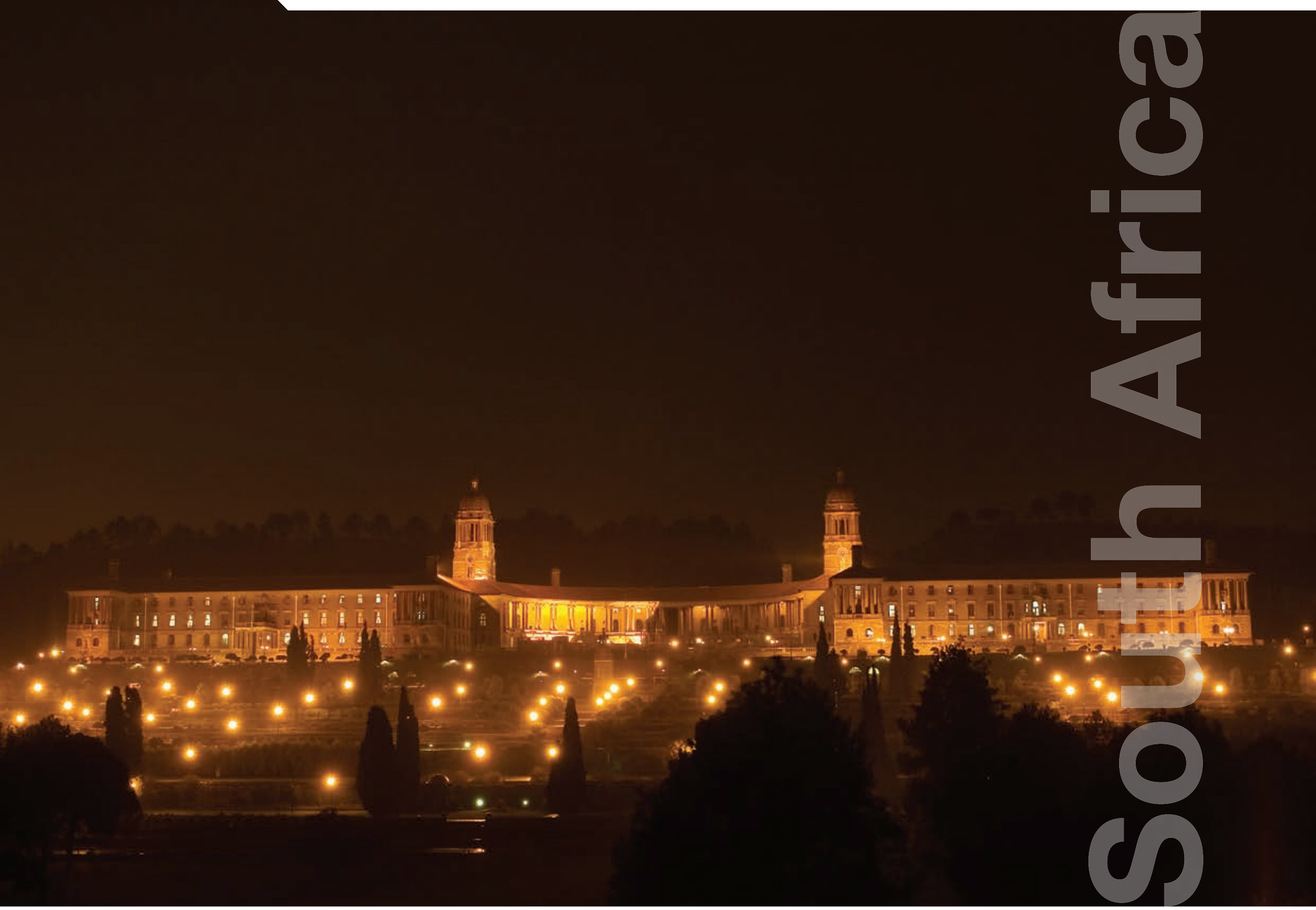
OECD Economic Surveys
SOUTH AFRICA

JULY 2020



OECD

OECD Economic Surveys: South Africa 2020

BETTER POLICIES FOR BETTER LIVES

Please cite this publication as:
OECD (2020), *OECD Economic Surveys: South Africa 2020*, OECD Publishing, Paris,
https://doi.org/10.1787/530e7ce0-en.

ISBN 978-92-64-32319-3 (print)
ISBN 978-92-64-17268-5 (pdf)

OECD Economic Surveys
ISSN 0376-6438 (print)
ISSN 1609-7513 (online)

OECD Economic Surveys: South Africa
ISSN 2218-6131 (print)
ISSN 2218-614X (online)

Photo credits: Cover © Shutterstock.com/Sean Nel.

Corrigenda to publications may be found on line at: *www.oecd.org/about/publishing/corrigenda.htm*.

Table of contents

Tables

Figures

Follow OECD Publications on:

http://twitter.com/OECD_Pubs

http://www.facebook.com/OECDPublications

http://www.linkedin.com/groups/OECD-Publications-4645871

http://www.youtube.com/oecdilibrary

OECD Alerts http://www.oecd.org/oecddirect/

This book has...

StatLinks

A service that delivers Excel® files from the printed page!

Look for the *StatLinks* at the bottom of the tables or graphs in this book. To download the matching Excel® spreadsheet, just type the link into your Internet browser, starting with the *http://dx.doi.org* prefix, or click on the link from the e-book edition.

This Survey is published under the responsibility of the Secretary-General of the OECD.

The economic situation and policies of South Africa were reviewed by the Economic and Development Committee on 9 September 2019 with the participation of representatives of the South African government and representatives of Italy and Turkey as lead speakers.

The Secretariat's draft report was prepared in the Economics Department by Falilou Fall and Daniela Glocker. Andrés Fuentes Hutfilter drafted the climate change section. It has benefited from valuable background research by Andre Steenkamp, seconded from the South African National Treasury. Statistical research assistance was provided by Corinne Chanteloup and administrative assistance was provided by Poeli Bojorquez, Alexandra Guerrero, Robin Houng Lee, Elisabetta Pilati, Sylvie Ricordeau and Heloise Wickramanayake

The previous Survey of South Africa was issued in July 2017.

Information about the latest as well as previous Surveys and more information about how Surveys are prepared is available at www.oecd.org/eco/surveys.

BASIC STATISTICS OF SOUTH AFRICA, 2019

(Numbers in parentheses refer to the OECD average)*

LAND, PEOPLE AND ELECTORAL CYCLE					
Population (million)	58.8		Population density per km²	48.1	(37.9)
Under 15 (%)	28.7	(17.7)	Life expectancy (years, 2018)	63.9	(80.6)
Over 65 (%)	6.3	(17.6)	Men	60.5	(78.0)
Foreign-born (%, 2012)	4.2		Women	67.4	(83.3)
Latest 5-year average growth (%)	1.5	(0.6)	Latest general election	May 2019	
ECONOMY					
Gross domestic product (GDP)			Value added shares (%)		
In current prices (billion USD)	350.3		Primary sector	2.1	(2.6)
In current prices (billion ZAR)	5 058.6		Industry including construction	29.2	(26.5)
Latest 5-year average real growth (%)	0.8	(2.2)	Services	68.7	(70.9)
Per capita (000 USD PPP)	12.9	(46.6)			
GENERAL GOVERNMENT					
Expenditure (% of GDP, 2018)	38.2	(40.3)	Revenue (% of GDP, 2018)	34.9	(37.3)
EXTERNAL ACCOUNTS					
Exchange rate (ZAR per USD)	14.442		Main exports (% of total merchandise exports)		
PPP exchange rate (USA = 1)	6.683		Manufactured goods	24.4	
In per cent of GDP			Machinery and transport equipment	21.6	
Exports of goods and services	30.0	(54.2)	Crude materials, inedible, except fuels	17.5	
Imports of goods and services	29.5	(50.4)	Main imports (% of total merchandise imports)		
Current account balance	-3.0	(0.3)	Machinery and transport equipment	31.7	
Net international investment position	8.2		Mineral fuels, lubricants and related materials	16.9	
			Chemicals and related products, n.e.s.	12.2	
LABOUR MARKET, SKILLS AND INNOVATION					
Employment rate for 15-64 year-olds (%)	42.5	(68.7)	Unemployment rate, Labour Force Survey (age 15 and over) (%)	28.7	(5.4)
Men	48.0	(76.2)	Youth (age 15-24, %)	57.0	(11.7)
Women	37.0	(61.3)	Long-term unemployed (1 year and over, %)	20.4	(1.4)
Participation rate for 15-64 year-olds (%)	59.5	(72.8)	Tertiary educational attainment 25-64 year-olds (%, 2018)	7.2	(36.9)
Mean weekly hours actually worked	42.4	(37.7)	Gross domestic expenditure on R&D (% of GDP, 2016)	0.8	(2.4)
ENVIRONMENT					
Total primary energy supply per capita (toe, 2017)	2.3	(4.0)	CO_2 emissions from fuel combustion per capita (tonnes, 2017)	7.4	(8.6)
Renewables (%)	5.9	(10.2)	Renewable internal freshwater resources per capita (1 000 m^3, 2014)	0.8	(8.2)
Exposure to air pollution (more than 10 μg/m^3 of PM2.5, % of population, 2017)	100.0	(58.7)			
SOCIETY					
Income inequality (Gini coefficient, 2015)	0.620	(0.31)	Public and private spending (% of GDP)		
Relative poverty rate (%, 2015)	26.6	(11.6)	Health care (2017)	8.1	(8.8)
Median disposable household income (000 USD PPP, 2015)	4.4	(23.9)	Share of women in parliament (%)	45.7	(30.7)

* Where the OECD aggregate is not provided in the source database, a simple OECD average of latest available data is calculated where data exist for at least 29 member countries.

Source*:* Calculations based on data extracted from the databases of the following organisations: OECD, International Energy Agency, International Monetary Fund, World Bank.

Executive Summary

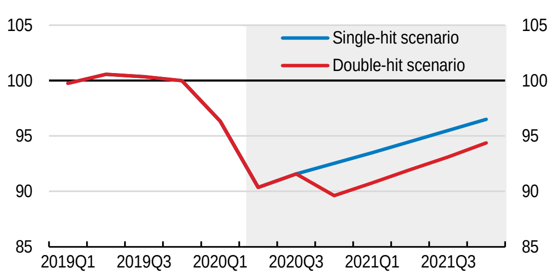
The economy was hard hit

The COVID-19 pandemic and the ensuing lockdown have triggered a sharp drop in activity. South Africa reacted quickly to the outbreak by establishing a nationwide lockdown from March 26. Economic activity was reduced in mining and industry, and stopped in the tourism, entertainment and passenger transport sectors. Starting June 1st, the lockdown was eased to allow more economic activity and movement of people to work. Nonetheless, the spread of the virus continued and the number of cases increased rapidly in June and July.

The 2020 recession follows almost a decade of modest growth (Figure 1). Persistent electricity shortages, rising government debt and policy uncertainty will continue to hold back investment and underscore low growth. The economy is set to recover only progressively from the coronavirus recession as sectors reopen.

Figure 1. Growth has collapsed following a modest performance in the past decade

GDP at constant prices, index 2019Q4 = 100, seasonally adjusted



Source: OECD Economic Outlook 107 database.

StatLink http://dx.doi.org/10.1787/888934005359

Growth is projected to slump. In the double-hit scenario, a new outbreak affecting South Africa and its trading partner countries will curtail exports, deepening the recession to -8.2% in 2020 and limiting the recovery in 2021, with GDP growth at 0.6%. In the single-hit scenario, where a second wave of the virus can be avoided, economic activity will fall by 7.5% in 2020 before picking up progressively with GDP growth of 2.5% in 2021 (Table 1).

The government relief plan will mitigate the fall in household consumption, but investment, which has been declining over the past two years, will decline to a record low level. The depreciation of the Rand, driven by deteriorating fiscal accounts, will not boost exports as commodity demand remains weak, though prices of some commodities (gold, platinum) are high in the single-hit scenario. High production costs will continue to weigh on economic activity.

Both domestic and global risks weigh on the economic outlook. Domestic near-term risks to growth include load-shedding (rolling blackouts) by the power utility and higher-than-expected electricity prices, which could derail the recovery. By contrast, improvement of business confidence and a faster recovery in Emerging Market countries would have growth spillovers for South Africa, including through higher demand and prices for commodity exports.

Table 1. Macroeconomic projections

Growth rates, unless specified	2019	2020	2021
	Single-hit scenario		
Growth domestic product (GDP)	0.2	-7.5	2.5
Private consumption	1.0	-5.8	2.3
Government consumption	1.5	2.4	1.6
Gross fixed capital formation	-0.9	-13.9	2.4
Exports of goods and services	-2.5	-10.8	5.6
Imports of goods and services	-0.5	-8.6	4.5
Unemployment rate (% of labour force)	28.7	33.9	34.9
Consumer price index	4.1	3.5	3.7
Current account balance (% of GDP)	-3.0	-3.0	-2.5
	Double-hit scenario		
Growth domestic product (GDP)	0.2	-8.2	0.6
Private consumption	1.0	-6.5	0.8
Government consumption	1.5	2.5	2.3
Gross fixed capital formation	-0.9	-15.1	-1.0
Exports of goods and services	-2.5	-12.5	1.5
Imports of goods and services	-0.5	-10.0	2.0
Unemployment rate (% of labour force)	28.7	34.0	35.8
Consumer price index	4.1	3.4	3.3
Current account balance (% of GDP)	-3.0	-3.1	-3.0

Source: OECD Economic Outlook 107 database.

Fiscal policy faces severe challenges

Fiscal policy reacted forcefully to the crisis, mobilising ZAR 500 billion (10% of GDP) for new spending, reprioritisation, tax relief and loan guarantees. All social grants were augmented and new schemes designed to provide support to workers including those in the informal sector. Specific schemes were activated targeting businesses in hard hit sectors such as tourism.

The crisis follows a sharp deterioration in fiscal accounts over the past three years. The government deficit is projected to reach 15% of GDP in 2020. Public debt has been increasing in the last decade and is projected to exceed 80% of GDP by 2020. In the absence of consolidation, the debt level will exceed 100% of GDP in 2022, raising sustainability risks in a context of low growth and high government borrowing rates. The fiscal strategy has to sequentially cope, in the short-run, with the impact of the coronavirus and, in the medium-term, implement a bold consolidation to restore debt in a sustainable path while sparing potential growth.

Compensation of government employees is large. At 12% of GDP, the government wage bill is high. Rising wages are driving wage bill increases rather than employment. Wage negotiations have systematically granted above-inflation increases. When compared to OECD and emerging economies, the remuneration level of civil servants is relatively high. The government has announced its intention to reduce the wage bill. The government could consider indexing public sector wages below inflation for 3 years.

Government exposure to state-owned enterprises (SOEs) is high and represents a significant risk to debt sustainability and public finances. The underperformance of SOEs is widespread due to mismanagement, corruption issues, overstaffing and an uncontrolled wage bill. South Africa needs to establish an effective governance framework for SOEs that clearly sets company-specific goals in terms of profitability, capital structure and non-financial objectives.

An agenda for growth

Supporting the economic recovery in the short-run while undertaking reforms to increase potential long run growth is key. Efforts to improve the business climate, sequencing and prioritisation of reforms will be essential for maximising their growth impact. The tourism sector needs support to weather the effects of the crisis. In the medium term, developing tourism and boosting transport infrastructure investments can contribute to growth and job creation during the recovery. Regulatory restrictions are still relatively high. This includes a high level of government involvement in the economy, barriers to domestic and foreign entry, complex rules for licences and permits, and protection of existing businesses from competition, for instance, in legal services and network industries.

South Africa would benefit from greater integration in global value chains. Participation in global value chains is especially high in the manufacturing industries and could be increased by leveraging the potential of regional value chains. By contrast, the integration of service industries has been held back. South African firms are facing high tariffs in their export markets. Trade facilitation measures should address non-tariff barriers such as improving the quality and access of infrastructure, as well as access to export and insurance credit.

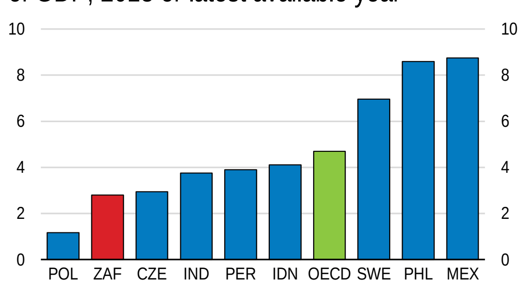
Greener energy policy can bolster growth. South Africa is one of the top-20 greenhouse gas emitters in the world. The CO_2 emission intensity of GDP has fallen slightly since 2000. The introduction of a carbon tax in June 2019 is welcome. The share of renewables in primary energy supply is close to the OECD average. However, coal accounts for 75% of electricity generation and is the main energy source in industrial processes.

Increasing public infrastructure investment would boost potential growth. Public infrastructure investment has declined in recent years. In particular, transport infrastructure remains insufficient and suffers from a lack of maintenance. The government is planning to create an infrastructure fund with the private sector, development finance institutions and multilateral development banks. The success of the infrastructure fund will depend on the capacity to bring in private financing.

Tourism will need prolonged support in the short-run. International tourist arrivals increased from 4.5 million to more than 10 million between 1995 and 2017 and were accompanied by a tripling of employment directly related to tourism. While the role of tourism in the economy has been increasing since the end of apartheid, it remains below the OECD average (Figure 2). Furthermore, the recent COVID-19 pandemic and resulting containment measures have triggered an unprecedented crisis in the tourism sector. Still, the sector offers significant opportunities for an economy with weak growth and high unemployment. Streamlining and implementing electronic visa services for international tourists could increase South Africa's international openness. Reduction of red tape could strengthen the integration of the tourism sector into local value chains and amplify the impact of tourism on the domestic economy. For tourism to translate into inclusive and sustainable growth, the benefits must spread geographically. Necessary transport and accommodation infrastructure is needed to connect tourists to places.

Figure 2. Direct contribution of tourism to the economy

% of GDP, 2018 or latest available year



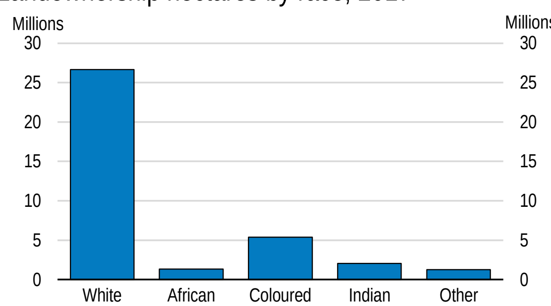
Source: OECD, Tourism Database.

StatLink http://dx.doi.org/10.1787/888934005378

Land is a main source of inequality in South Africa. Owing to the legacy of apartheid, only a small share of land is under ownership by the black population (Figure 3). The land reform initiated in 1994 – consisting of restitution, tenure reform and redistribution – progressed only slowly. To speed up the process of redistribution, current proposals focus on amending the constitution to allow for expropriation without compensation. A new advisory panel is to ensure a fair and equitable implementation of the land reform process. It is important to clearly define the policy objectives and assess the risks of such an amendment, which could include slower growth as a result of further significant deterioration in perceptions of South Africa's investment climate if the land reform is not well designed, communicated or implemented.

Figure 3. Individual land ownership of farms

Landownership hectares by race, 2017



Note: Refers to individually owned land only and does not include traditional land.
Source: Department of Rural Development and Land Reform (2018), Land Audit Report 2017.

StatLink https://doi.org/10.1787/888934005397

Building an inclusive social protection system

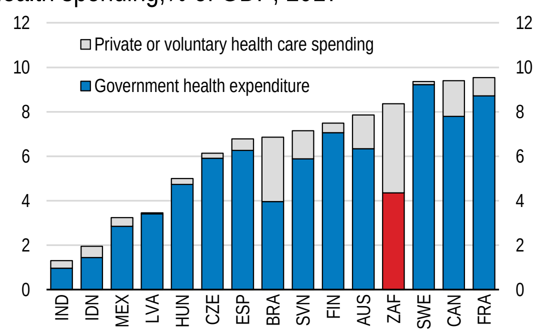
The current social protection system is incomplete. The social assistance system is well developed and is key in reducing poverty. However, the COVID-19 outbreak has revealed some shortcomings in the coverage of informal workers by the social assistance system and highlighted the disparities in access to quality health care. Also, the current pension system does not sufficiently alleviate the risk of old-age poverty.

Pension coverage is not satisfactory. Only around 40% of employees were contributing to a pension scheme in 2018 and most informal workers are not covered. Pension revenues are not adequate. The fragmentation of the pension system argues for its harmonisation. The government intends to introduce a mandatory pension scheme targeting a replacement rate of 40%, including a universal old-age grant.

Life expectancy has improved in the last ten years from 54 to 63 years but remains low. Death rates remain high by OECD standards. Although total health spending is relatively high (8.1% of GDP), a very large part is funded by private out-of-pocket spending, which leads to unequal access and prevents large population groups from obtaining adequate treatments (Figure 4).

Figure 4. Comparing health spending

Health spending,% of GDP, 2017



Source: WHO Global health expenditure database.

StatLink http://dx.doi.org/10.1787/888934005416

To address the failure of the current health care system to deliver accessible high-quality of care to all, the government plans to introduce a National Health Insurance (NHI) fund and reduce private health insurance. The NHI fund aims to provide universal health coverage by contracting with public and private health care providers based on a large basic basket of health benefits including primary care, emergency and hospital-based services.

In response to the COVID-19 crisis, closer co-operation and pooling of available resources between the public and private sectors has been initiated. Most of the intensive/critical care beds are in the private sector. However, in June, the government and the health private sector representatives agreed on fees for COVID-19 patients that are treated in critical care beds in private hospitals.

MAIN FINDINGS	KEY RECOMMENDATIONS
Mobilise monetary policy instruments and restore fiscal policy room	
The Reserve Bank has reduced the repurchasing rate from 6.25% to 3.50% between March and July. Inflation has receded and core inflation remains stable.	Lower interest rates to further support the recovery.
The government reacted to the pandemic by putting in place a 10% of GDP relief package. Fiscal accounts deteriorated before the crisis. Increasing interest payments and SOEs subsidies are weighing on debt and fiscal space. The government wage bill, at 12% of GDP, is high.	Provide temporary financial support to households and businesses to protect livelihoods and employment Implement the budget consolidation strategy and improve spending efficiency. Index wages in the public service below inflation for 3 years and link to productivity requirements.
Government exposure to state-owned enterprises (SOEs) is high and represents a significant risk to debt sustainability and public finances. Underperformance of SOEs is widespread due to mismanagement, corruption, overstaffing and uncontrolled wage bill.	Restructure state-owned enterprises to ensure their financial sustainability including staff reduction and bringing in private participation. Separate clearly the responsibilities of the board and the management of SOEs by giving the board the mandate to strategically supervise, monitor and audit the management of SOEs.
Commissions of enquiry have shed light on widespread corruption in the public and private sector.	Improve prosecution process and enforcement of national and foreign corruption offences.
To finance fee-free higher education, government spending on higher education is expected to increase from 1.3% of GDP in the fiscal year of 2017/18 to 2.3% in 2021/22. As the number of students enrolling in higher education increases, the pressure on public finances will become unsustainable.	Introduce student loans to cover higher education fees with repayment schedules depending on future incomes with government guarantees to replace education grants for students from high-income families.
An agenda for growth	
The coronavirus pandemic and the lockdown have strongly hit the economy. In the service, transport and tourism sectors, many small and medium enterprises are struggling to survive.	Increase and extend relief support in sectors hard hit by the crisis, especially for the tourism sector, up to mid-2021, particularly if there is a renewed virus outbreak later in the year.
Access to visa is difficult from several sending countries.	Implement electronic visa programmes on a large scale for emerging target markets.
Tourism in South Africa is concentrated in few regions and does not spread into remoter areas.	Investments in transport and tourism infrastructure have to be aligned to connect tourists to places.
There are multiple licences required in different administrations to open a small tourism unit.	Reduce red tape and the regulatory burden for entrepreneurs and small enterprises.
Regulatory restrictions are still relatively high, especially in network industries. Most of the key sectors of the economy are highly concentrated. Transport costs remains high and competition low.	Give more independence to regulators in energy, transport and telecom industries vis-à-vis line ministries. Accelerate the adoption and implementation of the Single Transport Economic Regulation Bill.
Intensive coal use contributes to high CO_2 emissions, water scarcity and water pollution.	Use the ongoing restructuring of Eskom to diversify power generation and invest in renewable sources of energy.
Public infrastructure investment has declined, contributing to lower growth. The quality of infrastructure is deteriorating.	Increase public investment in transport infrastructure, skills and education. Improve cost containment, planning and implementation.
Promoting sustainable water usage	
The risk of water shortages is rising. Prices are low in agriculture and water use is often unmeasured and uncharged, especially on large farms.	Raise irrigation water prices to discourage water overuse and ensure that costs are covered, for example by charging depreciation costs in full.
37% of South Africans do not have access to reliable water supply and 20% do not have access to sanitation, resulting in water pollution, and adverse health impacts.	Set up an independent water regulator to ensure cost-reflective prices Apply better regulation to costs and environmental performance of municipal water services.
Building an inclusive social protection system	
Access to health care is unequal. Financing of health care is unbalanced with high spending in private health for a small fraction of the population. Quality of health care delivery in public facilities is perceived as being low. Prices of health services in the private sector are high.	Gradually increase the public financing of health care through a form of public insurance at a pace and scale that is affordable. Entrust an independent body to develop a price schedule for reimbursement of health care.
Obesity rates have reached alarming levels in South Africa. Tobacco consumption remains high, as 19% of the adult population are daily smokers and 14.1% of the total population reported binge drinking.	Develop prevention of non-communicable diseases and strengthen the promotion of a healthier lifestyle.

