. In addition, National Treasury has worked with the World Bank to implement the Sub-National Doing Business Survey among the metros in the country. However, despite some level of progress being made in for example improvements in the time taken to get a water-use licence (WULA), there are many areas where progress has stalled. While improvements in processes are being slowly introduced, the legislative environment for business is increasingly becoming more complex and onerous.

While larger businesses may be able to absorb the increased costs resulting from the regulatory burden, small businesses find it extremely difficult to comply. In addition, the impact of delays in VAT refunds (R value as opposed to the number of refunds) has a negative impact on the cash flow of business and, indirectly, on economic growth and employment outcomes. This is compounded by the fact that all government incentives, support and funding systems for small business require full compliance with government regulations and practices – with the paradox that those that can comply rarely require government support. The complex compliance environment is often related to business legislation and regulations, industry-specific legislation and regulations, tax compliance, trade regulations, local government bylaws, complex B-BBEE legislation, financial regulations, labour laws and regulations (including health and safety), as well as government support schemes. Government's lack of transversal operation (and silo-based approach) is reflected in the fragmented nature of legislation and regulations that businesses must comply with. In general, the simplicity and efficiency of the compliance environment allows business to be more productive and hence encourages growth, while the complexity of the compliance environment creates room of corruption and rent-seeking behaviour.

Significant improvements are still required in the following areas:

- Labour relations and labour laws and regulations, particularly the ease of hiring and firing practices
- Broadening digital skills and providing broad-based Internet access to marginalised communities
- Improving safety and security (covered separately)
- Addressing the failures in the TVET system through introducing a performance system, increasing public and private investment, and greater industry input into curriculum development
- Addressing shortcomings and the quality of teaching in the basic education sector through the introduction of a performance management system and standards for teachers (including principals), improved teacher training and improving early childhood education (addressed in the section on Education and Skills)

- Improving and streamlining SME regulatory environment through creating a framework for greater standardised definitions, the integration of SME legislation, and simplifying tax compliance
- Policy certainty on land and ease of obtaining building permits
- Trading across borders (SARS – Customs)
- Companies and Intellectual Property Commission (CIPC) compliance
- Transferring of property
- SARS/tax compliance and improving the turn-around times for VAT refunds
- Land tenure reform in low-income areas
- Infrastructure development approvals
- Supply chain management
- Financial compliance
- Business regulations and ease of BBBEE compliance
- Industry specific laws and regulations
- Policy certainty in key areas including mining
- Developing ethics in early childhood education

While substantial improvements have been made in the deregulation of electricity generation, these have not yet translated into a substantial increase in the amount of electricity generated, which is anticipated to take years to yield rewards.





Over the last two years the world has undergone a period of catalytic change, which has created new challenges while highlighting emerging opportunities and a new way of doing business. The post-pandemic recovery has brought into sharp focus several issues and trends which SAICA members, as leaders in the business environment must rapidly learn how to navigate in order to steer the economy into the future. These include:

- Quantum strides in technological advancement** – Strides in technological advancement have already been made on the Internet of Things and the 4IR. The 4IR has provided us with robotics, machine learning, artificial intelligence, augmented reality and virtual reality. There were nearly two centuries between the first and second industrial revolutions. While much of the world is still trying to catch up to 4IR, the modern workplace is facing the Fifth Industrial Revolution (5IR), which can be summarised as the combination of humans and machines in the workplace, including deep multi-level co-operation between people and machines. The question of not only artificial intelligence but artificial consciousness becomes relevant and challenges of ethics and the inclusion of people become central areas of focus. While areas such as computational biology and genomic sciences and bioengineering emerged during the 4IR, their role will evolve in the 5IR to create a deeper level of interaction between machine and biology.
- A changing climate and a new deal between economy and environment** – Human-induced changes have begun to have serious impacts on weather, both globally and in South Africa. Recent extreme weather events in the form of floods in KwaZulu-Natal and droughts in the nearby Eastern Cape and Western Cape are becoming more frequent. In addition, the increasing rate of bio-diversity loss and destruction of natural systems has a rebound effect on society. It is clear that society across the globe has been slow to understand the intricately networked nature of the natural system. It has become fundamental that global and local economies adapt to adopting an approach that works with nature. Energy systems need to change rapidly to become more renewable while adopting circular principles which produce no waste.

Shared value and impact investing – Global businesses principles are fast changing from the maximisation of shareholder benefits to a shared value approach which benefits society and sees the customer as central. Shared value principles and impact investing focus on the social and environmental good that businesses can create rather than profit maximisation at the expense of society and the environment.

Building resilience amid global supply chain disruptions –

Whether it is due to war, pandemics or natural disasters, global supply chains have been facing increasing disruptions, highlighting the need to build flexible supply chains which include a high degree of localisation. Business and government need to work together to increase the levels of emergency preparedness and to improve infrastructure systems that are resilient to natural and human-made disasters at the local level. These issues are far too important to be left exclusively to the domain of government and the purview of failing local governments.

Enhanced public engagement by strengthening democratic decision-making structures – Protecting constitutional democracy is everyone’s business. This should be achieved through a call to action through strong partnerships between business, government, labour and civil society. SAICA members, in whichever role they find themselves, must promote the building of such partnerships with the aim of promoting good governance and the strong institutions which are fundamental to successful societies. In doing so, they should exploit the opportunities that digital technologies offer for improved governance, but alongside a clear commitment to equitable access and human rights. In the technological race, many South Africans are being left behind. Business must work together to ensure that the poorest of communities have digital access and are able to become active participants in the economy. The failure to include them will result in those being excluded tearing down the walls to gain access.



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