1 Key Policy Insights

Overview and recent trends in well-being, inequality and poverty alleviation

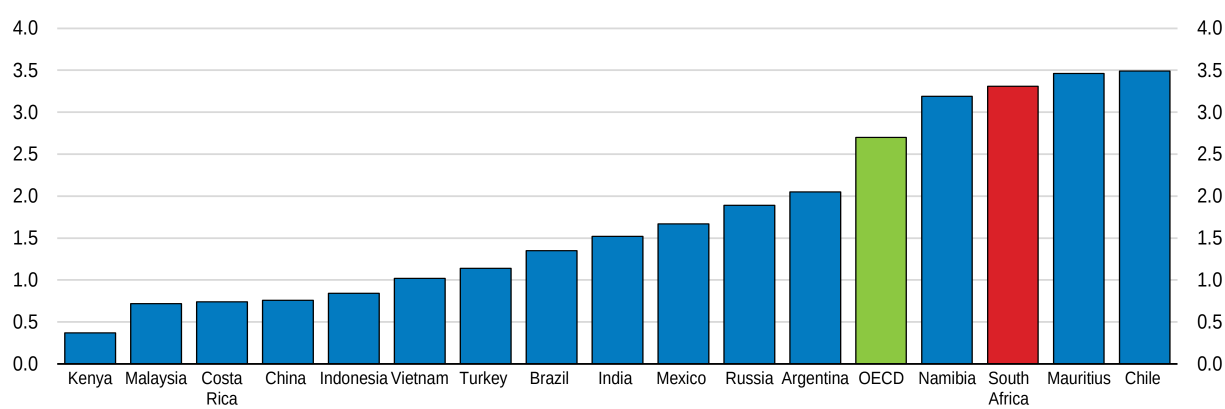
South Africa and the OECD have been strengthening the depth of their relationship since 1998. South Africa participates in 23 OECD bodies and projects and has adhered to 23 OECD legal instruments, including in the areas of anti-corruption, tax, chemicals and science and technology. It is one of the most active among partner countries.

The coronavirus pandemic hit South Africa by the end of March. Early nationwide lockdown helped limit the spread of the virus in April and May. However, the diffusion of the virus has accelerated in July, affecting thousands of individuals. The lockdown has stopped or limited economic activity in many areas. The COVID-19 outbreak is worsening an already fragile economic outlook. Political uncertainties and slow implementation of reforms have been detrimental to growth. Since 2013, growth has been below 2%, leading to stagnating or decreasing GDP per capita. Policy uncertainty has been the main driver of low confidence and economic uncertainty. Institutions such as the independent judiciary have played an important role in upholding the rule of law. The government has started to address concerns about state corruption and mismanagement of big state-owned enterprises (SOEs).

Despite a challenging economic environment and limited fiscal space, the government has maintained a highly redistributive policy. About 68% of government spending goes towards social objectives, including education, health, social grants and basic services. In particular, South Africa has one of the largest social transfer programmes, above the OECD average (Figure 1.1 and Chapter 1). South Africa's child support grant is one of the largest unconditional cash transfer programmes for children in the world. It is widely regarded as one of the government's most successful interventions, particularly due to its high take-up and extensive coverage (Samson et al., 2008). Between 70 and 80% of children in the bottom six income deciles benefits from the grant (Grinspun, 2016). For poor families, the child grant is an important source of financial support, providing for basic needs such as food, schooling and health care (Zembe-Mkabile et al., 2015). For nearly 75% of South Africans aged 60 and older, the old-age grant is the main source of income.

Figure 1.1. A strong redistributive policy

Spending on social assistance programmes in 2015 (% of GDP)



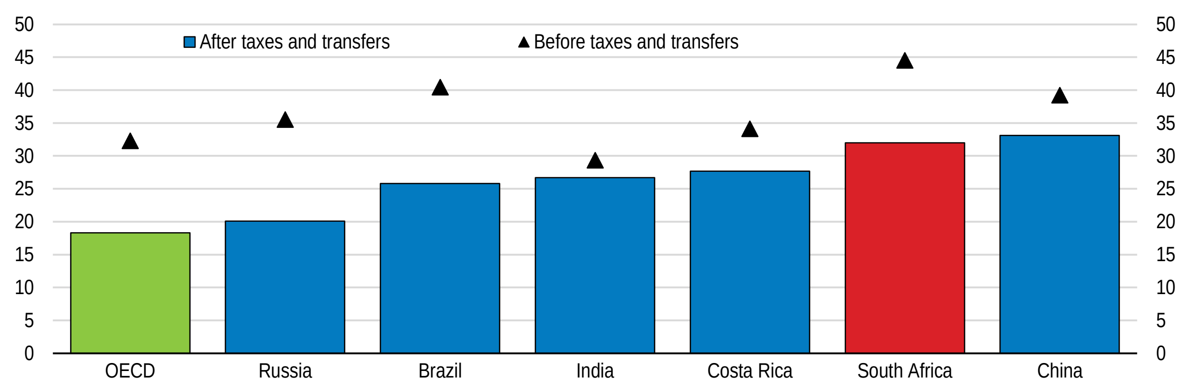
Note: Malaysia, Costa Rica, Turkey is 2013; China and Namibia are 2014; Kenya and India are 2016. Social assistance programmes are defined as non-contributory interventions designed to help individuals and households cope with chronic poverty, destitution, and vulnerability. Examples include unconditional and conditional cash transfers, non-contributory social pensions, food and in-kind transfers, school feeding programmes and public works.
Source: World Bank ASPIRE database, 2018.

StatLink http://dx.doi.org/10.1787/888934005435

Since the beginning of the COVID-19 crisis, the government has decided to augment all social grants between ZAR 250 to ZAR 300 for 6 months and to extend benefits to some uncovered categories such as informal workers. A temporary caregiver grant of ZAR 500 per month was introduced. Moreover, the government has swiftly put in place an income replacement scheme through the Unemployment Insurance Fund. From mid-April to end of June, the Fund has paid over ZAR 28 billion to 4.6 million workers. These benefits are part of the ZAR 500 billion (10% of GDP) relief plan established by the government. Nonetheless, the COVID-19 pandemic is hitting employment, threatening livelihoods of millions of individuals and affecting social achievements of government policies. There is extensive evidence showing that cash transfers have been successful in reducing extreme poverty and improving health and education outcomes (Figure 1.2 and Chapter 1). Cash transfers dominate the income profile of many poor households, accounting for as much as 71% of total household income for the poorest 20% of the population (World Bank, 2018a; Woolard and Leibbrandt, 2010).

Figure 1.2. Redistribution reduces poverty

% of population with 60% or less than the median disposable income, 2016 or latest available year



Note: Data for South Africa are 2015 and provisional, Costa Rica are 2018, Brazil are 2013 and China and India are 2011.
Source: OECD Income Distribution and Poverty Database.

StatLink http://dx.doi.org/10.1787/888934005454

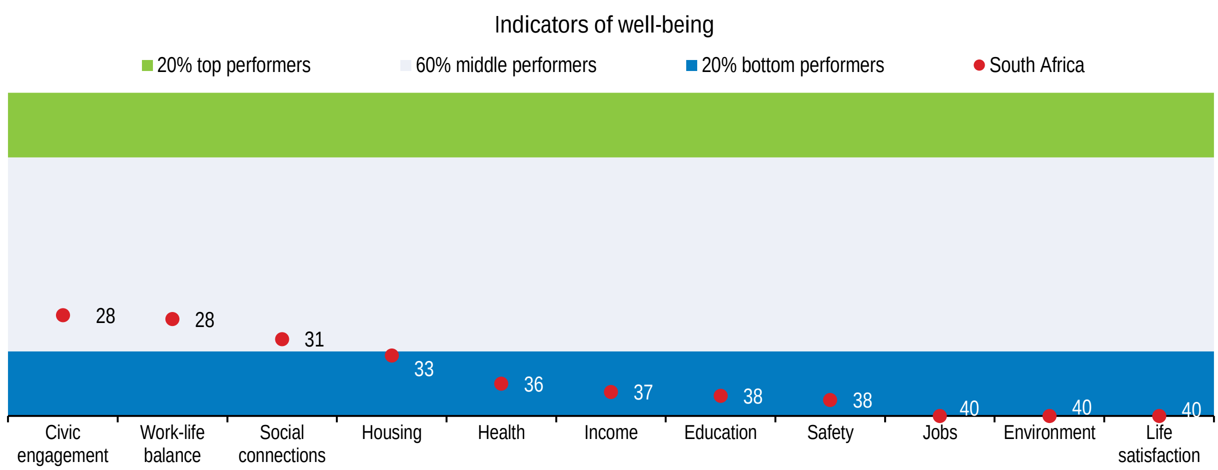
The level of inequality remains high despite important social transfers. Inequality, measured by the Gini coefficient (0.62), decreased between 2008 and 2010, but has more or less stagnated since alongside growth. The difficulty of reducing inequalities stems from a highly unequal distribution of market income and wealth. Widespread unmet needs in education, health and infrastructure and perceptions of corruption are also feeding citizens' frustration.

South Africa ranks low in almost all dimensions of the Better Life Index (Figure 1.3). South Africa lags the OECD average, in particular, in income and wealth, life satisfaction and jobs. Despite increased spending to broaden access to education, low quality of education outcomes has limited access to jobs. High crime rates and health problems are also weighing on well-being. South Africa fares relatively better on social connections, illustrating the robustness of the country's social institutions and family ties in a difficult economic context (Lilenstein, Woolard and Leibbrandt, 2018). While South Africa performs well on many gender dimensions, there is scope for progress on women's access to economic opportunities and assets (land for instance) and on eliminating violence against women.

The economy faces many structural challenges. High public debt and heightened scrutiny by rating agencies and financial markets, illustrated by high premiums on debt, are limiting the fiscal policy room for manoeuvre. In addition, product market regulations remain overly strict compared with other OECD and most emerging countries (Figure 1.4). In particular, the size and grip of state-owned enterprises (SOEs) on the economy, complexity of regulations and barriers to service and network sectors are among the factors that impede competition and growth.

Figure 1.3. Well-being ranks low on many dimensions

Better Life Index, country rankings from 1 (best) to 40 (worst), 2018 or latest available

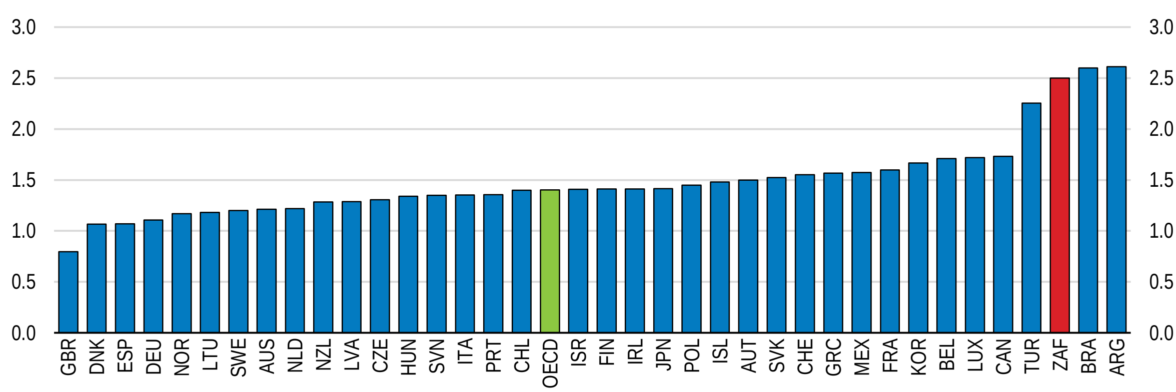


Note: Each well-being dimension is measured by one to four indicators from the OECD Better Life Index set for 37 OECD countries as well as Brazil, Russian Federation and South Africa. Normalised indicators are averaged with equal weights.
Source: OECD (2020), OECD Better Life Index, www.oecdbetterlifeindex.org.

StatLink http://dx.doi.org/10.1787/888934005473

Figure 1.4. Barriers to competition in the economy remain high

Overall indicator, index scale of 0–6 from least to most restrictive, 2018



Source: OECD 2018 PMR database.

StatLink http://dx.doi.org/10.1787/888934005492

In the short-run, budget support to health policy efforts to test, isolate and treat infected persons should be augmented. South Africa needs to restart growth, by restoring confidence and opening routes for long-term stable growth. An immediate growth strategy has to include fixing SOEs, bringing more policy certainty and, opening-up more sectors – in particular the network industries – to competition. While extending government support to hard hit sectors will be necessary until 2021, fiscal space needs to be created to support these policies and to control debt increases. Broadening the inclusiveness of the market economy through comprehensive social protection against risks and shocks will help build more confidence in the economy and solidarity among the population. Investment in infrastructure, education and skills is necessary to boost potential growth. Developing labour intensive sectors like tourism and agriculture can support the job creation the country urgently needs.

Against this background, the key messages of this Survey are:

- A sound growth strategy – including reforming product markets, boosting investment, infrastructure development, trade policies that augment the benefits from participation in global value chains, more competitive SOEs – can deliver quick wins in terms of job creation and increase potential growth. Efforts to improve the business climate, sequencing and prioritisation of reform will be essential for maximising the growth impact.
- Building an inclusive social protection system that guarantees decent retirement incomes and provides affordable and quality health care will help stimulate household consumption and strengthen productivity, as well as being an important social goal in its own right. The COVID-19 pandemic stresses the need to improve the quality of health care in the public sector while broadening access to private health care services.
- Lifting the barriers impeding the development of the tourism industry and land redistribution, accompanied by technical and financing support for family farmers, can create jobs.

The pandemic has worsened an already fragile economic outlook

The first confirmed case of COVID-19 was registered on 5 March. Since then, the pandemic has spread, affecting most strongly the Gauteng and the Western Cape provinces. South Africa has a dual health system with significant inefficiencies and inequality of access to high-quality healthcare. The private sector, accounting for half of national spending, covers only 17% of the population. Most of the critical care beds and intensive care beds (around 3 000) are in the private health-care sector. However, in response to the COVID-19 crisis, closer co-operation and pooling of available resources between the public and private sectors has been initiated. Also, South Africa has many people who are vulnerable due to other chronic conditions. More than a third of the population is suffering from hypertension, around 4.5 million people have diabetes and over 70% of women and 40% of men are overweight or obese, three factors that accentuate risks with COVID-19.

Containment measures were rapidly adopted and helped to delay the spread of the pandemic. As of 15 March, while there were only few confirmed cases, the government declared a national state of disaster, imposing a travel ban from highly-infected countries, testing and, if needed, isolating individuals returning from infected countries. Within a week, a national lockdown was established, schools and universities were closed, transport shut down and any form of gathering prohibited. The lockdown has given some time for the health care sector to be prepared for an increase in infections.

After June 1st, many economic sectors reopened, with some restrictions requiring distancing in the workplace and gradual re-opening of schools. Opening of restaurants and personal care services started late June.

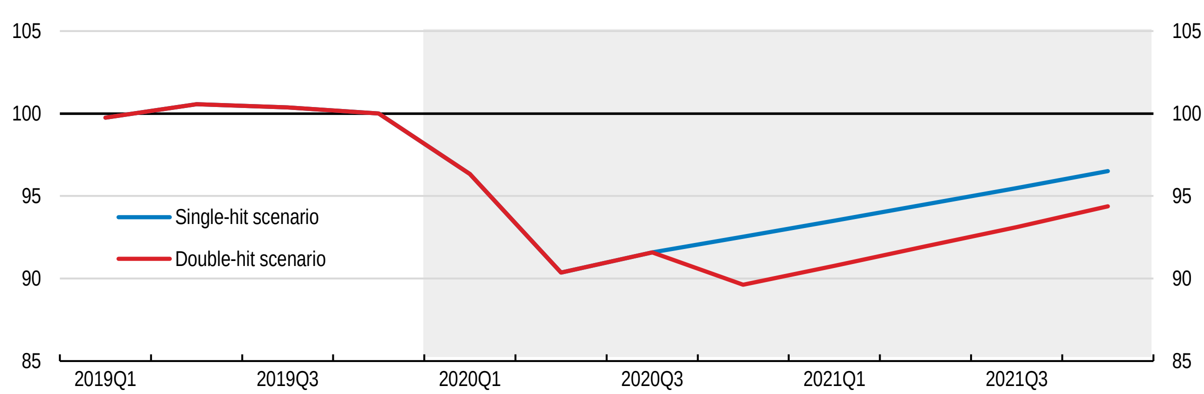
The outbreak and the related containment measures have led to a severe contraction in economic activity. The economy is set to recover progressively from recession as sectors sequentially reopen (Table 1.1). The economy was largely constrained by lockdown measures through mid-March to end of May but then reopened with restrictions lingering in sectors and parts of the country where distancing remained a concern. Activity in the tourism and entertainment sectors and passenger transport collapsed. Export sectors were affected by reduced activity in mining and manufacturing industries. This has provoked a sharp increase in unemployment. Nonetheless, a renewed wave of coronavirus infections remains a possibility. In the double-hit scenario a new COVID-19 outbreak is assumed to occur in October and

November. To minimise the risk of a second wave leading to another large-scale lockdown of the economy and to protect lives, further developing testing to identify those infected and then tracking and isolating to limit further infections will be needed. Augmenting medical capacity to cope with a second wave will help mitigate the impact on the economy of a second wave by facilitating greater reliance on targeted measures to limit the spread of the virus.

The government has put in place a relief/stimulus plan amounting to 10% of GDP to support households and businesses. In particular, social grants were augmented and different sectoral or size-related schemes were established to provide loans, guarantees, subsidies, tax deferral and relief, and wage subsidies The government relief plan will mitigate the fall in household consumption but investment, which has been declining over the past two years, will decline to a record low level. As in many emerging market economies, the financial market experienced considerable capital outflows, aggravated by a deteriorating government fiscal stance. In the single-hit scenario, the depreciation of the Rand will not boost exports, as commodity demand remains weak, though prices of some commodities (gold, platinum) are high. High production costs will continue to weigh on economic activity. Unemployment will increase while inflation will remain muted. These projections are subject to substantial uncertainty and risks as the world continues to grapple with the coronavirus pandemic (Table 1.2). Macroeconomic policy should be ready to act further if required, including by continuing to support selectively economic sectors hard hit by the pandemic.

Figure 1.5. Growth will recover only slowly

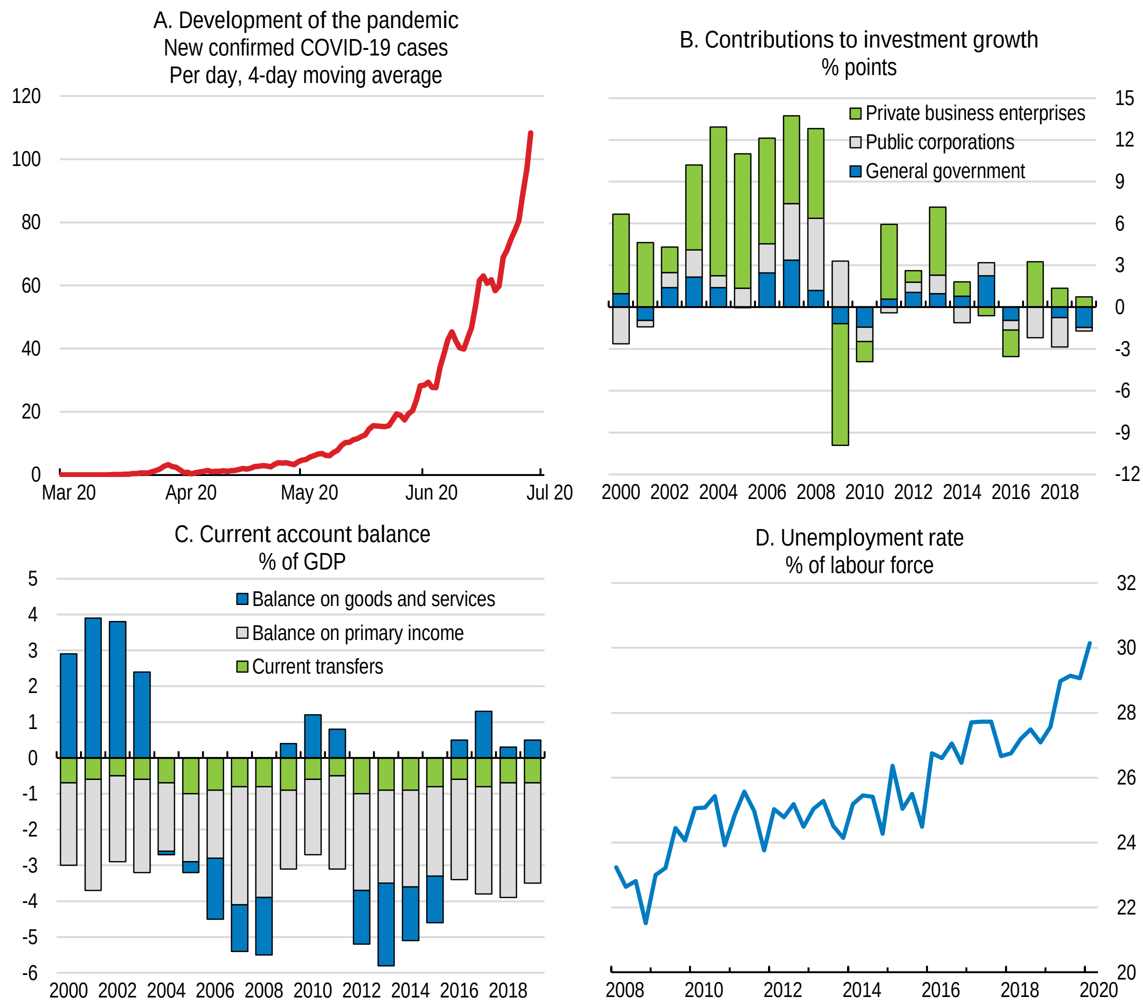
GDP at constant prices, index 2019Q4 = 100, seasonally adjusted



Source: OECD Economic Outlook 107 database.

StatLink http://dx.doi.org/10.1787/888934005511

Figure 1.6. Macroeconomic developments have deteriorated



Source: OECD calculations based on Our world in data; South African Reserve Bank; Statistics South Africa.

StatLink http://dx.doi.org/10.1787/888934005530

Table 1.1. The recovery is projected to be gradual

A. Double-hit scenario

South Africa: double-hit scenario	2016	2017	2018	2019	2020	2021
	Current prices ZAR billion	Percentage changes, volume (2010 prices)				
GDP at market prices	4 348.8	1.4	0.8	0.2	-8.2	0.6
Private consumption	2 584.4	2.1	1.8	1.0	-6.5	0.8
Government consumption	906.3	0.2	1.9	1.5	2.5	2.3
Gross fixed capital formation	846.6	1.0	-1.4	-0.9	-15.1	-1.0
Final domestic demand	4 337.3	1.5	1.2	0.8	-6.1	0.8
Stockbuilding[1]	- 11.3	0.4	-0.2	0.0	-1.1	0.0
Total domestic demand	4 325.9	1.9	1.0	0.7	-7.5	0.8
Exports of goods and services	1 333.0	-0.7	2.6	-2.5	-12.5	1.5
Imports of goods and services	1 310.2	1.0	3.3	-0.5	-10.0	2.0
Net exports[1]	22.8	-0.5	-0.2	-0.6	-0.5	-0.2
Memorandum items						
GDP deflator	_	5.6	3.3	4.2	2.7	3.3
Consumer price index	_	5.3	4.6	4.1	3.4	3.3
Core inflation index[2]	_	4.6	4.2	4.1	3.5	3.5
General government financial balance (% of GDP)	_	-3.8	-3.4	-6.5	-10.0	-8.2
Current account balance (% of GDP)	_	-2.5	-3.6	-3.0	-3.1	-3.0

1. Contributions to changes in real GDP, actual amount in the first column.
2. Consumer price index excluding food and energy.
Source: OECD Economic Outlook 107 database.

B. Single-hit scenario

South Africa: single-hit scenario	2016	2017	2018	2019	2020	2021
	Current prices ZAR billion	Percentage changes, volume (2010 prices)				
GDP at market prices	4 348.8	1.4	0.8	0.2	-7.5	2.5
Private consumption	2 584.4	2.1	1.8	1.0	-5.8	2.3
Government consumption	906.3	0.2	1.9	1.5	2.4	1.6
Gross fixed capital formation	846.6	1.0	-1.4	-0.9	-13.9	2.4
Final domestic demand	4 337.3	1.5	1.2	0.8	-5.5	2.1
Stockbuilding[1]	- 11.3	0.4	-0.2	0.0	-1.1	0.0
Total domestic demand	4 325.9	1.9	1.0	0.7	-6.8	2.2
Exports of goods and services	1 333.0	-0.7	2.6	-2.5	-10.8	5.6
Imports of goods and services	1 310.2	1.0	3.3	-0.5	-8.6	4.5
Net exports[1]	22.8	-0.5	-0.2	-0.6	-0.5	0.2
Memorandum items						
GDP deflator	_	5.6	3.3	4.2	2.9	3.8
Consumer price index	_	5.3	4.6	4.1	3.5	3.7
Core inflation index[2]	_	4.6	4.2	4.1	3.5	3.9
General government financial balance (% of GDP)	_	-3.8	-3.4	-6.5	-9.0	-7.6
Current account balance (% of GDP)	_	-2.5	-3.6	-3.0	-3.0	-2.5

1. Contributions to changes in real GDP, actual amount in the first column.
2. Consumer price index excluding food and energy.
Source: OECD Economic Outlook 107 database.

Both domestic and global risks weigh on the economic outlook (Table 1.2). Domestic near-term risks to growth include load-shedding (rolling blackouts) by the power utility and higher-than-expected electricity prices, which could derail the growth strengthening process. Moreover, the level of investor confidence in the economy remains low and vulnerable to policy developments. Globally, the Rand remains highly responsive to US interest rates and international capital market developments. On the other hand, a faster recovery in China would have growth spillovers for South Africa, including through higher demand and prices for commodity exports.

Table 1.2. Possible shocks to the South African economy

Shock	Potential impact
Pandemics	The COVID-19 outbreak in early 2020 highlights the risks of future pandemics leading to loss of life as well as economic dislocation due to interconnectedness of economies and global supply chains.
Rising debt servicing costs	If the government is unable to implement fiscal reforms, spiraling debt dynamics could affect macroeconomic and financial stability.
Electricity load-shedding	Prolonged periods of load-shedding create uncertainty and disturb production processes. It has already proven to be very damaging to growth back in 2014/15.
SOEs bankruptcy	Eskom is the biggest state-owned enterprise and represents the biggest government contingent liability through debt guarantees. A failure to proceed with its reform or severe liquidity problems could lead to negative market reactions and persistent weak investor confidence. SAA, the national airline company, filed for bankruptcy in December 2019.
Escalation of trade barriers	A slowdown or change of composition of growth in China puts mining exports at risk.
Volatility in global financial markets	Lower capital inflows, higher bond yields and a weaker rand will further increase the costs of government financing, reduce the scope for the central bank to reduce rates and lower growth.

Monetary and financial authorities are stabilising financial markets

As a result of the COVID-19 shock, wage and price inflations are likely to remain muted and continue revolving below the Reserve Bank's 4.5 percent inflation target. The Reserve Bank (SARB) has acted swiftly to limit the impacts of the COVID-19 crisis on the economy and the financial system, aided by declining inflation. Between March 19 and July 23 2020, the Reserve Bank reduced the repurchasing rate in four steps, from 6.25% to 3.50%. In addition, the Reserve Bank increased its interventions in the money market to provide more liquidity to financial institutions and ease lending conditions. The Reserve Bank has also initiated a program to buy government bonds in the market, ensuring the liquidity of the debt market.

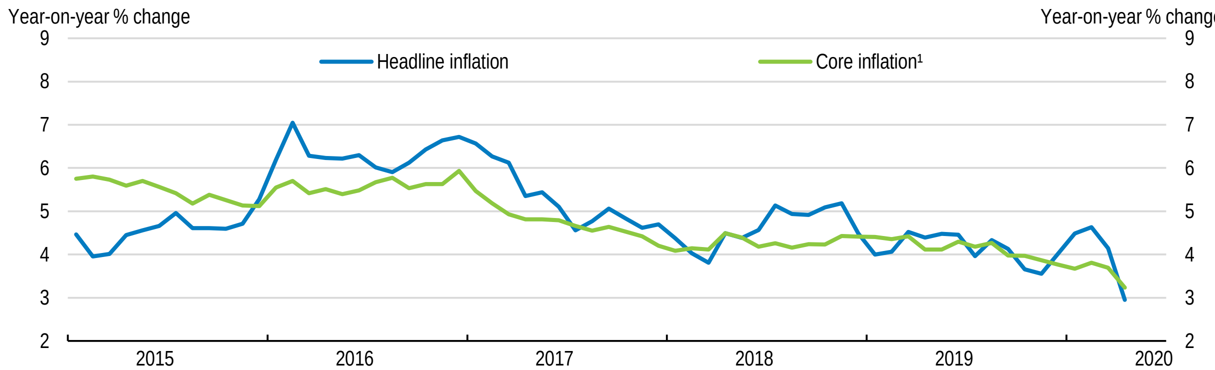
International capital flows and the government fiscal position are creating uncertainties for the monetary policy environment. The Rand depreciated by around 18% against the dollar in the first semester of 2020, with episodes of high volatility. Current debates on the Reserve Bank's independence and the structure of its shareholders threaten the credibility of its actions and, in the current challenging environment, add to policy uncertainty for foreign investors.

Inflation is trending down. At 3% in April 2020, inflation stood at a record low since June 2005. Inflation will be contained in the near term due to the collapse in demand, low imported inflation – particularly from oil – and moderate food price pressures. The main risks to inflation are unexpected constraints in the supply of goods and services and higher electricity price. The output gap will remain negative in the next two years following five years of underperformance. In this context, there is still room to ease monetary conditions, in particular, in the event of a second lockdown due to a new outbreak of COVID-19.

South Africa has sound macroprudential regulations and a robust financial system. Following the outbreak of the coronavirus, the Prudential Authority dropped minimum capital requirements and compulsory reserve funds for lenders, reduced the liquidity coverage ratio from 100% to 80% and relaxed accounting standards for losses in the financial sector (Box 1.1). Banks have built up a capital conservation buffer of 2.5 per cent as required by regulations, hence there is room to draw from this buffer if needed. Financial institutions continued to be highly capitalised with levels well above the minimum regulatory requirement before the crisis (Figure 1.8, Panel A).

Weak SOEs not only pose risks to the government finances, but may also affect to the broader financial system. However, over the last years the banking sector's total exposure to these entities has declined.

Figure 1.7. Inflation has slowed down

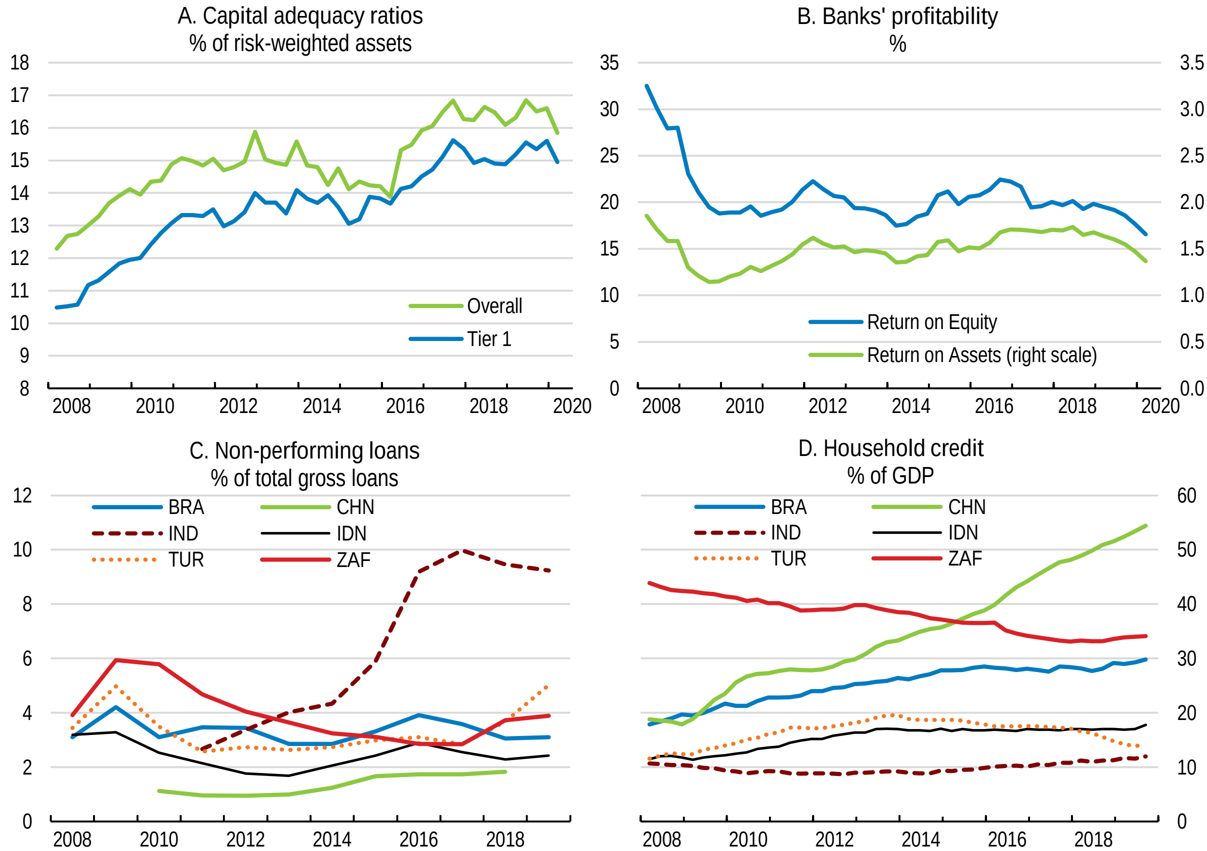


1. Consumer price index excluding food and NAB, fuel and energy.
Source: Statistics South Africa; SARB Database.

StatLink http://dx.doi.org/10.1787/888934005568

Constrained household finances in the low-growth environment pose risks to the financial sector. Since 2017, default ratios gradually trended upwards reaching 3.9% of total loans in 2019 (Figure 1.8, Panel C). Although this indicates a marginal increase in credit risk, it is well below the non-performing loans ratio of other BRIIC countries such as India (9.2%) and Russia (9.3%). However, risks are likely to increase as a result of the COVID-19 crisis, despite exceptional government support to jobs, households and businesses. Thus, despite a continuous decrease, household debt to GDP ratio is significantly higher than in other emerging market economies, standing at 34.1% in 2019/Q3. While the debt-service cost for households has declined, financial institutions' willingness to extend loans to households will further deteriorate.

Figure 1.8. Financial institutions were robust before the crisis



Source: IMF Financial Soundness Indicators database; OECD Resilience database.

StatLink http://dx.doi.org/10.1787/888934005587

Box 1.1. Financial policy response to the COVID-19 shock

The Reserve Bank reacted quickly to support liquidity on different markets by mobilising its main instruments. These include:

- Through the Intraday Overnight Supplementary Repurchase Operations (IOSRO), the SARB provides intraday liquidity support to the interbank market.
- The Standing Facilities borrowing and lending rates of the SARB will be adjusted to ensure liquidity in the money market.
- In addition, the Prudential Authority (PA) took several measures to help financial institutions to face the consequences of the crisis.
- Temporary capital relief is provided to still comply with international standards. The Regulations provide that banks shall continuously maintain, in addition to the base minimum capital requirement of 8% of risk weighted assets, a systemic risk capital requirement (Pillar 2A), an idiosyncratic risk capital requirement (Pillar 2b), a capital conservation buffer, a countercyclical buffer (CCyB) and a domestic systemically important bank (D-SIB) buffer. Both the CCyB and D-SIB buffers, when imposed, are an extension of the capital conservation buffer. The relief provided is that the Pillar 2A requirement is reduced to zero.
- The PA issued Directive 3 of 2020 includes selected short-term payment holidays and loan restructures. The PA is providing credit risk capital relief to banks. Loans had to be up to date on 29 February 2020 in order to qualify for the relief. Retail (which include residential mortgage advances, retail revolving credit, SME retail and retail other) and corporate (which include corporate, SME corporate and the various specialised lending asset classes) would be able to qualify.

Prudential authority issued a proposal dropping minimum capital requirements and compulsory reserve funds for lenders, reducing the liquidity coverage ratio to 80% from 100% and relaxing accounting standards when determining potential losses.

Stabilising debt and stimulating the economy

The crisis deepens existing fiscal challenges

Fiscal policy reacted forcefully to the coronavirus (Box 1.2). In total, ZAR 500 billion (10% of GDP) are mobilised including ZAR 200 billion for loan guarantees for enterprises, ZAR 70 billion in tax policy measures, ZAR 100 billion to protect and create jobs and around ZAR 41 billion is dedicated to support households. The Temporary Employer/Employee Relief Scheme (TEERS) managed by the Unemployment Insurance Fund has provided income support to around 2 million employees. Social benefits/grants were augmented and two additional grants deployed to cover, in particular, informal workers who never received any kind of social transfers. An important part of the relief plan targeted businesses in the form of new financial facilities, loans, guarantees and subsidies to make sure that viable firms survive the crisis and to limit job destruction. Sectoral plans were put in place to target SMMEs in the tourism and transport areas for instance.

Box 1.2. Fiscal Policy response to the COVID-19 shock

The government has taken a number of measures in response to the spread of the coronavirus and the economic consequences of the lockdown. In addition to medical and health response actions, different measures were put in place to shield households and businesses. The main support packages were:

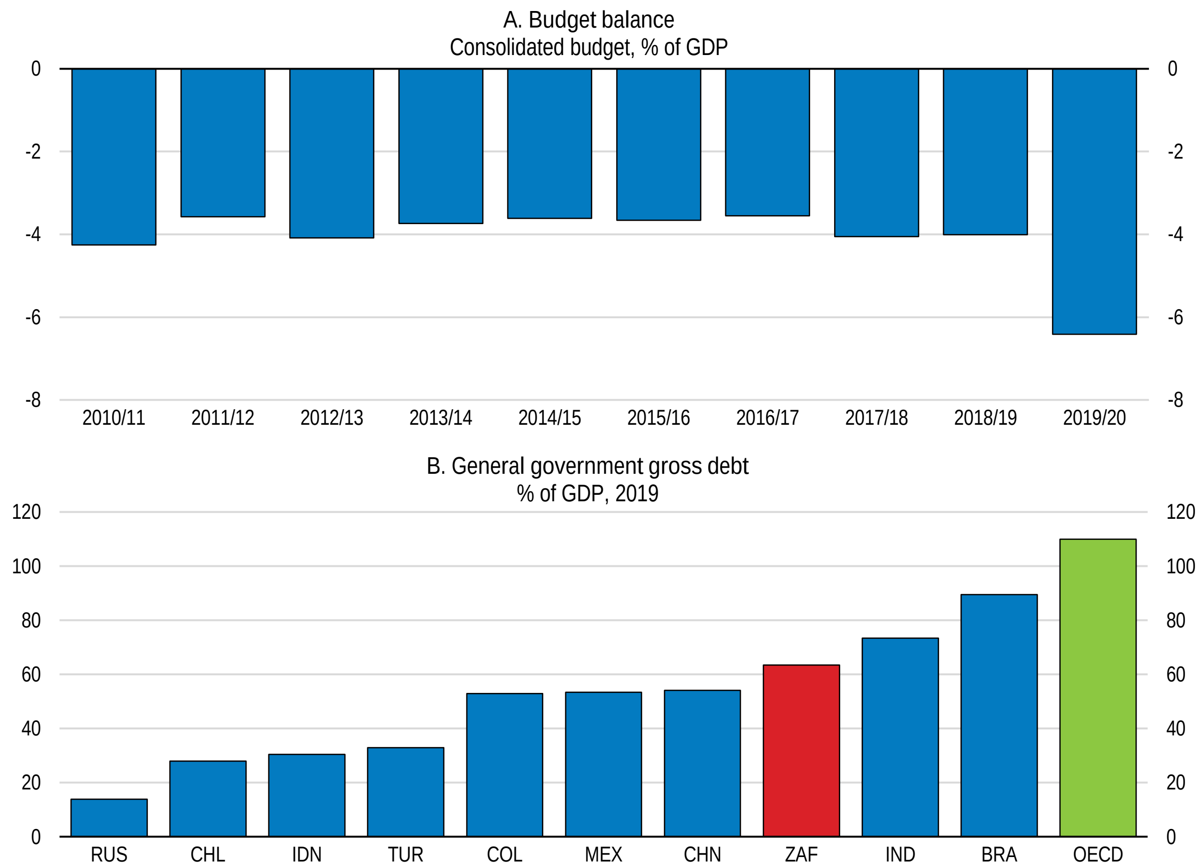
- Grants: A temporary 6-month Coronavirus grant was created. Child support grant beneficiaries are receiving an extra ZAR 300 in May and from June to October they will receive an additional ZAR 500 each month. Other grant beneficiaries are receiving an extra ZAR 250 per month for the next six months. In addition, a special Covid-19 Social Relief of Distress grant of ZAR 350 a month for 6 months is paid to individuals who are currently unemployed and do not receive any other form of social grant or UIF payment.
- UIF Temporary Employer/Employee Relief Scheme: set-up until end of August to cover employees who lost their job or have been on partial unemployment or forced holidays. As of 24 of June, has disbursed ZAR 28 billion for around 4 million employees.
- Tourism Relief Fund: provides one-off capped grant assistance to Small Micro and Medium Sized Enterprises (SMMEs) in the tourism value chain to ensure their sustainability during and post the implementation of government measures to curb the spread of Covid-19 in South Africa.
- Loan guarantee: in partnership with major banks, the National Treasury and the South African Reserve Bank, the scheme assists enterprises with operational costs, such as salaries, rent and the payment of suppliers.

Main COVID-19 tax relief measures

- An increase in the employment tax incentive to safeguard employment and incentivise job creations.
- A deferral of employees' tax liabilities (pay-as-you-earn) and provisional tax payments for businesses to help cushion liquidity shortages.
- A four-month exemption in the skills development levy from 1 May 2020.
- A three-month postponement of the filing and payment date for carbon tax liabilities to 31 October 2020.

Higher deficits and increasing debt levels threaten fiscal sustainability. Before the crisis, South Africa had been running increasingly large deficits and the debt to GDP ratio was trending upward (Figure 1.9 and Table 1.3). This was largely determined by an increasing wage bill, transfers to SOEs and rising debt servicing costs. To a lesser extent, lower revenue collections also contributed to the deficit. The recent decline in monetary policy rates and the Reserve Bank's liquidity interventions are helping to support demand for government bonds. However, government borrowing rates remain high, posing risks to debt sustainability. Since the end of March, all rating agencies have put government debt at sub-investment grades.

Figure 1.9. Fiscal accounts have deteriorated



Source: National Treasury, 2020 Budget Review, 2020 Supplementary Budget Review; IMF, World Economic Outlook April 2019 database; OECD Economic Outlook database.

StatLink http://dx.doi.org/10.1787/888934005606

Table 1.3. Fiscal indicators

% of GDP

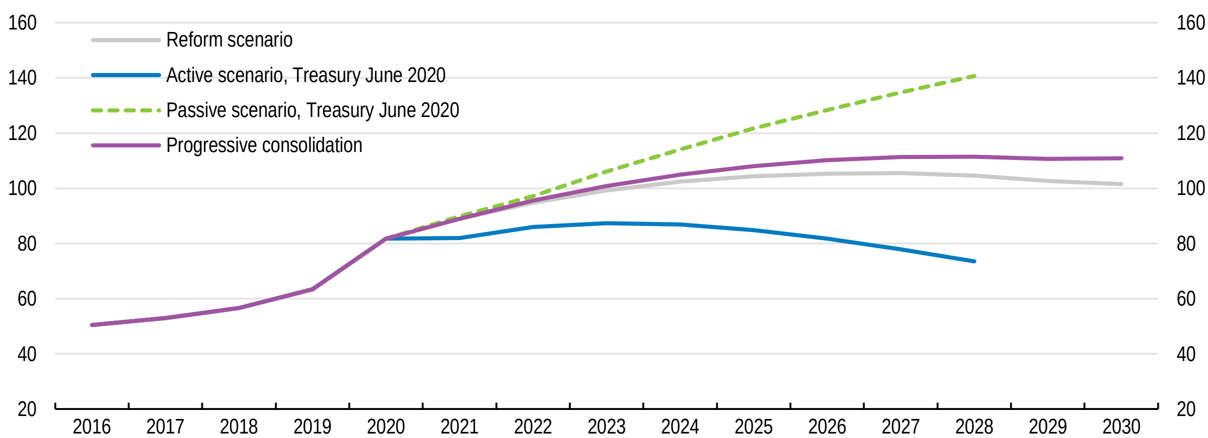
	2016/17	2017/18	2018/19	2019/20	2020/21[1]	2021/22[2]	2022/23[2]
Spending and revenue							
Revenue	25.7	25.5	25.9	26.1	22.6	23.8	24.5
Spending	29.5	29.9	30.6	32.6	37.2	33.1	32.2
Debt-service-costs	3.3	3.5	3.7	4.0	4.9	4.9	5.4
Budget balance							
Fiscal balance	-3.8	-4.4	-4.7	-6.5	-14.6	-9.4	-7.7
Primary balance	-0.5	-1.0	-1.0	-2.6	-9.7	-4.4	-2.3
Public debt							
Gross loan debt	50.5	53.0	56.7	63.5	81.8	82.0	86.0
Net loan debt	45.4	48.1	51.7	58.4	77.4	79.9	83.9
Contingent liabilities	15.16	15.67	17.31	19.00	19.19	19.06	19.00

1. Preliminary estimates.
2. Projections
Source: National Treasury, Budget Review February 2020 and Supplementary budget, June 2020.

Debt has been increasing in the last decade and is projected to exceed 80% of GDP by 2020, a level that is considered high in various studies of vulnerabilities in emerging markets (Fournier and Fall, 2015). The National Treasury presented two debt scenarios in the June Supplementary Budget. In the passive scenario, in which the government takes no steps in response to weaker growth and higher spending than those outlined in the 2020 Budget Review, debt would spiral rapidly, exceeding 100% of GDP from 2022 (Figure 1.10). It would not be sustainable in the South African context of low growth and high borrowing rates. In the active scenario, the deficit would be reduced strongly starting in 2021 and the debt level would start decreasing from a peak of 87% of GDP in 2023. Figure 1.10 shows that if the government fails to implement bold economic and fiscal reforms and the reduction of the deficit is only progressive, the debt level will only stabilise by 2028. Reforms are therefore urgently needed (Box 1.3). Ensuring fiscal sustainability will require measures that will curtail wage bill growth and SOE financing and contain spending growth in higher education, raise revenue and improve the efficiency of public spending.

Figure 1.10. Actions are necessary to guarantee the sustainability of government debt

Gross debt, % of GDP



Note: The Active and Passive scenarios are from the Supplementary budget presented by the National Treasury before the parliament in June. It shows the debt dynamics in a no action configuration versus implementing spending cuts that reduces the deficit. The progressive consolidation scenario corresponds to an improvement of the deficit by 1 pp of GDP each year until 2030 and to a 2% GDP growth from 2025. The reform scenario takes into account the effects of implementing structural reforms that would increase potential growth to 3.5% from 2025.
Source: National treasury, Supplementary Budget, June 2020 and OECD calculations.

StatLink http://dx.doi.org/10.1787/888934005625

Problems with tax administration have affected revenue-collection performance. Improving collections hinges on restoring the efficiency of the South African Revenue Service (SARS) and implementing the recommendations of the SARS reform commission.

Box 1.3. Announced measures in the Budget Review in the last two years partially or not implemented

Measures announced in February 2019 Budget Review

- Splitting Eskom, the national electricity company, into three viable operating entities under a single state-owned holding company.
- Establish a more competitive electricity sector by diversifying the generation of electricity across a multitude of power producers.
- Allocation of telecommunications spectrum
- Change performance bonus payments within the public administration.
- Reform the Procurement Bill

Measures announced in February 2020 Budget Review

- Speed procurement processes in the electricity sector by changing the Electricity Regulation Act to boost electricity supply from independent power producers.
- Establish and independent regulation authority for ports.
- Accelerate the auction process of telecommunication spectrum.
- Finalise the Economic Regulation of Transport Bill to improve third-party access to freight rail.
- Improve government spending efficiency, reduce waste and finalise the Public Procurement Bill
- Reform the provincial grant system
- Review of the tax incentive system to repeal or redesign those that are redundant, inefficient or inequitable
- Introduce a remuneration framework for public entities and state-owned companies to eliminate excessive salaries and bonuses awarded to executives and managers.
- Improve the wage-setting mechanism for the broader public services.
- Reduce the government wage bill by ZAR 160 billion (around 10% of non-interest expenditure) over the next three years through a combination of modifications to cost-of-living adjustments (wage increase), pay progression and other benefits.

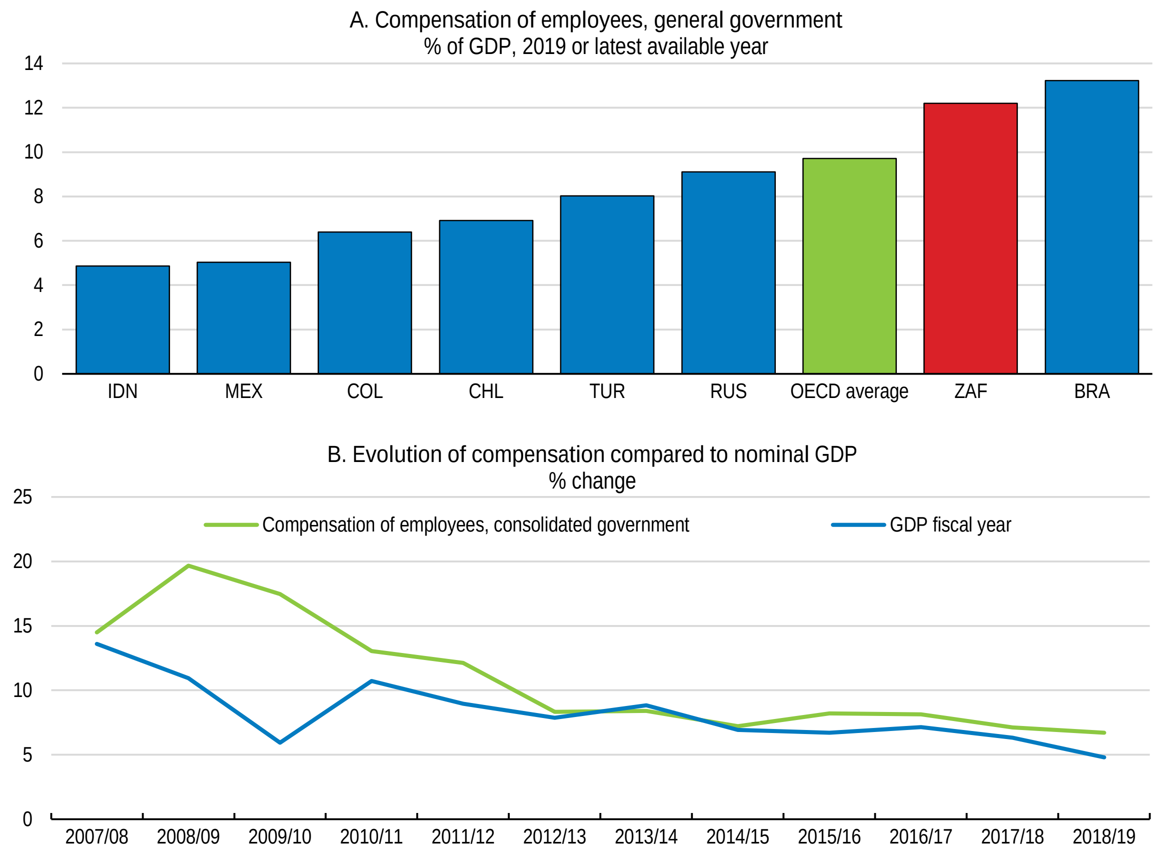
Table 1.4. Past OECD recommendations on broadening the tax base

Recommendations from previous surveys	Action taken since the July 2017 Survey
Broaden personal and corporate income tax bases by reducing deductions, credits and allowances. Increase tax rates on higher incomes.	The 2017 Budget created a new top tax bracket with a marginal tax rate of 45%. The dividend withholding tax rate was increased from 15% to 20%.
Broaden the VAT base and strengthen VAT compliance. Proceed with the introduction of a carbon tax.	The VAT exemption for fuels is being reviewed. The carbon tax has been adopted in July 2019.
Increase property taxation by building capacity at the municipal government level.	No action taken.
Increase reliance on environmentally related taxes, such as fuel levies.	A Waste Board is being created which will impose a levy on waste. A levy on used tyres was implemented in February 2017.

Managing spending pressures: The government wage bill

The general government wage bill at 12% of GDP is one of the highest among OECD and partner countries (Figure 1.11). At 38% of total consolidated government spending, the compensation of employees was the largest spending item in 2019 (National Treasury of South Africa, 2020). In the last decade, compensation spending increased at an average of 11% per year, growing at a rate higher than nominal GDP (Figure 1.11, Panel B).

Figure 1.11. Compensation of general government employees



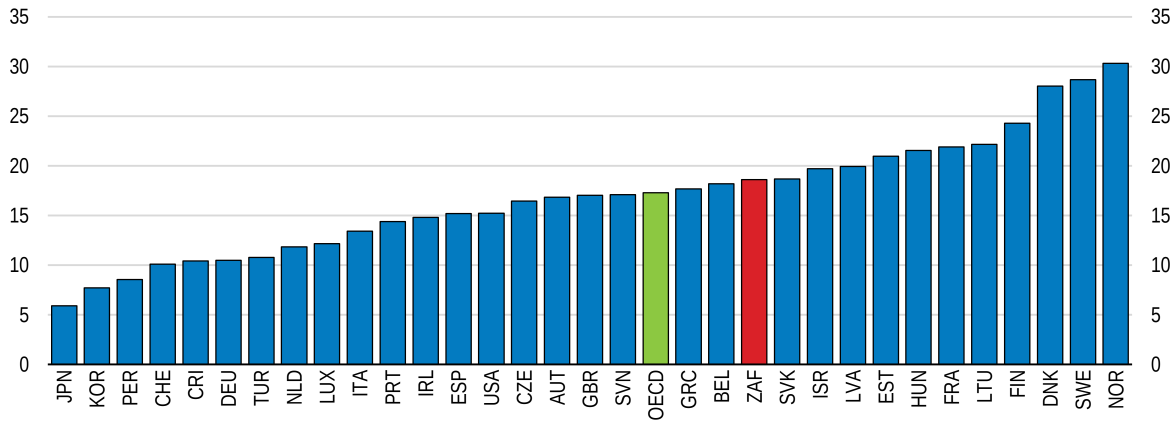
Source: IMF, Government Finance Statistics database; Budget Review 2020, National Treasury, South Africa.

StatLink http://dx.doi.org/10.1787/888934005682

Public sector wage increases are the main driver of government spending rather than increases in employment. In the last decade, the number of public sector employees rose only by around 100 000. Public sector employment is close to OECD average but relatively high when compared to emerging economies (Figure 1.12). Moreover, since the implementation of government recruitment freeze in 2011, the number of public sector employees has been trending down. The remuneration policy explains the increase of the wage bill. In real terms, per capita remuneration in the public sector rose by 3.1% on average annually, and by even 4.1% for civil servants with long tenure (more than 10 years) in the last decade (National Treasury, 2018b). Wage negotiations have systematically granted above-inflation increases. Moreover, promotion policies contributed to wage bill increases. In 2006/07, 31% of public servants were in the salary levels 1–4 and 10% in the levels 9–16; by 2017 the respective figures were 19% and 21% (National Treasury, 2018b). In addition, occupation-specific salary dispensations (OSD) have been introduced for specialised personnel, including medical doctors, nurses, teachers, police officers, lawyers, magistrates and engineers allowing for extra pay for these categories. In some cases, this led to substantial increases in remuneration in the year of their introduction.

Figure 1.12. Public employment is close to the OECD average

Employment in general government as a percentage of total employment, 2017 or latest available year



Note: Total employment refers to the domestic employment.
Source: OECD National Accounts database; ILO, ILOSTAT database; Statistics South Africa, Quarterly Employment Statistics (QES).

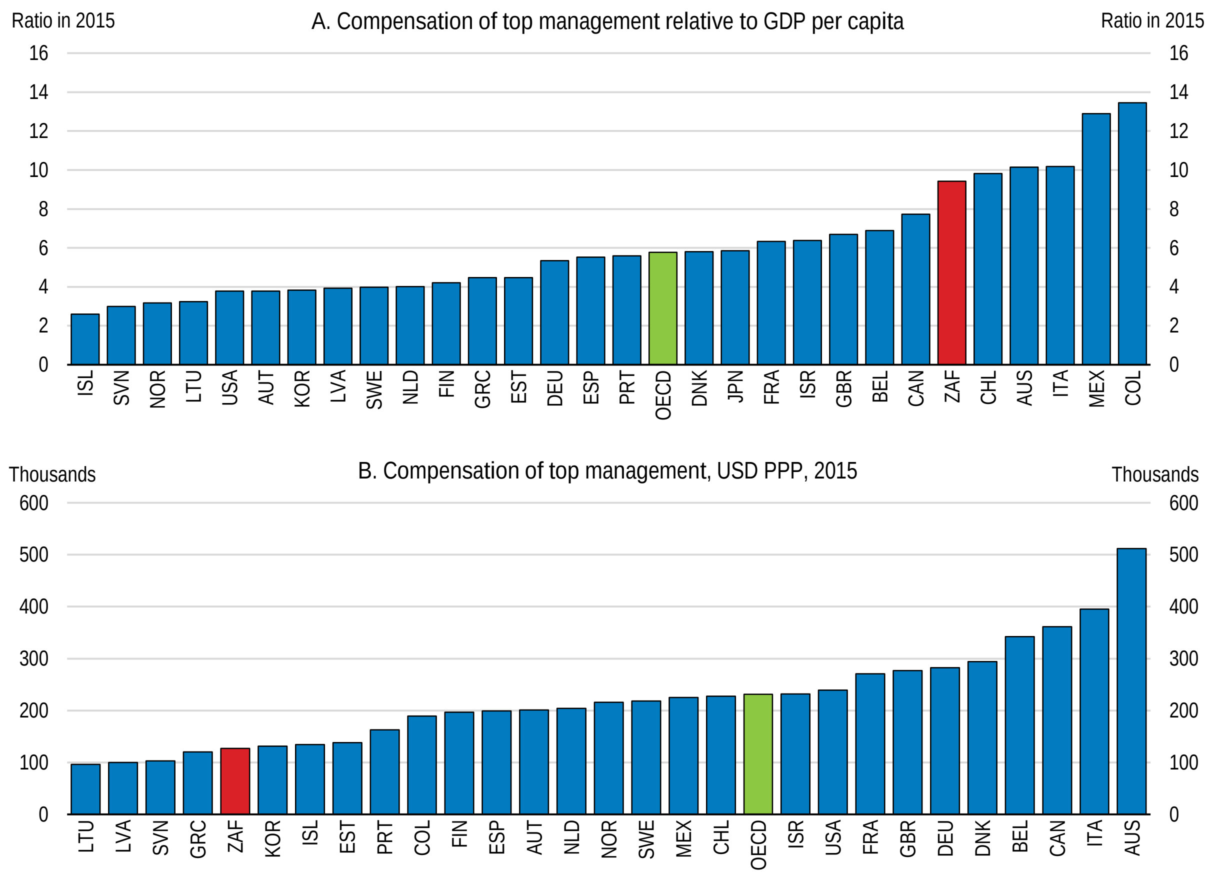
StatLink http://dx.doi.org/10.1787/888934005701

The remuneration level of civil servants is relatively high when compared to OECD and other emerging economies. Figure 1.13 compares the remunerations of top management in the public sector (just below the minister or secretary of states) across OECD countries and South Africa. Top managers in the South African civil service earn an average revenue corresponding to nine times of the GDP per capita in 2017, while the ratio is below six for the OECD average (Figure 1.13, Panel A). Compared in terms of US dollar purchasing power parity (PPP), the remuneration of South African public sector managers is comparable to their counterparts in Norway (Figure 1.13, Panel B). Even for non-management senior officials, teachers and education personnel, South Africa has one of the highest levels of remuneration both in terms of GDP per capita and US dollar PPP (Figure 1.14, Panel A and B).

In addition to the freeze in public sector recruitment, the government is seeking new measures to limit its wage bill growth. In the 2019 budget, the government announced an early retirement plan targeting 30 000 employees aged between 55 and 59 years old, targeting around ZAR 20 billion in savings. Take up of the early retirement plan has been slow and the targeted savings will not be realised. The government has announced in the 2020 budget its intention to cut the wage bill by ZAR 160 billion over three years, mainly through a combination of modifications to cost-of-living adjustments (wage increase), pay progression and other benefits.

The government could consider indexing public sector wages below inflation for three years. An inflation minus 2 percentage points in the public service could generate around ZAR 30 billion savings over three years. As inflation has receded and given the wage gains of recent years, the real cost to civil servants would be limited as they would still benefit from annual progression in the pay scale. Such a measure could create fiscal space for government investment in infrastructure and education (Table 1.5). Furthermore, wage indexation should be linked to productivity developments, taking into account practices in Australia and Nordic countries.

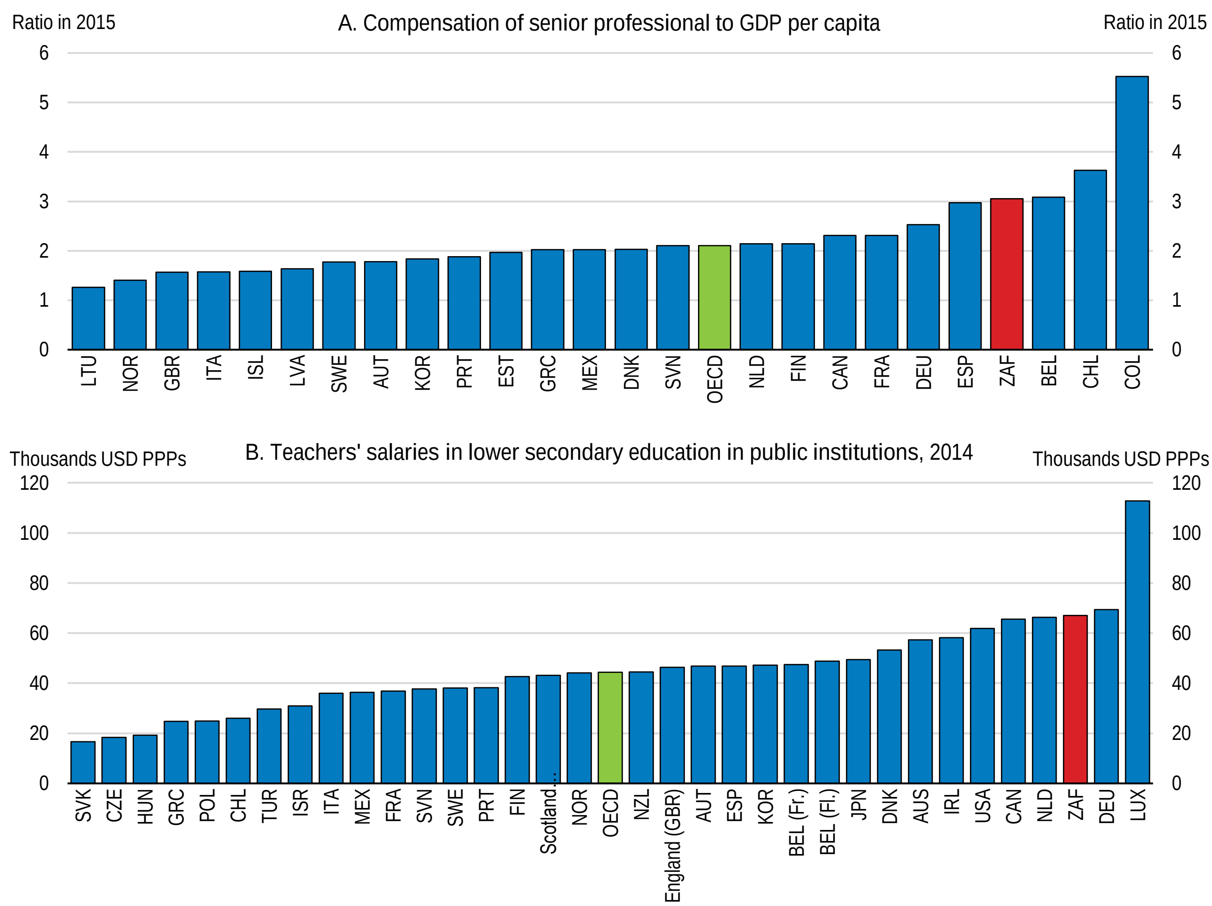
Figure 1.13. Remuneration of civil servant managers is relatively high



Note: South Africa data refer to 2017. The managers include 25 103 individuals and 2% of personnel and not on occupation-specific salary dispensations, which is larger than for other countries.
Source: OECD Government at a Glance 2017 and MTBPS 2018, National Treasury South Africa.

StatLink http://dx.doi.org/10.1787/888934005720

Figure 1.14. Remuneration of non-managers is also high



Note: For panel A, South Africa number regroups all non-managers on regular pay scale and refers to 2017. For Panel B, South Africa number is for all staff on education including non-teachers and refers to 2017.
Source: OECD Government at a Glance 2017 and MTBPS 2018, National Treasury South Africa.

StatLink http://dx.doi.org/10.1787/888934005739

Table 1.5. Illustrative annual fiscal impact of reforms proposed by the OECD

Per cent of GDP on an annual basis

	Per year
Expenditures	
Index wages in the public service below inflation for 3 years	-1.0[1]
Substitute government spending on higher education by bringing in bank loans	-0.5
Increase public investment on infrastructure	+1.4
Measures not estimated	
Improve the energy mix by substituting coal by renewables as an energy source	
Reform state-owned companies and partial privatisation	

1. Over three years, the medium-term budget horizon.
Source: OECD calculations.

Table 1.6. Past recommendations on macroeconomic policy and fiscal sustainability

Recommendations from previous surveys	Action taken since the July 2017 Survey
Continue the prudent approach to fiscal consolidation, including the use of spending ceilings, to reduce the structural budget deficit and contain public debt in a growth and equity-friendly way	Spending increases have slowed before the crisis. Additional tax raising measures have been introduced. The expenditure ceiling has been lowered further.
The government should continue to seek opportunities to increase the efficiency of public expenditure.	All suppliers must be registered with a central database. All contracts above ZAR 500 000 at national and provincial level, and ZAR 200 000 at municipal levels are subject to a competitive bidding process. Efforts to expand centralised procurement of goods and services and renegotiation of transversal contracts continue.
Limit annual wage increases in the public sector and where possible redeploy civil servants to priority areas (*2017 Survey*)	No action taken.
Deepen implementation for public procurement reform and enforce sanctions for breaches of the Public Financial Management Act (*2017 Survey*)	No action taken.
Ensure that state-owned enterprises respect procurement and expenditure rules (*2017 Survey*).	No action taken.

Reforming state-owned enterprises to limit government contingent liabilities

Government exposure to state-owned entities is high and represents risk to debt sustainability and public finances (Table 1.7). In 2020, the total amount for approved guarantee to SOEs is ZAR 484 billion, with associated exposure estimated at ZAR 385 billion. The financial performance of SOEs is putting considerable pressure on public finances. The COVID-19 crisis is worsening the financial situation of many SOEs. In the 2020 government budget, ZAR 44 billion are allocated to SOEs but it is likely that transfers to SOEs will be higher. South Africa Airlines to which the government granted ZAR 19 billion guarantees is in a bankruptcy process. The underperformance of SOEs is widespread due to mismanagement, corruption, overstaffing and uncontrolled spending. Most of the main state-owned enterprises are in a very bad financial situation, some resorting to borrowing to finance their operational costs and not being able to meet their debt and interest payments (National Treasury of South Africa, 2019). The government has started to reform key SOEs. New boards and executives have been appointed at several of these entities and public inquiries into state corruption have also started. The impact of these reforms rests on the level of discipline that is either imposed by markets or the state. The current governance framework falls short in implementing either form of discipline.

Table 1.7. Government exposure to state-owned enterprises is high

	2017/18		2018/19		2019/20	
% of GDP	Guarantee	Exposure[1]	Guarantee	Exposure[1]	Guarantee	Exposure[1]
Public institutions	10.0	7.0	9.9	7.5	9.4	7.5
Of which:						
Eskom	7.4	5.3	7.1	5.8	6.8	5.8
SANRAL2	0.8	0.6	0.8	0.8	0.7	0.8
Trans-Caledon Tunnel Authority	0.5	0.4	0.9	0.3	0.8	0.3
South African Airways	0.4	0.2	0.4	0.3	0.4	0.3
Land and Agricultural Bank of South Africa	0.2	0.1	0.2	0.0	0.2	0.0
Development Bank of Southern Africa	0.3	0.1	0.2	0.1	0.2	0.1
Independent power producers	4.3	2.6	4.1	3.0	3.9	3.1
Public private partnerships3	0.2	0.2	0.2	0.2	0.2	0.2

1. Total amount of borrowing, adjustments to inflation-linked bonds as a result of inflation rate changes and accrued interest.
2. The exposure in 2017/18 excludes adjustments to inflation-linked bonds as a result of inflation rate changes.
3. These amounts only include national and provincial PPP agreements
Source: Budget Review 2020, National Treasury.

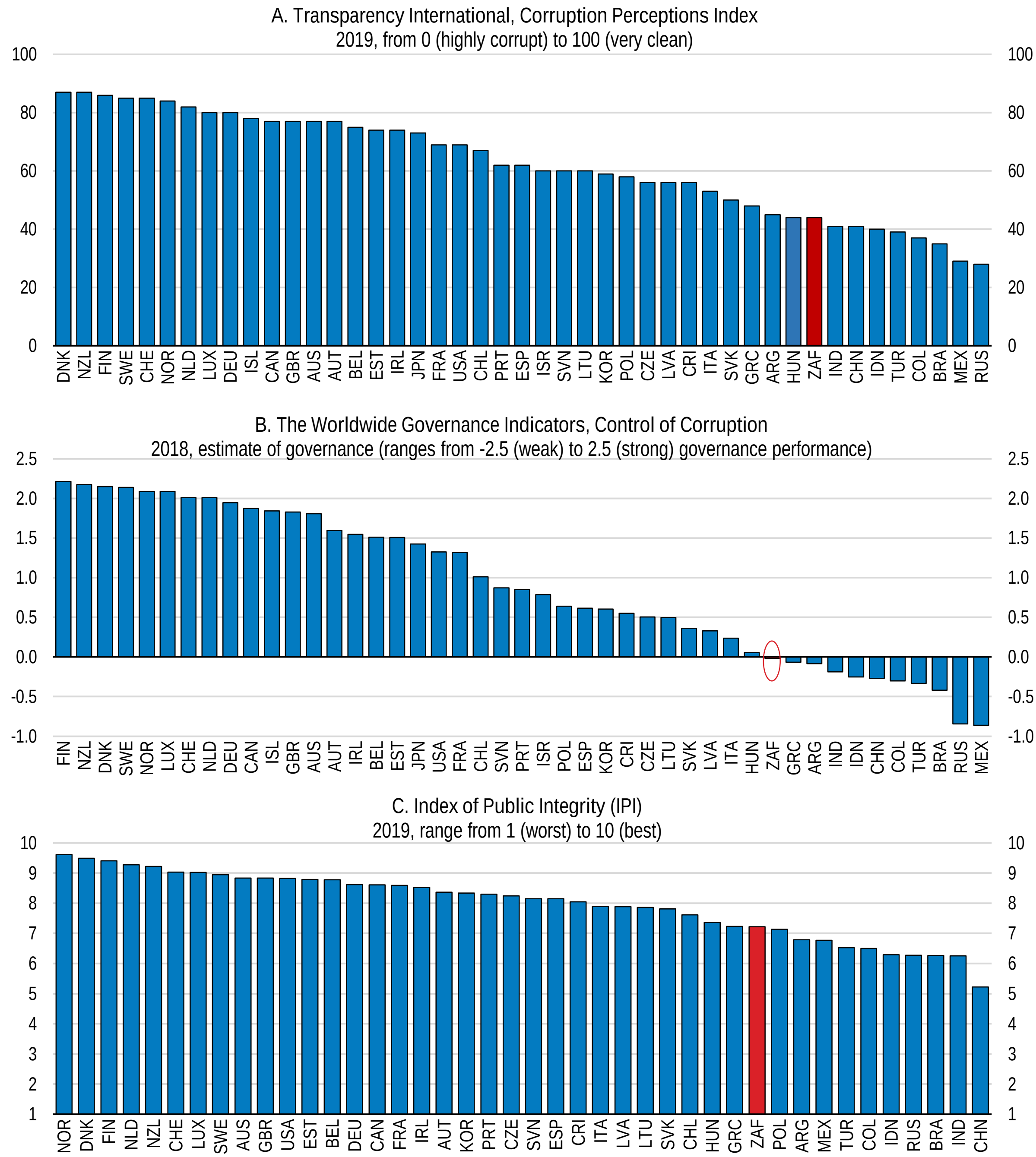
Eskom, the biggest state company and power producer, poses a significant risk to debt sustainability and to South Africa's economy. Since 2010, the government has extended a total of ZAR 350 billion of guarantees to Eskom's construction of new power plants, ZAR 297 billion of this guarantee has materialised A further ZAR 220 billion of guarantees were granted to independent power producers from which Eskom is contracted to purchase electricity. The Eskom risk has become a reality when it became apparent that Eskom was no longer able to meet its operational costs and interest and capital payments. This has forced the government to allocate ZAR 23 billion per year over the next three years to support Eskom face its obligations and reconfiguration. (National Treasury of South Africa, 2019). To reform Eskom, the government has announced the partial breakup of the company, dividing it into generation, transmission and distribution businesses (National Treasury, n.d.). Ultimately, each entity will be a separate firm (juridical personality) under one holding company (Eskom). The breakup will make each entity more competitive and will help attract private investors to these entities. It would also reduce the potential for corruption. The government and Eskom's new management should proceed with the implementation of Eskom's restructuring and application of standard accounting and management principles as called for in the OECD Guidelines on Corporate Governance of State-Owned Enterprises. Moreover, the government should proceed to a deep restructuring of SOEs to guarantee that they cover their operating costs, including lay-off of unnecessary staff and bringing in private participation.

Official inquiries into allegations of corruption and state capture are underway

Major state-owned companies such as Eskom, Transnet, SAA, Denel and SARS have been at the centre of state capture allegations, which has damaged their financial health, management and functioning. State capture refers to a type of systemic political corruption in which private interests significantly influence a state's decision-making processes to their own advantage through illicit, non-transparent provision of private gains to public officials. Government has begun the process of reforming these key entities, including appointing new boards and executives, which in turn have lodged criminal cases related to allegations of corruption with the police. The Judicial Commission of Inquiry into Allegations of State Capture and the Commission of Inquiry into Tax Administration and Governance by the South African Revenue Service have both highlighted serious governance failures. The State Capture inquiry is instructed to enquire, investigate and make recommendations into all allegations of state capture, corruption and fraud in the public sector. President Ramaphosa also established commissions of inquiry into the Public Investment Corporation (PIC) and the National Prosecuting Authority (NPA) in late 2018, with both still ongoing.

Governance failures of SOEs are reflected in inefficiency, corruption and financial mismanagement that have harmed service delivery, increased pressure on the budget and eroded investor confidence. In 2019, South Africa received a score of 44 on Transparency International's Corruption Perception Index, placing it 70th out of 180 countries (Figure 1.15). This is in line with the global average score of 43 and many of South Africa's peers, but lower than the OECD average of 69. Corruption promotes mistrust, undermines democratic institutions and the rule of law, corrodes social fabric, and threatens sustainable economic development.

Figure 1.15. South Africa performs poorly on corruption measures



Note: The Corruption Perceptions Index (Panel A) measures the perceived levels of public sector corruption in 180 countries and territories. The index score is on a scale of zero (highly corrupt) to 100 (very clean).
Source: Transparency International, Corruption Perceptions Index 2019; World Bank, The Worldwide Governance Indicators, 2019 Update; European Research Centre for Anti-Corruption and State-Building, The 2019 Index of Public Integrity.

StatLink http://dx.doi.org/10.1787/888934005758

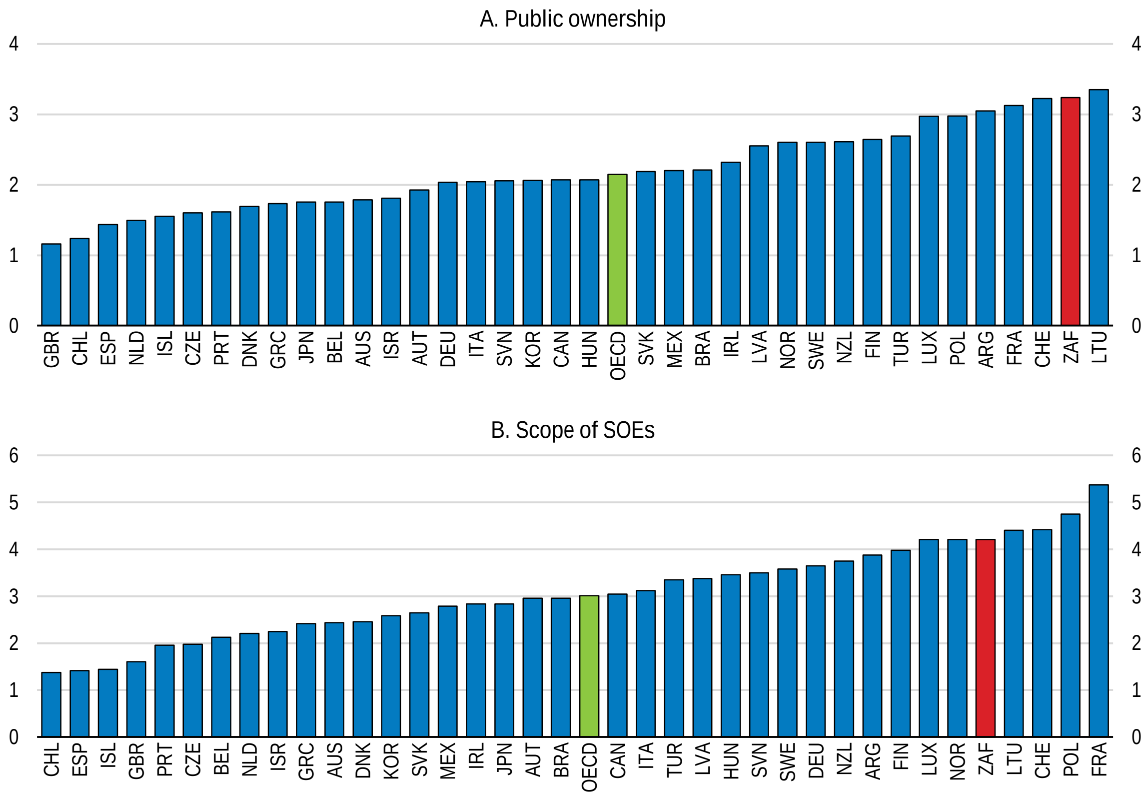
South Africa has addressed a number of the recommendations made by the OECD Working Group on Bribery in the South Africa Phase 3 report (OECD, 2014) on combating bribery of foreign public officials. However, many investigations have not progressed to prosecution. Better enforcement of national and foreign corruption offences is needed to restore public confidence and proper functioning of public services.

An effective governance framework for SOEs is needed

Beyond the risk that SOEs pose to government finance, they also represent an important part in the economy. South Africa has one of the highest public ownership of firms with an extended scope in the economy among OECD and emerging economies (Figure 1.16 and 1.17). Such a prevalence of public entities has effects on the competitiveness of the economy through the cost of intermediate goods (in particular network services) and competition (entry-exit) in these sectors. In the case of South Africa, where most public firms are underperforming, it has detrimental effects on the cost of doing business.

Figure 1.16. Public firms grasp on the economy is high

Index scale of 0–6 from least to most restrictive, 2018



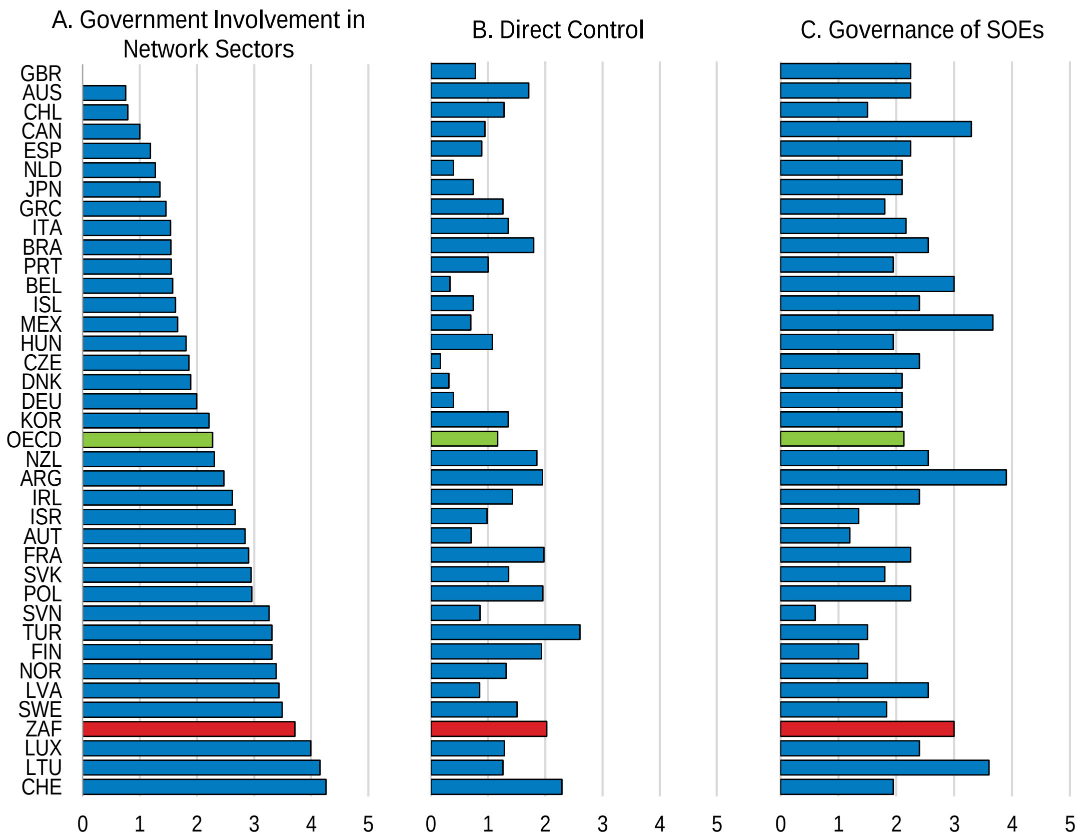
Source: OECD 2018 PMR database.

StatLink http://dx.doi.org/10.1787/888934005777

South Africa needs to establish an effective governance framework of SOEs, setting clear company-specific objectives in terms of profitability expectations, capital structure and non-financial objectives that SOEs are expected to deliver (OECD, 2015c). Transparency and accountability of SOEs can increase confidence and predictability, which are key factors for attracting much needed investment and private participation in areas traditionally dominated by the state. OECD Guidelines on Corporate Governance of State-Owned Enterprises provide key principles that could help in setting up a contractual framework between SOEs and the state. In particular, professionalising SOEs' boards including the participation of competent independent members is instrumental for transparency and proper monitoring of SOEs. A clear distinction between the roles and powers of the board and the executive management is necessary, along with the assurance of operational independence of the executive management and the limited temporary governmental intervention. The state should act as an informed and active owner to set the objectives, to validate the strategy, to guarantee the governance of SOEs is carried out in a transparent and accountable manner, and to ensure SOEs are subject to high quality accounting, disclosure, compliance and auditing standards.

Figure 1.17. Government involvement in the economy through SOEs is high

Index scale of 0–6 from least to most restrictive, 2018



Source: OECD 2018 PMR database.

StatLink http://dx.doi.org/10.1787/888934005796

Managing spending pressures: Financing higher education

South Africa has severe skills shortages and poor basic education outcomes despite high levels of fiscal spending (OECD, 2015 and 2017a). Higher education has been a growing component of expenditure. At the end of 2017, the outgoing President Zuma announced the introduction of fee-free higher education for students from poor and working-class families. The announcement came on the back of students protesting against continuously rising tuition fees and the need to expand access to higher education. In 2015, only 12% of the 20–24 year old participated in post-secondary and tertiary education – significantly below the OECD average of 35% (OECD, 2019). Despite high private returns to higher education in South Africa, financial constraints are the main barrier for potential students to enrol (OECD, 2013b). Moreover, financial support during the course of study affects graduation rates. Indeed, van Broekhuizen et al. (2017) show that students from low-income families that received student aid during their course of study were more likely to graduate than non-supported students.

Since the beginning of 2018, the eligibility for National Student Financial Aid Scheme (NSFAS) was expanded significantly. The annual income threshold for students' families increased from ZAR 160 000 in 2017 to ZAR 350 000. This translates into about 90% of students being eligible under the new scheme (World Bank, 2019). In addition, the NSFAS was converted from a combination of bursary and income-contingent loan scheme into a full bursary for first time entrance to university with a family income under

ZAR 350 000 per annum. Under the new scheme, the NSFAS covers the full cost of study for undergraduate university and technical vocational education and training (TVET) college students. This includes tuition fees, prescribed study material, meals, and a certain level of accommodation and/or travel allowances. In addition, an 8% increase in tuition fees for students from families with an annual household income of between ZAR 350 000 and ZAR 600 000 will be covered by the government through subsidies to universities (National Treasury, 2018a).

In 2018, the support only applied to students in their first year of study. In 2019, the arrangement expanded covering first and second-year students. NSFAS students that were already in undergraduate university from families with household incomes below ZAR 122 000 per year saw their loans converted into grants. Government spending on the National Student Aid Scheme is therefore expected to more than triple by 2022 due to the reform (Table 1.8). In total, government spending on higher education as share of GDP is expected to increase from 1.3% in the fiscal year of 2017/18 to 2.6% in 2022/23.

Table 1.8. Development of government spending on higher education

	Audited outcome	Audited outcome	Audited outcome	Revised estimate	Medium-term expenditure estimate		
	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
ZAR million							
University transfers	39 446	41 851	59 139	73 358	79 178	84 333	88 168
TVET	7 232	7 725	10 946	12 571	13 074	14 644	15 279
Community College	1 775	1 933	1 979	2 061	2 514	2 687	2 780
Other	645	748	802	869	944	1 090	1 146
National Student Financial Aid Scheme	11 216	9 957	21 827	30 542	34 792	36 622	38 185
Total	60 314	62 214	94 693	119 401	130 501	139 375	145 558
% of GDP	1.36%	1.32%	1.92%	2.32%	2.66%	2.67%	2.63%

Note: Years refer to fiscal years going from March to February.
Source: National Treasury (2020a, 2020b), National Budget 2020 and 2020 Supplementary Budget.

Reducing financial barriers for access to higher education is an important objective in South Africa's context. In OECD countries, higher levels of educational attainment tend to translate into higher earnings, thus investments in education also tend to generate higher social returns, because tertiary-educated adults pay higher income taxes and social contributions and require fewer social transfers (OECD, 2018b). In South Africa, however, these investments on education may not be recovered soon from a budgetary point of view. The impact on tight fiscal resources should be considered and alternative financing mechanism could be mobilised, to at least partially cover the cost. Moreover, under the current tax system and depending on the assumed discount rate, the net present value of government expenditure for university undergraduate education remains on average negative – even when considering favourable assumptions of continuous employment (Box 1.4). TVET education is less spending intensive, and is therefore more likely to have a positive net present value. However, quality often tends to be low and may lead to the risk of skill mismatch.

Alternative financing mechanism could alleviate students' credit constraints while reducing the impact on fiscal resources. Under the current NSFAS, 95% students are receiving the same support, regardless of their positions in the household income distribution. Instead of the government taking on all expenses for students from families with an annual income below ZAR 350 000, support should also depend on the level of household income. Thus, students from poor families could be fully supported, whereas students whose families are closer to the eligibility threshold should receive less. Such a change has to come with greater access to loans from commercial banks, allowing topping up student aid. These student loans could be designed as income – contingent loans backed up by the government to ensure that students from higher-income families are not constrained in their educational choices due to access to financial resources. Efficient administration of the scheme, including collection of repayments, is crucial.

Box 1.4. Years until costs of higher education are amortised through income tax on returns of higher education

A common argument for governments to support students in financing higher education lies in the higher expected tax returns resulting from higher average wages. Applying a mincer-type wage regression for South Africa shows that returns to higher education are high when compared to a person with matriculation (high school graduation certificate) as highest educational degree (Table 1.9).

Table 1.9. Returns to higher education

Sample of persons with at least matric degree aged 25 to 60

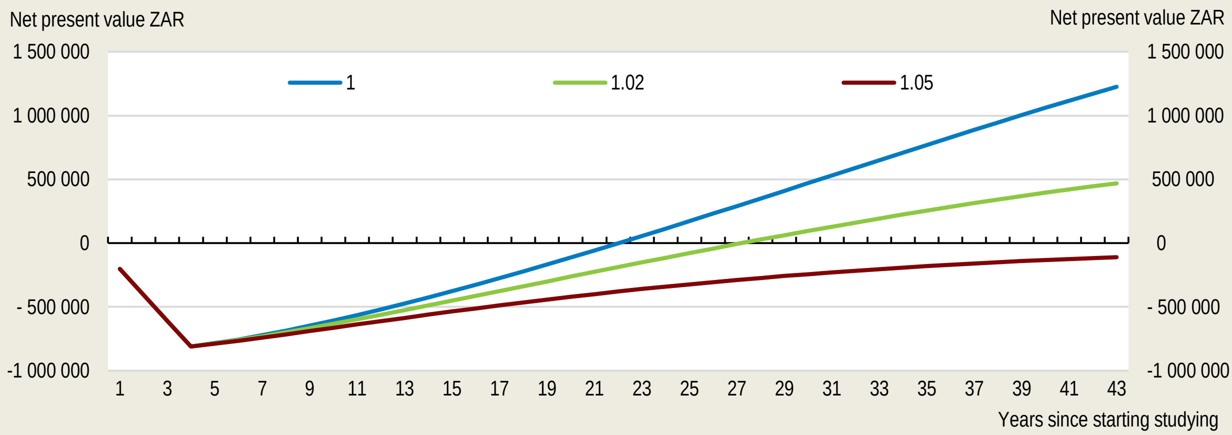
Dep vat: Average gross monthly wage	Coefficient	Standard Error
Base category (matric only)		
TVET degrees		
Certificate requiring Grade 12/Std. 10	1488.19	(1436.77)
Diploma requiring Grade 12/Std. 10	8125.61***	(1502.03)
University degrees:		
Bachelors Degree	17988.02***	(2147.17)
Bachelors Degree and diploma	20021.14***	(3447.15)
Honours Degree	24542.55***	(3239.85)
Higher Degree (Masters or Doctorate)	66783.84***	(4462.40)
Average wage	16296.01	

Note: additional controls include age, age squared, as well as dummies for gender, race, province and living in an urban area. Estimation results based on individual data for 2017.
Source: own calculations based on National Dynamic Income Study.

Total costs per student in 2018 for TVET amount to roughly ZAR 64 000 per year and for university about ZAR 203 000 per year (World Bank, 2019). This amount includes registration and tuition fees, students' expenses for meals, accommodation and books, as well as government subsidies to higher education institutions and repayment of uncovered NSFAS loans from pre-2018. Under the new fee-free higher education system for students from the poor and working-class families, governments therefore spend for a 4-year degree (bachelor with diploma) about ZAR 800 000 per student. Assuming that wages develop in line with inflation, and that this student will have continuous employment with the average wage for that degree, it will take about 20 years until the additional tax incomes from the degree (compared to having matric only) exceeds the higher education costs incurred for the student (Figure 1.18). However, when adjusting the discount rate assuming that governments value today's income more than the one in the future, it can take much longer.

Figure 1.18. Time until additional income tax payments break even with incurred costs

For different discount rates, Bachelor and Diploma (4 years) degree



Source: OECD calculation.

StatLink http://dx.doi.org/10.1787/888934005815

Table 1.10. Past recommendations for making the education system more effective and inclusive

Recommendations from previous surveys	Action taken since the July 2017 Survey
Set up a scheme of universal student loans contingent on future incomes, with participation from banks and government guarantees. (2017 Survey)	Set up a scheme of universal student loans contingent on future incomes, with participation from banks and government guarantees.
Expand the Accelerated Schools Infrastructure Development Initiative programme to address infrastructure backlogs and improve the delivery of learning with priority to the most deprived schools.	136 new schools were built and completed in 2016/17, 167 provided with sanitation facilities, 344 with water and 134 with electricity. The Department of Basic Education committed to provide at least two libraries in each province with the ASIDI allocation.
Empower the independent federal evaluation unit NEEDU, join the Programme for International Student Assessment (PISA) and the Teaching and Learning International Survey (TALIS) and undertake an OECD Evaluation and Assessment Frameworks for Improving School Outcomes	No action taken.

A growth strategy for South Africa

Policies to stimulate the recovery beyond the immediate relief plan will be needed until mid-2021. Improved investor confidence is critical to reverse weak investment and employment growth. High levels of policy uncertainty and safety concerns can deter foreign investment. The high cost of crime is impacting business – South Africa ranks as 131st out of 140 countries in terms of the business costs of crime and violence (WEF, 2019). Clearer and swifter implementation of reforms would reduce uncertainty and facilitate long-term planning, accelerating reforms' growth impact. Efforts to improve safety would help raise investment and improve living standards for all South Africans.

Reforming product and services markets

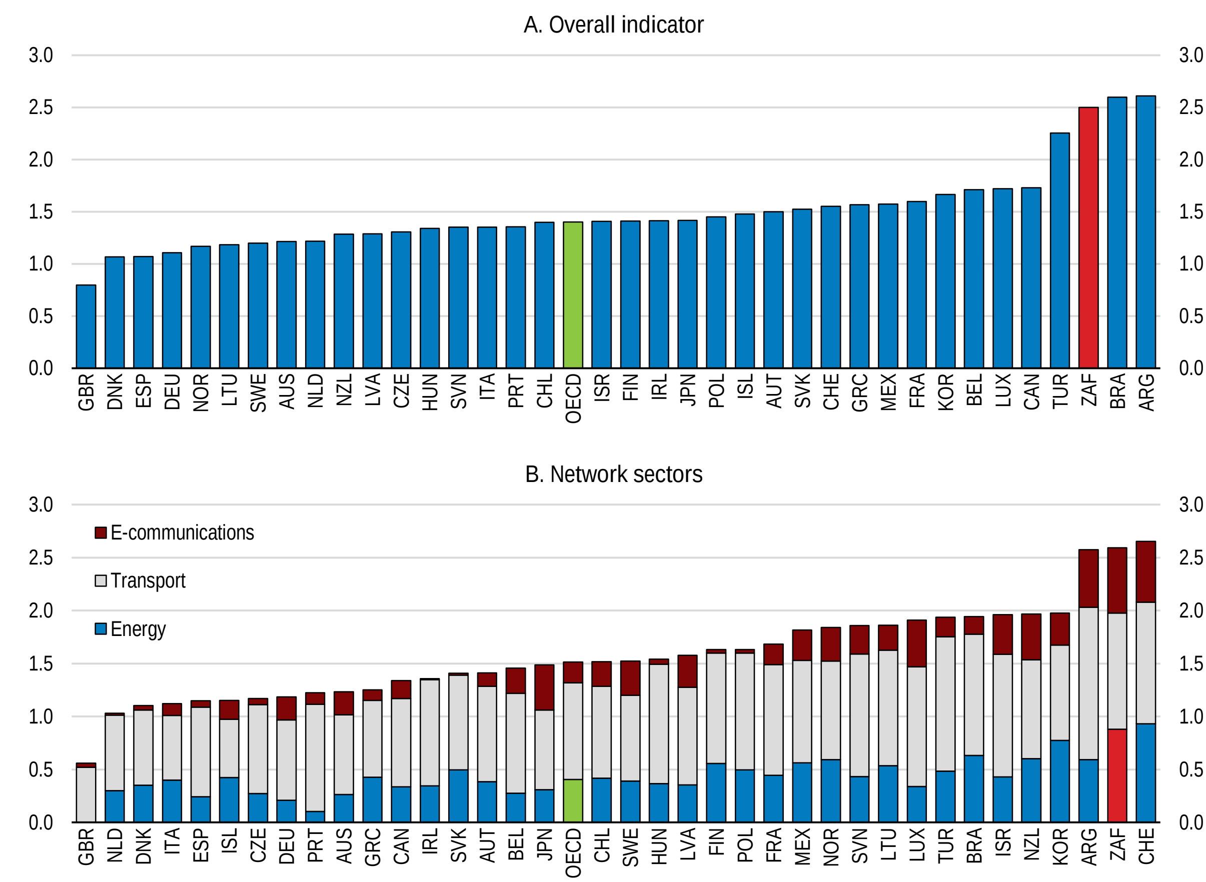
South Africa is looking for new ways to boost growth and inclusiveness in the long run. The 2017 OECD Economic Survey highlighted the role deepening regional integration and boosting entrepreneurship could play to bolster inclusive growth. Improving school and vocational training outcomes, better skilling the labour force and reducing skills mismatch and higher education performance are necessary for growth. Moreover, a better functioning labour market will help job creation and SME growth. Accelerating the procedures within the Commission for Conciliation, Mediation and Arbitration on labour issues would help small businesses (OECD, 2017a). In addition, the better functioning of product and services markets are important for growth as they shape the cost of intermediate inputs, productivity and participation in production processes (Égert and Wanner, 2016; Gal and Hijzen, 2016; McGowan, Andrews and Millot, 2017). Regulatory policies play an important role in defining barriers to entry and exit and therefore affect competition, while competition policies affect efficiency of production, allocation of resources and dynamism of markets. In South Africa, there is room to boost potential growth through less restrictive regulatory policies and more effective competition policies.

Product markets and services regulations remain restrictive

The OECD product market regulation indicators suggest that regulatory restrictions are still relatively high (Figure 1.19). This includes a high level of government involvement in the economy, barriers to domestic and foreign entry, complex rules for licences and permits, and protection of existing businesses from competition. In particular, regulatory restrictions are high in network industries (Figure 1.19, Panel B).

Figure 1.19. Regulatory restrictions are still high

Index scale of 0–6 from least to most restrictive, 2018



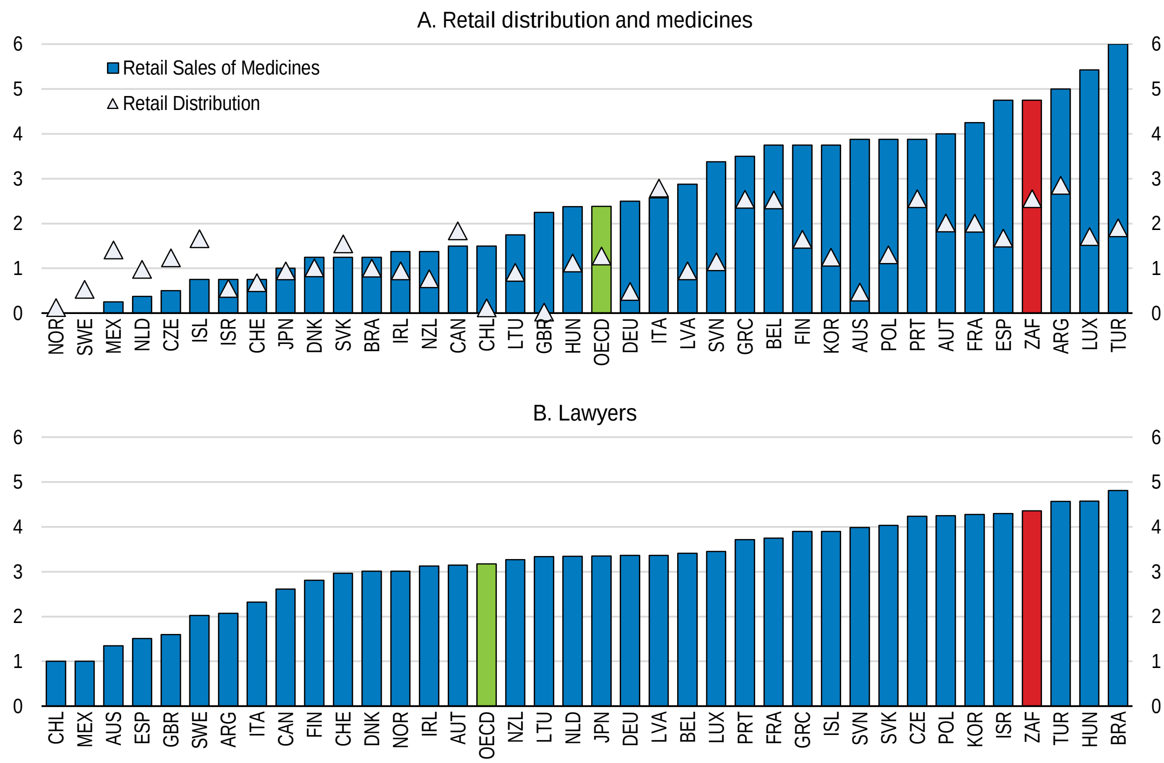
Source: OECD 2018 PMR database.

StatLink http://dx.doi.org/10.1787/888934005834

A more effective regulatory framework including more competition would contribute to better pricing of services and incentives to invest. South Africa's economy suffers from a lack of openness that affects the cost of doing business and impedes entry of new firms and growth of SMEs, thereby limiting its inclusiveness. For instance, regulatory restrictions in retail distribution and retail medicines are high compared to OECD and emerging economies (Figure 1.20, Panel A). Access to many professional services is also heavily regulated, in particular access to a lawyer profession is cumbersome and costly (Figure 1.20, Panel B). Access to professional services should be further facilitated, and under clear criteria, foreign qualifications should be recognised. Increasing access to professional services will increase access to legal services for small businesses and individuals through lower and more competitive prices (Canton, Ciriaci and Solera, 2014).

Figure 1.20. Regulations remain restrictive in retail and professional services

Index scale of 0–6 from least to most restrictive, 2018.



Source: OECD 2018 PMR database.

StatLink http://dx.doi.org/10.1787/888934005853

The government has published a Single Transport Economic Regulation Bill in February 2018 for public comments. The Bill aims at creating a Single Transport Economic Regulator and a Transport Economic Council to regulate all parastatals in the transport sector. The Bill provides the Transport Regulator with extensive powers including price control, licensing, access to transport infrastructure and enforcement of fair competition. The government should accelerate the adoption and implementation of the Bill. Furthermore, the mandate of network regulators should emphasise increasing competition as an objective. The overlapping of government ownership of SOEs and the authority of ministerial departments on some sectoral regulators does not promote active regulatory policy and effective competition policy. Regulations for telecommunications sector have not been effective in strengthening competition and have been slow in facilitating entry in the sector (Banda, Robb and Roberts, 2015). Giving the energy and telecommunication regulators greater independence in decision-making from the government and state-owned companies would improve governance in these sectors. Closer and more productive relationships between the competition authorities and sector regulators could lead to stronger competition policies by sector regulators.

Bolder competition policies are needed

Most key sectors of the economy are highly concentrated (Buthelezi, Mtani and Mncube, 2019; Banda, Robb and Roberts, 2015). Though concentration is not necessarily reflecting a lack of competition, a high degree of concentration is an indicator of potential competition issues. Buthelezi et al. (2019) found that at least 70% of South Africa's sectors have dominant firms in defined product markets. Also, they found that the average market share of the identified dominant firms in defined markets and across sectors is about 52.5%. If the sample is limited to markets with firms defined as presumptively dominant, the average market share, across sectors, is about 62% (Table 1.11). The Herfindahl-Hirschman index by sector corroborates this high market concentration. The high levels of concentration in several key sectors result in an economy that largely excludes the majority of the population from ownership of important economic assets. So far, regulatory, competition and industrial policy all have failed to stimulate dynamic rivalry and open routes for new entry and expansion into new dynamic sectors of the economy (Makhaya and Roberts, 2013).

Table 1.11. Market shares of dominant firms

Average market shares.

Priority Sectors	Entire sample	Markets with firms defined as presumptively dominant	Average Herfindahl-Hirschman index
Information communication technologies	49.30%	55.20%	3539
Energy	50.10%	60.80%	2832
Financial services	62.20%	68.80%	2788
Food and agro-processing	52.90%	60.50%	2861
Infrastructure and construction	45.50%	52.60%	2859
Intermediate industrial products	51.40%	63.30%	2958
Mining	57.10%	62.00%	
Pharmaceuticals	52.40%	59.60%	3003
Transport	57.10%	67.40%	3254
Other	51.80%	61.50%	2891
Total	52.50%	61.60%	

1. The HHI takes account of the differences in the sizes of market participants, as well as their number. The HHI gives a score that can range from close to zero (when a market is occupied by a large number of firms of relatively equal size) to 10,000. The HHI takes the value of 10,000 in the monopoly case and declines as the level of concentration decreases.
2. Determination of dominant position in terms of Section 7 of the Competition Act requires a definition of the relevant market and a computation of market shares. If the market share of a firm is found to be more than 45%, a dominant position is presumed.
Source: Buthelezi, Mtani and Mncube (2019).

The Competition Amendment Act adopted in 2018 is welcome and represents an important step in strengthening the powers of the competition authorities. The main changes affect the definition of the pursuit of abuse of dominance. In particular, changes include the following: the shift of the burden of proof to the respondent with regard to excessive pricing; a broader definition of exclusionary conduct; the requirement of the dominant firm to demonstrate that its price discrimination policy is not harmful; a change in collusion provisions with a penalty for horizontal restrictive practices and markets dividing; and finally more extensive powers are given to the Competition Commission to run market inquiries and provide remedies to change the market outcomes (Government of South Africa, 2019).

The Competition Amendment Act ensures that the effect of high levels of concentration is properly accounted for, and in particular, their effect on market access of SMEs and businesses owned by previously disadvantaged individuals when conducting market inquiries. However, complementary policies are needed in terms of access to capital and knowledge to facilitate market access by disadvantaged groups. In particular, a streamlining of the Black Economic Empowerment (BEE) framework is needed to facilitate access to real partnerships and financing without hampering competition.

Table 1.12. Past recommendations to improve regulations and competition

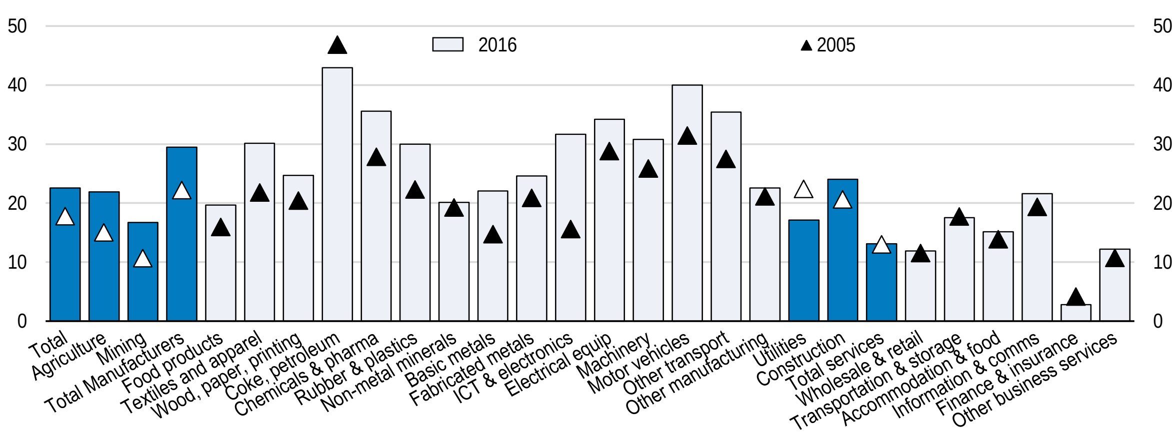
Recommendations from previous surveys	Action taken since July 2017 survey
Regulation of network sectors and services remain high affecting quality and prices and reducing job creation	Open up telecommunications, energy, transport and services sectors to more competition.
In network industries, complete the introduction of independent regulators and charge them with ensuring non-discriminatory third-party access. Secure additional electricity generation by accelerating the independent power producer programme.	The 2017 Budget allocated funds to the Department of Transport to build capacity in rail transport regulation. The creation of the Single Transport Economic Regulator was planned for 2018 but is still ongoing.
Systematically identify and eliminate competition-hampering regulation.	A red tape impact assessment bill is with the parliament. However, its focus is on reducing costs of red tape rather than increasing competition.
Privatise state-owned companies, such as telecoms, that are in markets with a sufficient degree of competition.	No action taken.

Reaping the benefits of participating in global value chains

South Africa's participation in global value chains is more pronounced than that of many of its peers, but remains below the OECD average. In 2015, 23.5% of South Africa's domestic value added was driven by foreign demand compared to the OECD average of 31.9%. However, South Africa's domestic value added was higher than in other emerging countries such as Argentina (10.9%), Brazil (12%), Indonesia (18.3%) and Turkey (20%). Tariff liberalisation in the early 2000s mainly benefited the skill– and capital-intensive manufacturing sector allowing greater integration in global value chains (OECD, 2015a). Thus, the foreign value added content to exports increased from 22% to about 30% between 2005 and 2016 in the manufacturing industries (Figure 1.21). By contrast, deepening of integration into global supply chains stalled in the service industries over the same period. This development reflects an increase in South Africa's services trade restrictiveness of recent years in all services sectors (OECD STIR database).

Figure 1.21. Foreign value-added content of gross exports

Foreign value-added content of gross exports, % of gross exports, by industry



Note: Lighter shade denotes subsectors of manufacturing and services respectively.
Source: OECD Trade in Value Added (TiVA) database.

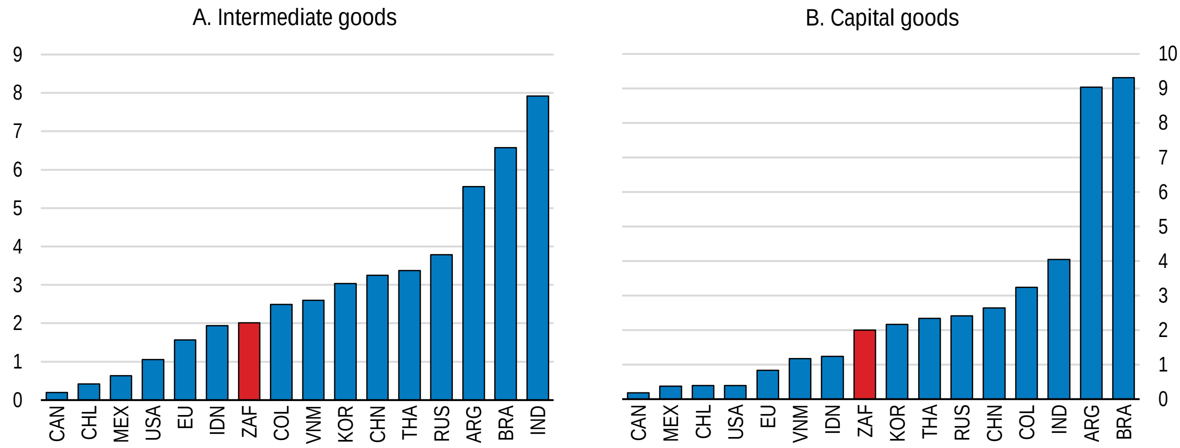
StatLink http://dx.doi.org/10.1787/888934005872

South African firms benefit from more global openness to trade (see Fall and Langle 2020). Tariff barriers on imports are significantly lower in South Africa than in other emerging countries such as Brazil, India and Argentina (Figure 1.22). Competitive pricing of intermediate inputs is important due to the high import intensity of many South African exporters. Thus, comparatively low import tariffs on intermediate goods increases the competitiveness of exporting firms. By contrast, tariff barriers on South African exports to developing countries – including Brazil, China and India – far exceed those to developed countries

(Edwards and Lawrence, 2012). South Africa has to increase trade access for its firms to fast-growing developing economies to harness growing demand in these countries. It is necessary to push for reduced tariffs on South African exports and the removal of non-tariff barriers. Moreover, further measures should focus on advancing the SADC free trade agreement and pursuing new and re-negotiated trade agreements in markets where there is growing demand for key export products. As recommended in previous surveys, trade facilitation measures should address non-tariff barriers, such as improving the quality and access of infrastructure, as well as the access to export credit and credit insurance.

Figure 1.22. Import tariffs on intermediate and capital goods are relatively low compared to some emerging peers

Effective applied trade weighted average tariff, %, 2017 or latest available year



Source: World Integrated Trade Solution database (WITS).

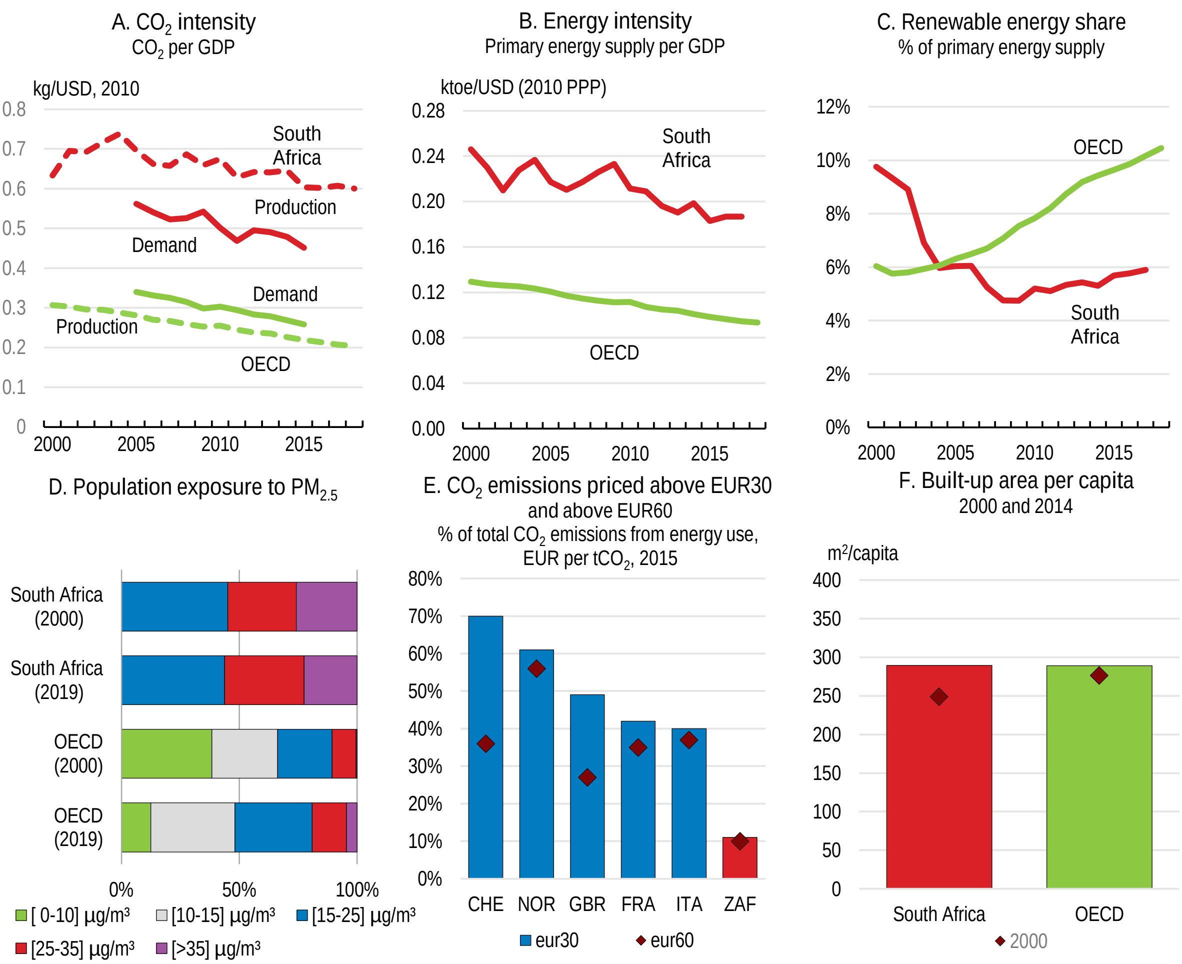
StatLink http://dx.doi.org/10.1787/888934005891

Key investments to boost growth

Greener energy policy to limit environmental impact and contribute to inclusive growth

The CO_2 per GDP emission intensity is high and has fallen little since 2000 (Figure 1.23, Panel A), in part reflecting the high-energy intensity of the economy (Figure 1.23, Panel B). The share of renewables in primary energy supply is close to the OECD average. Coal accounts for almost all electricity generation and is the main energy source in industrial processes. It is also used by households and service businesses but on a much smaller scale (OECD, 2018d). Strong coal use contributes to air pollution, to which South Africans are heavily exposed (Figure 1.23, Panel D), with important impacts on premature mortality (Roy and Braathen, 2017) and child development (World Health Organisation, 2018). Low-income households are especially vulnerable, as house prices are lower in polluted areas. South Africa continues to urbanise as indicated by growing built-up areas per capita (Figure 1.23, Panel F). Good urban planning is therefore key to avoid urban sprawl and ultimately in reducing transport related emissions. Urban policies that integrate land use, housing and transport within travel-to-work areas make cities healthier, more attractive and competitive (OECD, 2017c; OECD, 2015d).

Figure 1.23. Green growth indicators



Note for Panel A: Included are CO2 emissions from combustion of coal, oil, natural gas and other fuels. Gross Domestic Product (GDP) is expressed at constant 2010 USD using PPP.
Note for panel E: Switzerland: Largest share of emissions priced at EUR 30 and above.
Source: OECD (2020), Green Growth Indicators, OECD Environment Statistics (database); OECD National Accounts (database); IEA (2020), IEA World Energy Statistics and Balances (database); OECD (2020), Exposure to air pollution, OECD Environment Statistics (database) using IHME GBD 2019 concentration estimates (forthcoming); OECD (2020), Land cover, OECD Environment Statistics (database); OECD (2018), Effective Carbon Rates 2018.

StatLink http://dx.doi.org/10.1787/888934005910

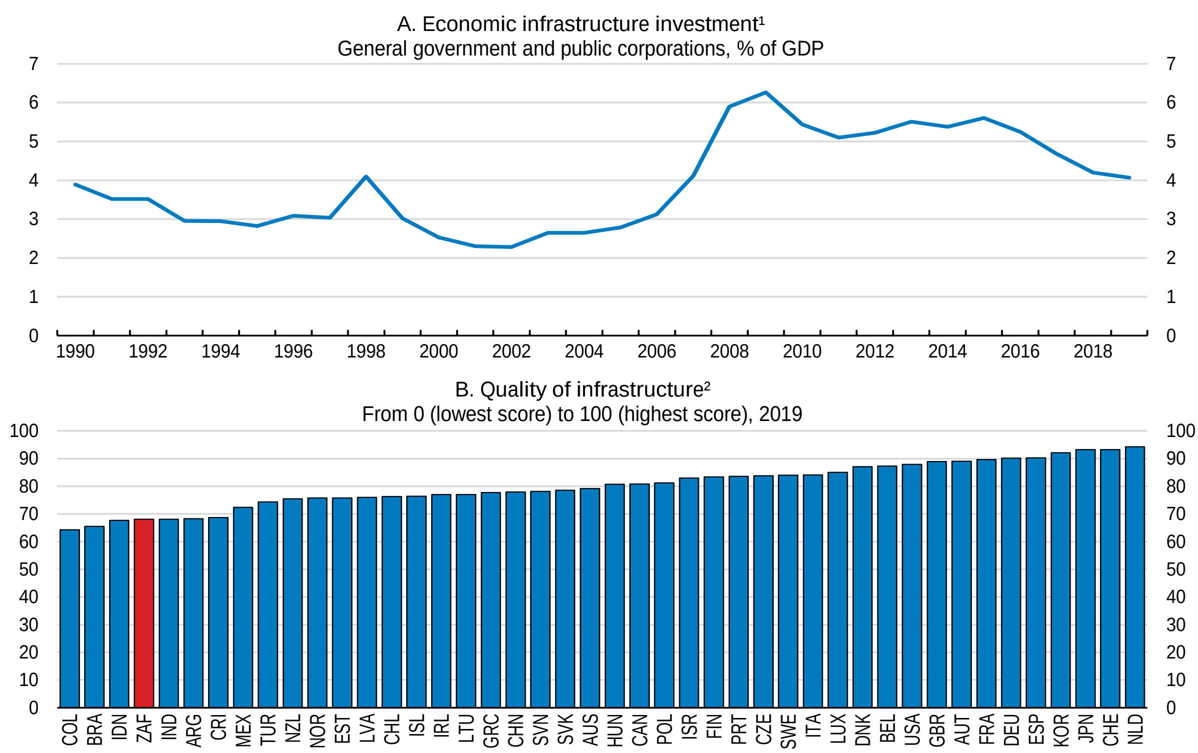
In its 2018 draft Integrated Resource Plan (IRP), South Africa has taken steps to reduce CO_2 emissions in electricity generation. It has announced to decommission 35 of currently 42 Gigawatts (GW) of coal-fired capacity by 2050 and the expansion of renewable electricity generation. However, close to 6 GW of new coal-fired plants are under construction and a further 1 GW is planned. New plants expose South Africa to the risk of having to write them off early (OECD, 2017c). The IRP may be sufficient for South Africa to reach the upper end of the target range for GHG emissions in 2030 contained in its Nationally Determined contribution (NDC) to the Paris climate agreement. However, this would still imply higher emissions than in 2010 (Climate Action Tracker, 2018).

Coal use in electricity generation and industrial production is untaxed, contributing to modest pricing of CO_2 emissions (Figure 26, Panel E). South Africa's introduction of a carbon tax in June 2019 is a welcoming step forward. The new tax prices a ton of CO_2 at between EUR 0.40-3.40, depending on the industry, well below the low-end estimate of the climate cost of carbon of EUR 30 per ton. The tax is set to rise by 2% above inflation every year. South Africa should envisage a more ambitious approach to carbon taxes. Carbon tax revenues would provide ample opportunity to compensate low-income households, for example with lump-sum transfers, and equipping them with more energy-efficient housing and appliances. Because of the growing competitiveness of renewable energy, costs for consumers could be reduced by diversifying the power mix. Early anticipation and preparation of the transition is vital to minimise adverse social effects in the coal mining locations. Replacing coal-fired power plants with renewables could increase energy security as well as reduce the costs of water stress. Coal mining and coal-fired power are an important source of chemical water pollution. The restructuring of Eskom could be used to increase the share of renewables as a source of energy. These investments would contribute to greener growth and reduce the environmental footprint of the economy. The social consequences of these transfers should be managed.

Infrastructure investment is needed to increase potential growth

Public infrastructure investment has dropped in recent years constrained by a tight fiscal stance (Figure 1.24). This has contributed to lower growth in a context of declining private investment. Moreover, quality of infrastructure is deteriorating, which calls for more investment in maintenance.

Figure 1.24. Public infrastructure investment has stalled



1. Roads, bridges, dams, electricity and water supply, etc.
2. The Infrastructure indicator of the Global Competitiveness Index 4.0 assesses the quality and extension of transport infrastructure (road, rail, water and air) and utility infrastructure (electricity and water).
Source: SARB database; World Economic Forum, The Global Competitiveness Report 2019.

StatLink http://dx.doi.org/10.1787/888934005929

The speed, quality and efficiency of many public investment projects also have been low. Project planning, including long-term maintenance has been inadequate (National Treasury of South Africa, 2019 and 2020a). To overcome these issues, the government has put in place a technical task team (Budget Facility for Infrastructure) to improve prioritisation, planning and financing. The task team is budgeted ZAR 625 million in 2019 for project preparation and implementation. Moreover, the government is strengthening local government infrastructure plans and urbanisation projects to increase flexibility, private sector financing and local government infrastructure spending. The aim is to mobilise ZAR 20 billion additional spending per year at the local level.

The government is also planning to create an infrastructure fund with the private sector, development finance institutions and multilateral development banks. The fund aims to increase the number of blended-finance projects to enhance oversight, improve the speed and quality of spending, and reduce costs in public infrastructure. The government plans to spend ZAR 526 billion in infrastructure investment over the next three years (National Treasury of South Africa, 2019). The success of the infrastructure fund will depend on commercially viable model to attract private financing. Developing well-structured public-private partnerships could boost infrastructure investment and in particular, participation of private capital in ports and rail. Increasing public investment from 3.6% to 5% of GDP would boost potential growth (Box 1.5). However, better cost-benefit analysis is required alongside improved cost containment, planning and implementation (such as the example of Denmark).

Box 1.5. Quantification of the impact of structural reforms

The OECD long-term model comparing projections based on different policy scenarios with the baseline "no policy change" scenario suggest that improving product market regulations would significantly boost potential GDP. Also, boosting education performance to increase effective average years of schooling of the working age population has a large impact on potential growth through effective labour force and productivity. Investment has been falling in recent years, increasing public investment, in particular on infrastructure, has also positive impact on potential growth. Although policy complementarities are not explicitly modelled, better regulations would crowd in business investment, technology adoption and human capital accumulation, leading to multiplicative effects.

Table 1.13. The impact of policies to boost potential GDP

	2025	2030	2040	2050
	% difference in level of potential GDP, relative to no policy change			
Reforming PMR	0.8	3.4	10.4	16.6
Increasing public investment	0.4	0.8	1.2	1.4
Increasing education attainment	0.3	1.5	7.1	15.9

Note: The following scenarios were modelled: improve product market regulation policies to the OECD average by 2030; increase educational attainment by additional two years by 2040; and increase public investment by 1.4 percentage points of GDP from 2025. These estimates do not include the impact of the COVID-19 crisis on potential growth.
Source: Estimates based on "OECD Long-Term Scenarios for the World Economy" database.

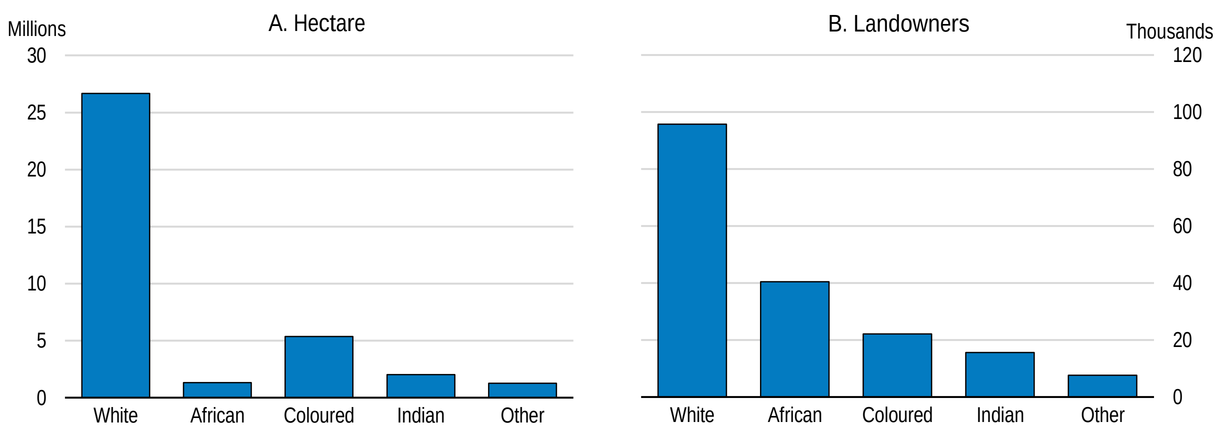
Accelerate the land reform process to lift the uncertainty it creates

Land is a key source of inequality in South Africa. The apartheid regime dispossessed and relocated the black population to townships and homelands. Contained in these spatially segregated areas, the majority of the black population was left without the right to own land (Burger, 2018). After the end of apartheid, the government implemented a programme for land reform to redress past injustice consisting of three dimensions: restitution, tenure reform and redistribution. Land restitution addresses claims on dispossessed land and forced removals from various acts after 1913. The tenure reform aimed to provide more secure access to land in the former homelands. Lastly, land redistribution deals with land not covered by restitution and tenure reform, transferring white-owned commercial farmland to black farmers (Cliffe, 2000).

Progress on the land reform has been slow. While the land reform has implications for the development of both urban and rural areas, recent focus has turned to redressing structural inequalities in the agricultural sector. By 2016, only 8%-9% of farm land has been transferred through restitution and redistribution – well below the target of 30% that should have been achieved already in 1999 (Cousins, 2016). In addition, many settled restitution claims have not been fully implemented such that the overall impact of the land reform on transforming the agricultural sector has been limited. According to the land audit report of 2017, about 72% of the individually-owned farm land was under white ownership, compared to only 4% under African ownership (Figure 1.25). In addition, there are relatively more black farmers per available hectare resulting in significantly smaller individually-owned land parcels. While the average per capita farm land size is about 280 hectares, for black farmers this is only about 32 hectares (Department of Rural Development and Land Reform, 2018).

Figure 1.25. Individual land ownership of farms and agricultural holdings

By race, 2017



Note: Refers to individually owned land only and does not include traditional land.
Source: Department of Rural Development and Land Reform (2018), Land Audit Report 2017.

StatLink http://dx.doi.org/10.1787/888934005948

Initially the land redistribution was based on a "willing buyer - willing seller" principle, with limited success. To speed up the process of land reform, the government introduced several policy changes. In 2016, a bill was passed that allows the compulsory purchase of land in the public interest. The bill enables the state to pay for land at a value determined by a government official and then expropriate it with an administratively fixed compensation for the public interest (OECD, 2018a). In the context of limit financial resources, the government turned more recently to discussions aiming to allow for expropriation of land in the public interest without compensation for the current owners. In December 2018, parliament voted for a constitutional amendment to adopt expropriation without compensation following a report prepared by Joint Constitutional Review Committee established earlier that year. To ensure a fair and equitable implementation of the land reform process, an Advisory Panel was set up, consisting of academics, business professionals, social entrepreneurs and activists related to the agricultural economy and land policy.

It is important to clearly define the policy objectives and assess the risks of such an amendment as even a careful implementation could undermine agriculture performance and reduce investment. Expropriation without compensation should focus on state- and communal-owned land to minimise the potential negative effects. The government should carefully consider before expanding this policy to include privately owned land. According to the OECD Policy Framework for Investment (2015), "Secure and well-defined land rights encourage new investments and the upkeep of existing investments as well as sustainable land management". Going forward, investors need to be ensured on the security of their property rights.

The land reform should focus on tenure security. About a third of the South African population lives in former homelands on communal land with insecure tenure ship (Burger, 2018). Under apartheid, people living in homelands were granted the permission to some farmland and a homestead at the will of the governing chief. After 1994, chiefs have not ceased any power over their communal land resulting in continuous insecure tenure and use rights for the population living there. Thus, the Traditional Leadership and Governance Framework Act 41 of 2003 and the Communal Land Rights Act 11 of 2004 provided traditional councils and chiefs with the power to allocate use rights to land. Although the continued existence of traditional authorities is conditional on 40% of their members being elected and at least a third of the council members being women (TLGFA), many of the traditional councils have never met these conditions (Burger, 2018). Better enforcements of existing laws to ensure a better democratic process in traditional communities are needed. In addition, solutions to secure tenure rights have to be developed and implemented.

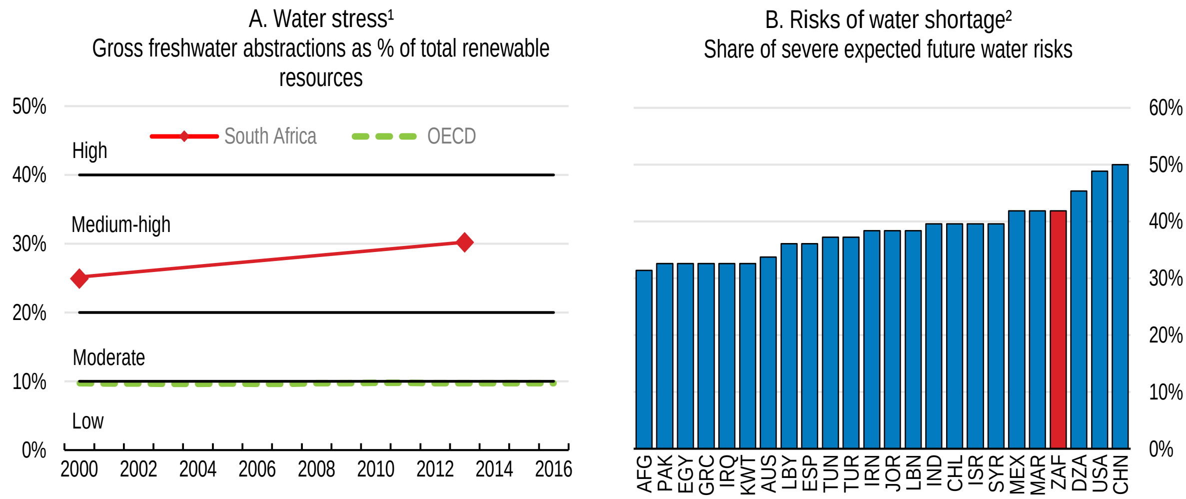
In particular, communal land in South Africa is characterised by overlapping use rights of community members. Developing a framework that secures tenure has to take into account this layered structure of land use. The subdivision of communal land into individually and privately owned title deeds will change existing structures.

Providing land to emerging farmers has to be accompanied by supportive measures. To ensure that reallocated farmland is best used, it is important to support farmers in terms of financial access, but also with respect to education, marketing and distribution (OECD, 2018a). The Inter-Ministerial Committee on Land Reform is therefore developing a package of post-settlement support measures to enhance the productivity of restituted land, including communal land. These measures include financial support and programmes by the Department of Agriculture, Forestry and Fisheries (DAFF) to support smallholder farmers, providing infrastructure for production, marketing, agro-processing, land preparation and establishment of orchards or gardens as well as production inputs, training and mentorship (Department of Agriculture, 2018). It is welcome that these supportive measures go beyond direct subsidies, as those may create a dependency and become fiscally unsustainable. Existing measures therefore have to be evaluated regularly with respect to their reach and effectiveness to support emerging farmers.

Better manage scarce water resources

Water stress has increased with economic and population growth (Figure 1.26). South Africa's economy is particularly vulnerable to draught effects, as is the case in countries with modest water endowments and income levels. Lacking access to water supply and sanitation appears to be by far the main water-related drag on economic activity and welfare, ahead of water scarcity in agriculture (Sadoff et al., 2015). Abstractions per capita are modest but the endowment with renewable water resources is small. Low rainfall has aggravated scarcity further in recent years. Water supply was rationed in Cape Town, where national disaster was declared in 2018. Water scarcity is concentrated in the South West and part of the North East. South Africa is likely to experience higher temperatures and less rainfall as a result of climate change (Calzadilla et al., 2014). Expected future risks of water shortages are high in international comparison.

Figure 1.26. Water stress and water shortage



1. Water stress is defined high when abstractions exceed 40% of renewable resources and low when they are less than 10%.
2. Shares of severe water risk, future expectations, across reviewed studies. Derived from the analysis of 64 global studies.
Source*:* OECD (2018), Water: Freshwater abstractions, OECD Environment Statistics (database) ; FAO ; OECD (2017), Water Risk Hotspots for Agriculture, OECD Studies on Water, OECD Publishing, Paris, https://doi.org/10.1787/9789264279551-en.

StatLink http://dx.doi.org/10.1787/888934005967

Water stress has resulted in environmental degradation. More than 50% of South Africa's wetlands have been lost, and 33% are in poor ecological condition (Department Water and Sanitation, 2018). The wetlands are of strategic importance to protect natural water resources but do not consistently benefit from a protected status. Pollution aggravates the consequences of scarcity and adds to biodiversity loss. Only one third of mainstream rivers are in good condition (OECD, 2013a). Biological and chemical quality of surface water has not improved recently according to the South African Water Research Commission. Groundwater often fails to meet drinking water standards. Poorly managed wastewater treatment and agricultural water use contribute to pollution.

These developments suggest there is limited scope for boosting water abstractions. Extensive water dam infrastructure leaves little scope for expansion (Pegasys Strategy and Development, 2012). Desalination of seawater is still costly relative to water prices (Donnenfeld, Crookes and Hedden, 2018). It is energy-intensive and pollutes the ocean (Jones et al., 2019). Upscaling other non-traditional water resources, notably fog and rainwater harvesting, requires research and development. Groundwater and water reuse are projected to have more potential. Sustainable groundwater use is, however, particularly demanding in terms of governance and regulatory enforcement (OECD, 2017b; Akhmouch and Clavreul, 2017). Some South African aquifers are overexploited (Cobbing, 2018). Reuse will require more effective water treatment, a priority discussed below. More efficient use of water is hence key to free water resources for the environment and needed economic development.

The value of time savings that result from using a water source or latrine closer to home, for education and productive activities typically accounts for a large share of total welfare losses from lacking access to water supply and sanitation. This affects especially women and girls. The estimated losses also include healthcare costs, lost productive time due to being sick, and premature mortality (OECD, 2011). Only 64% of the population have access to reliable drinking water supply and 80% to sanitation services (Department Water and Sanitation, 2018). Indeed, inadequate sanitation contributes to infant disease and mortality (OECD, 2013a). The impact of water scarcity on agriculture is assessed by comparing actual agricultural output with the output that could hypothetically be produced if the capacity constraints of water dams were lifted in periods of water scarcity. This includes welfare effects through the prices for agricultural goods (Sadoff et al., 2015). South Africa is committed to achieve universal and equitable access to safe and affordable drinking water as well as to adequate and equitable sanitation and hygiene for all by 2030, in line with the Sustainable Development Goals.

South Africa's approach to water resource management aims to take account of equity, efficiency and ecology (OECD, 2013a) and is seen as integrating the OECD principles of water governance, for example by involving stakeholders in decision-making. However, implementation is difficult (Neto et al., 2017). The impact of regulation on the ground is weak and transparency insufficient. For many years, South Africa has been in the process of introducing catchment management authorities (OECD, 2013a), but water is licensed at the national level, far from local conditions (Neto et al., 2017). Weaknesses in transparency of decision-making processes, ad hoc interventions by the government in the assignment of decision-making powers, limited stakeholder involvement especially of less powerful water consumers, as well as lack of coherent implementation of policies in related areas, such as land use, are also seen as key factors weakening the governance of water management. Systems to monitor surface and groundwater are insufficient and deteriorating, holding back implementation of the polluter pays principle. In 2018, water quality monitoring mostly ceased for lack of funds. The National Water and Sanitation Masterplan emphasises the need for building technical capacity (Department Water and Sanitation, 2018).

Lacking resources reinforces the case for cost-reflective water pricing, subject to affordability. Therefore, South Africa's government adopted a new water pricing strategy, which took effect in 2017.

Water prices are too low in agriculture

Agriculture contributes 2.6% of GDP and accounts for 4.5% of total employment. About one-third of production is exported. Large capital-intensive, export-oriented farms account for around 90% of production and 86% of cropland. Subsistence farms, mostly owned by black farmers employ 86% of farm workers.

Agriculture accounts for 61% of water use. Long-term global climate change may lower agricultural productivity more in irrigated agriculture than in rain-fed agriculture. Expansion of irrigation may therefore not be an effective strategy to adopt (Calzadilla et al., 2014). Nonetheless, climate change may improve South Africa's comparative advantage in agricultural production, as productivity in other regions of the world may be hit more.

Access to irrigation is unequal. Large farms, mostly owned by white farmers, often use water without restriction and free of charge. One reason is absent metering. Consumption is assessed on the basis of registered water use. Large farms also benefit from historic free water rights that predate the end of apartheid. The reallocation of water rights, foreseen in the 1998 National Water Act has advanced little. Smaller and poorer farms, mostly owned by black farmers, have newer water rights and pay for licences but lack equipment, including for efficient water use (Calzadilla et al., 2014[46]; Department Water and Sanitation, 2018; OECD, 2013a). Prices for raw water abstraction appear to be substantially lower than those for household or industrial use.

The government plans to phase in compulsory metering and make prices reflect costs better. However, the new pricing strategy foresees capping some costs included in prices (for example, infrastructure wear and tear), while not taking into account the opportunity cost of capital (Department of Water and Sanitation, n.d.) so prices may not reflect full supply cost. Resource-poor farmers can also benefit from a 10-year transition period, with full exemption from water prices in the first 5 years (Department of Water and Sanitation, n.d.).

Prices of water supplied to agriculture should reflect full supply costs, including operations and maintenance as well as the capital cost of infrastructure. Such prices should ideally also cover the opportunity cost and environmental externalities of water withdrawals (OECD, 2018e). Water prices that reflect supply and scarcity costs could help restore natural water flows. They may also facilitate the reallocation of water rights, improving priority use and equity. Moreover, charging adequate water prices would also provide revenues to finance needed investment to maintain infrastructure, improve monitoring, as well as research in non-traditional water supply. Higher irrigation prices risk raising poverty through higher food prices, notably for horticultural products, so some revenue may need to be set aside for transfers. Modelling suggests that using the revenues from higher charges in full to lower taxes on food provides environmental benefits, boosts economic growth and reduces poverty (Letsoalo et al., 2007).

Where countries have raised water charges, efficiency improved while agricultural output did not fall (OECD, 2010). Modelling suggests that reallocating irrigation water to higher-value produce within each river basin could boost productivity and employment opportunities in South Africa (Hassan and Thurlow, 2010). More efficient irrigation diminishes the risk of water pollution with pesticides and fertilisers (Olmstead, 2010). The Department Water and Sanitation is developing an Eutrophication Strategy to reduce pollution.

To ease implementation and make progress in the near term, prices that reflect at least full supply cost, combined with metering, could first be introduced for large water users, in the dry regions. A competitive allocation of water entitlements to large-scale water users may be worthwhile exploring to discover scarcity costs. Resource-poor farmers could receive lump-sum payments equal to the value of their water allocation rather than be exempt from pricing. This would make them at least as well off and could improve incentives for efficient use, including through water-saving equipment and metering. It could also provide an income stream to finance investment. For efficient water use, especially in drought periods, it will be useful to maintain opportunities for farmers to trade irrigation water entitlements over short periods with each other.

Municipal water services are inefficient

Municipalities are in charge of water supply to households and most businesses, as well as sanitation. They account for 27% of water abstractions. 41% of municipal water supply is unbilled, unpaid or lost. 56% of wastewater treatment and 44% of water treatment works are in a poor or critical condition, contributing to pollution (Department Water and Sanitation, 2018). However, there are also examples of excellent water services. For example, the municipality eThekwini was awarded the Stockholm Water Industry Award in 2014. Turning performance around is a key objective in the National Water and Sanitation plan.

Benchmarking tools allow identifying inefficiencies and best practice. South Africa already uses benchmarks. However they mostly relate to processes (such as data collection) or inputs (such as technical skills), rather than costs or environmental performance. In the United Kingdom, water and sewerage companies provide the economic regulator with indicators of costs and environmental impact. The Water Utility Performance Indicators network (IBNet) by the World Bank is an international benchmarking tool that provides guidance (OECD, 2011). There may be a case for a regulator to ensure better and more consistent regulation of municipal water services (OECD, 2013a).

Table 1.14. Past recommendations for climate change mitigation and green growth

Recommendations from previous surveys	Action taken since July 2017 survey
In designing climate change mitigation policies, favour broad and easy-to-implement instruments with limited demands on administrative capacity, such as a simple carbon tax.	Carbon tax has been implemented in 2019.
Reduce implicit and explicit subsidies for energy and coal consumption, and use other instruments, such as cash transfers or supply vouchers, for protecting the poor.	The diesel fuel levy refunds for the electricity sector were reduced from April 2016. The 2017 Budget proposed a review of the VAT exemption of transport fuels in consultation with stakeholders.
Electricity prices should be allowed to rise further to fully cover capital costs. Favourable pricing arrangements for large industrial users of electricity should be renegotiated.	NERSA approved an average annual price increase of 9.4% for 2016/17 and 2.2% for 2017/18.
Accelerate the allocation of water-use licences and ensure that charges for water reflect supply costs and scarcity.	The application process for water-use licences has been streamlined to accelerate allocations.
Price environmental externalities, including carbon emissions, and scarce resources, particularly water, appropriately.	A tyre levy has been implemented from 1 February 2017 that addresses the externalities associated with tyre disposal.

References

Adalet McGowan, M., D. Andrews and V. Millot (2017), "The Walking Dead?: Zombie Firms and Productivity Performance in OECD Countries", *OECD Economics Department Working Papers*, No. 1372, OECD Publishing, Paris, https://dx.doi.org/10.1787/180d80ad-en.

Agüero, J., M. Carter and I. Woolard (2007), "The Impact of Unconditional Cash Transfers on Nutrition: The South African Child Support Grant", International Poverty Centre, Brasilia, http://www.ipc-undp.org/pub/IPCWorkingPaper39.pdf (accessed on 14 January 2019).

Andrews, D., M. Adalet McGowan and V. Millot (2017), "Confronting the zombies : Policies for productivity revival", *OECD Economic Policy Papers*, No. 21, OECD Publishing, Paris, https://dx.doi.org/10.1787/f14fd801-en.

Balestra, C. et al. (2018), "Inequalities in emerging economies: Informing the policy dialogue on inclusive growth", *OECD Statistics Working Papers*, No. 2018/13, OECD Publishing, Paris, https://dx.doi.org/10.1787/6c0db7fb-en.

Banda, F., G. Robb and S. Roberts (2015), "Review Paper Two: the links between competition policy, regulatory policy and trade and industrial policies", No. 5, University of Johannesburg, https://static1.squarespace.com/static/52246331e4b0a46e5f1b8ce5/t/55b87b47e4b09cfa0b9da1a9/1438153543353/CCRED+Working+Paper+5_2015_BTE+Review+Paper+2+BandaRobbRoberts.pdf (accessed on 8 July 2019).

Barr, N. (2012), *The economics of the welfare state*, Oxford University Press.

Burger, P. (2018), *Getting it right: A new economy for South Africa*, KMM Review Publishing Company (PTY) Ltd, Sandton.

Buthelezi, T., T. Mtani and L. Mncube (2019), "The extent of market concentration in South Africa's product markets", *Journal of Antitrust Enforcement*, http://dx.doi.org/10.1093/jaenfo/jnz014.

Calzadilla, A. et al. (2014), "Climate change and agriculture: Impacts and adaptation options in South Africa", *Water Resources and Economics*, Vol. 5, pp. 24-48, http://dx.doi.org/10.1016/J.WRE.2014.03.001.

Canton, E., D. Ciriaci and I. Solera (2014), "The Economic Impact of Professional Services Liberalisation", *Economic Papers*, No. 533, European Commission, Brussels, http://dx.doi.org/10.2765/71387.

Cliffe, L. (2000), "Land reform in South Africa", *Review of African Political Economy*, Vol. 27, pp. 273-286, http://dx.doi.org/10.1080/03056240008704459.

Climate Action Tracker (2018), Scaling up Climate Action South Africa, https://climateactiontracker.org/

Cobbing, J. (2018), The North West Dolomite Aquifers, South Africa: A Stalled Opportunity for Water Security and Development, http://dx.doi.org/10.5337/2018.223/aquifers/groundwater.

Council for Medical Schemes (2018), *ANNUAL REPORT: A Healthy Industry for all*, https://www.medicalschemes.com/files/Annual%20Reports/CMS_AnnualReport2017-2018.pdf

Cousins, B. (2016), "Land reform in South Africa is failing. Can it be saved?", *Transformation: Critical Perspectives on Southern Africa*, Vol. 92/1, pp. 135-157, http://dx.doi.org/10.1353/trn.2016.0030.

Department of Agriculture, F. (2018), *Annual Report 2017/18*, https://www.daff.gov.za/daffweb3/Portals/0/Annual%20Report/AR_Final_28%20September.pdf.

Department of Health, R. (2015), *White Paper: National Health Insurance Policy*, https://www.mm3admin.co.za/documents/docmanager/f447b607-3c8f-4eb7-8da4-11bca747079f/00124581.pdf (accessed on 6 February 2019).

Department of Rural Development and Land Reform (2018), *Land Audit Report 2017*, http://www.ruraldevelopment.gov.za/publications/land-audit-report (accessed on 12 March 2019).

Department of Water and Sanitation (n.d.), *National Pricing Strategy for Water Use Charges*, Republic of South Africa.

Department Water and Sanitation (2018), *National Water and Sanitation Master Plan Volume 1: Ready for the Future and Ahead of the Curve, Version 10.1*, Republic of South Africa, http://www.dwa.gov.za/National%20Water%20and%20Sanitation%20Master%20Plan/Documents/NWSMP%20Call%20to%20Action%20v10.1.pdf.

Donnenfeld, Z., C. Crookes and S. Hedden (2018), *A delicate balance. Water scarcity in South Africa.*, Institute for Securities Studies, Water Research Commission, Frederick S. Pardee Center for International Futures.

DSD, SASSA and UNICEF (2012), *The South African Child Support Grant Impact Assessment: Evidence from a survey of children, adolescents and their households*, UNICEF South Africa, Pretoria, https://www.unicef.org/southafrica/SAF_resources_csg2012s.pdf

Edwards, L. and R. Lawrence (2012), “South African Trade Policy and the Future Global Trading Environment”, No. Occasional Paper No 128, South African Institute of International Affairs, https://www.saiia.org.za/wp-content/uploads/2013/06/saia_sop_128-EDIP_-edwards-lawrence_20130207.pdf (accessed on 28 February 2019).

Edwards, L., M. Sanfilippo and A. Sundaram (2018), “Importing and Firm Export Performance: New Evidence from South Africa”, *South African Journal of Economics*, Vol. 86, pp. 79-95, http://dx.doi.org/10.1111/saje.12154.

Égert, B. and I. Wanner (2016), “Regulations in services sectors and their impact on downstream industries: The OECD 2013 Regimpact Indicator”, OECD Economics Department Working Papers, No. 1303, OECD Publishing, Paris, https://dx.doi.org/10.1787/5jlwz7kz39q8-en.

Fall, F. and K. Längle, K. (2020), “Trade Liberalization and Product Mix Adjustments – Evidence from South African Firms”, OECD Economics Department Working Papers, forthcoming.

Fournier, J. and F. Fall (2015), “Limits to government debt sustainability”, OECD Economics Department Working Papers, No. 1229, OECD Publishing, Paris, https://dx.doi.org/10.1787/5jrxv0fctk7j-en

Gal, P. and A. Hijzen (2016), “The short-term impact of product market reforms: A cross-country firm-level analysis”, OECD Economics Department Working Papers, No. 1311, OECD Publishing, Paris, https://dx.doi.org/10.1787/5jlv2jm07djl-en.

Government of South Africa (2019), Competition Amendment Act, http://pmg-assets.s3-website-eu-west-1.amazonaws.com/act-no-18-of-2018-competition-amend-ment-act-2018_20190214-GGN-42231-00175.pdf (accessed on 21 March 2019).

Grinspun, A. (2016), No small change: The multiple impacts of the Child Support Grant on child and adolescent well-being, Children’s Institute, University of Cape Town, http://www.ci.uct.ac.za/sites/default/files/image_tool/images/367/Child_Gauge/2006/Child_Gauge_2016-no_small_change.pdf (accessed on 14 January 2019).

Hassan, R. and J. Thurlow (2010), “Macro-micro feedback links of water management in South Africa: CGE analyses of selected policy regimes”, Agricultural Economics, Vol. 42/2, pp. 235-247, http://dx.doi.org/10.1111/j.1574-0862.2010.00511.x.

Heissel, J., C. Persico and D. Simon (2019), “Does Pollution Drive Achievement? The Effect of Traffic Pollution on Academic Performance”, No. 25489, National Bureau of Economic Research, https://www.nber.org/papers/w25489.pdf (accessed on 8 February 2019).

Jones, E. et al. (2019), “The state of desalination and brine production: A global outlook”, Science of The Total Environment, Vol. 657, pp. 1343-1356, http://dx.doi.org/10.1016/j.scitotenv.2018.12.076.

Letsoalo, A. et al. (2007), “Triple dividends of water consumption charges in South Africa”, Water Resources Research, Vol. 43/5, http://dx.doi.org/10.1029/2005wr004076.

Lilenstein, K., I. Woolard and M. Leibbrandt (2018), “23 In-work poverty in South Africa: the impact of income sharing in the presence of high unemployment”, Handbook on In-Work Poverty, p. 416.

Lorenzoni, L. and T. Roubal (2016), “International Comparison of South African Private Hospital Price Levels”, OECD Health Working Papers, No. 85, OECD Publishing, Paris, https://dx.doi.org/10.1787/5jrrxrzn24wl-en.

Makhaya, G. and S. Roberts (2013), “Expectations and outcomes: considering competition and corporate power in South Africa under democracy”, http://dx.doi.org/10.1080/03056244.2013.854034

Manuel, J. et al. (2016), “Key Ingredients, Challenges and Lessons from Biodiversity Mainstreaming in South Africa: People, Products, Process”, OECD Environment Working Papers, No. 107, OECD Publishing, Paris, http://dx.doi.org/10.1787/5jlzgj1s4h5h-en

National Treasury (2020a), Budget Review 2020, National Treasury, Pretoria, http://www.treasury.gov.za/documents/national%20budget/2019/review/FullBR.pdf

National Treasury (2020b), Supplementary Budget 2020, National Treasury, Pretoria, http://www.treasury.gov.za/documents/national%20budget/2020S/review/FullSBR.pdf.

National Treasury (2018a), Budget Review 2018, National Treasury of the Republic of South Africa, Pretoria, http://www.treasury.gov.za.

National Treasury of South Africa (2019), Budget Review, http://www.treasury.gov.za.

National Treasury, R. (2018b), Medium Term Budget Policy Statement 2018, http://www.treasury.gov.za. (accessed on 16 March 2019).

National Treasury, S. (n.d.), Annexure W3 Budget Review 2019: Fiscal support for electricity market reform, http://www.eskom.co.za/news/Documents/StateSystemBriefing16Nov2018.pdf

Neto, S. et al. (2017), “OECD Principles on Water Governance in practice: an assessment of existing frameworks in Europe, Asia-Pacific, Africa and South America”, Water International, Vol. 43/1, pp. 60-89, http://dx.doi.org/10.1080/02508060.2018.1402650.

OECD (2019), “Education at a glance: Educational attainment and labour-force status”, OECD Education Statistics (database), https://dx.doi.org/10.1787/889e8641-en

OECD (2018a), Agricultural Policy Monitoring and Evaluation 2018, OECD Publishing, Paris, https://dx.doi.org/10.1787/agr_pol-2018-en.

OECD (2018b), Education at a Glance 2018: OECD Indicators, OECD Publishing, Paris, https://dx.doi.org/10.1787/eag-2018-en.

OECD (2018c), OECD Economic Surveys: Brazil 2018, OECD Publishing, Paris, https://dx.doi.org/10.1787/eco_surveys-bra-2018-en.

OECD (2018d), Taxing Energy Use 2018: Companion to the Taxing Energy Use Database, OECD Publishing, Paris, https://dx.doi.org/10.1787/9789264289635-en.

OECD (2018e), Water and Agriculture, OECD Publishing.

OECD (2017a), OECD Economic Surveys: South Africa 2017, OECD Publishing, Paris, https://dx.doi.org/10.1787/eco_surveys-zaf-2017-en.

OECD (2017b), Groundwater Allocation: Managing Growing Pressures on Quantity and Quality, OECD Studies on Water, OECD Publishing, Paris, https://dx.doi.org/10.1787/9789264281554-en.

OECD (2017c), Investing in Climate, Investing in Growth, OECD Publishing, Paris, https://dx.doi.org/10.1787/9789264273528-en.

OECD (2017d), Water Risk Hotspots for Agriculture, OECD Studies on Water, OECD Publishing, Paris, https://dx.doi.org/10.1787/9789264279551-en.

OECD (2015a), OECD Economic Surveys: South Africa 2015, OECD Publishing, Paris, https://dx.doi.org/10.1787/eco_surveys-zaf-2015-en.

OECD (2015b), State-Owned Enterprises in the Development Process, OECD Publishing, Paris, https://dx.doi.org/10.1787/9789264229617-en.

OECD (2015c), The Metropolitan Century: Understanding Urbanisation and its Consequences, OECD Publishing, Paris, https://dx.doi.org/10.1787/9789264228733-en.

OECD (2015d), Policy Framework for Investment 2015 Edition, OECD Publishing, Paris.http://dx.doi.org/10.1787/9789264208667-en

OECD (2013a), Environmental Performance Review South Africa, OECD Publishing.

OECD (2011), Meeting the Challenge of Financing Water and Sanitation: Tools and Approaches, OECD Studies on Water, OECD Publishing, Paris, https://dx.doi.org/10.1787/9789264120525-en.

OECD (2010), Sustainable Management of Water Resources in Agriculture, OECD Studies on Water, OECD Publishing, Paris, https://dx.doi.org/10.1787/9789264083578-en.

Olmstead, S. (2010), “The Economics of Managing Scarce Water Resources”, Review of Environmental Economics and Policy, Vol. 4/2, pp. 179-198, http://dx.doi.org/10.1093/reep/req004.

Parkinson, S. et al. (2019), “Balancing clean water-climate change mitigation trade-offs”, Environmental Research Letters, Vol. 14/1, p. 014009, http://dx.doi.org/10.1088/1748-9326/aaf2a3.

Pegasys Strategy and Development (2012), Review of Water Pricing.

Republic of South Africa Department Water and Sanitation (n.d.), - DWS - NIWIS - Home -, http://niwis.dws.gov.za/niwis2/ (accessed on 16 October 2018).

Roy, R. and N. Braathen (2017), “The Rising Cost of Ambient Air Pollution thus far in the 21st Century: Results from the BRIICS and the OECD Countries”, OECD Environment Working Papers, No. 124, OECD Publishing, Paris, https://dx.doi.org/10.1787/d1b2b844-en.

Sadoff, C. et al. (2015), Securing Water, Sustaining Growth: Report of the GWP/OECD Task Force on Water Security and Sustainable Growth, University of Oxford, Oxford, UK.

Samson, M. et al. (2008), Quantitative Analysis of the Impact of the Child Support Grant, UNICEF, Cape Town, https://www.unicef.org/southafrica/SAF_resources_qachildsupport.pdf

SARB (2018), Financial Stability Review, http://www.resbank.co.za (accessed on 11 March 2019).

South African Reserve Bank (2018), Annual Report 2017/18, http://www.resbank.onlinereport.co.za/2018/downloads/pdf/SARB_PRUDENTIAL_AUTHORITY.pdf

Statistics South Africa (2018), General Household Survey 2017, http://www.statssa.gov.za

Taylor Vivienne (2002), Report of the Committee of Inquiry into a Comprehensive System of Social Security for South Africa, http://www.cdhaarmann.com/Publications/Taylor%20report.pdf

Villholth, K. (ed.) (2017), Assessing and monitoring groundwater governance, CRC Press, London.

World Economic Forum (2019), The Travel and Tourism Competitiveness Report 2019- Travel and Tourism at a Tipping Point, World Economic Forum, Geneva, http://www3.weforum.org/docs/WEF_TTCR_2019.pdf (accessed on 7 January 2019).

Williams, M. (2007), The Social and Economic Impacts of South Africa’s Child Support Grant, https://web.williams.edu/Economics/Honors/2007/Williams_thesis.pdf

Woolard, I. and M. Leibbrandt (2010), “The Evolution and Impact of Unconditional Cash Transfers in South Africa”. A Southern Africa Labour and Development Research Unit Working Paper Number 51, No. 51, SALDRU, University of Cape Town, http://www.saldru.uct.ac.za.

World Bank (2019), South Africa Economic Update - Tertiary education enrollment must rise, http://documents.worldbank.org/curated/en/173091547659025030/pdf/133785-revised-jan22.pdf

Annex. Progress on structural reforms

Recommendations from the previous Survey	Actions taken
Macroeconomic policy and safeguarding fiscal sustainability	
Limit annual wage increases in the public sector and where possible redeploy civil servants to priority areas (*2017 Survey*).	No action taken.
Deepen implementation for public procurement reform and enforce sanctions for breaches of the Public Financial Management Act (*2017 Survey*).	No action taken.
Ensure that state-owned enterprises respect procurement and expenditure rules (*2017 Survey*).	No action taken.
Continue the prudent approach to fiscal consolidation, including the use of spending ceilings, to reduce the structural budget deficit and contain public debt in a growth and equity friendly way. Continue to sell state assets where a higher return can be achieved by using the revenues to finance infrastructure investments. (*2015 Survey*)	Fiscal consolidation has continued. Additional tax raising measures have been introduced. The expenditure ceiling has been lowered further.
The government should continue to seek opportunities to increase the efficiency of public expenditure (2017, 2015, 2010 Survey).	All suppliers must be registered with a central database. All contracts above ZAR 500K at national and provincial, and ZAR 200K at municipal level are subject to a competitive bidding process. Efforts to expand centralised procurement of goods and services and renegotiation of transversal contracts continue.
Consideration should be given to strengthening the link between commodity prices and the fiscal balance; if this link is strengthened, establishment of a commodity fund can be considered to ensure that windfall revenues are saved. In the meantime, such windfalls should be used to reduce debt (2015, 2010 Survey).	No action taken.
To further increase transparency and signal commitment to price stability over the longer term, the SARB should consider moving in the direction of announcing a future policy-rate path consistent with the inflation objective. At a first stage, this might involve merely signalling the expected direction of future movements in policy rates. (2015, 2010 Survey).	The SARB started to publish its underlying forecast assumptions and two-year inflation projections in its MPC statements from July 2015 to increase transparency.
Deepening regional integration within SADC	
Reduce non-tariffs barrier on intra-regional trade within South African Development Community (SADC) (2017 Survey).	No action taken.
Simplify and adopt a single set of rules of origin in the forthcoming tripartite free trade area.	No action taken.
Upgrade information technology at custom posts and improve the interconnectivity of systems within the South African Development Community (2017 Survey).	No action taken.
Lead the harmonisation of competition rules among SADC countries and promote competition in infrastructure related services across countries.	No action taken.
Provide special economic zones with better infrastructure and develop their linkages with local economies.	No action taken.
Create a regional fund for infrastructure and increase private sector participation in infrastructure projects (2017, 2015 Survey).	No action taken.
Align and co-ordinate VAT rates. Develop a standardised maximum list of exemptions and reduced rates of VAT and make guidelines with specific deadlines by which countries should comply (2017 Survey).	No action taken.

Recommendations from the previous Survey	Actions taken
Lowering barriers to entrepreneurship and promoting small business growth	
Implement a "silence is consent" rule for licensing procedures that have low associated risks. Systematically review and reduce the stock of red tape and licensing requirements. Subject new legislation to impact assessments that include the effect on small businesses (2017, 2015 Survey).	Socioeconomic Impact Assessments (SEIAs) are required on all new proposed legislation. These assessments evaluate the impact on a number of policy priority areas, including small business. The Department of Small Business (DSBD) is developing a Red Tape Reduction Strategy which will be concluded during the 2019/2020 financial year.
Open up telecommunications, energy, transport and services sector for more competition. Complete the introduction of independent regulators and charge them with ensuring non-discriminatory third-party access. Secure additional electricity generation capacity by accelerating the independent power producer programme and facilitating private co-generation (2017, 2015 Survey).	The Independent Power Producer (IPP) Office will be transformed into a legal entity; this will support the security of energy supply. Small-scale embedded generation of less than 1 MW is permitted without a license from NERSA.
Expand second-chance programmes for early school leavers.	No action taken.
Increase entrepreneurial education and work placements in the post-school education programme (2017 Survey).	
Evaluate and streamline financial and non-financial support for start-ups and small businesses (2017, 2010 Survey).	Government will launch a Small Business and Innovation Fund in 2019/20. The fund will receive R3.2 billion over the medium term.
Create virtual and physical one-stop shops that provide information for start-ups and small businesses (2017 Survey).	One Stop Shops housing various government services such as tax and business registration under one roof have been rolled out in three provinces, with the remainder to be rolled out over the next three years.
Rationalise delivery of support programmes so that there are single contact points for clients (2017 Survey).	
Facilitate second chances for honest entrepreneurs by shortening the period during which bankrupt entrepreneurs are required to repay past debt from future earnings to three years. Allow those with no income or assets to become insolvent (2017 Survey).	The Department of Justice initiated a review of the Liquidation Act.
Ensure government suppliers are paid within the 30 days and provide for automatic accrual of interest on overdue accounts (2017 Survey)	The National Treasury has issued regulations that require the accounting officers of departments to pay invoices within 30 days of receipt under the Public Finance Management Act (1999).
Increase accessibility of public procurement contracts by providing more information online and accepting online applications. Increasing training on public procurement for small businesses and procurers. Publish information on the distribution of contracts (2017 Survey).	Government launched the e-Tender Publication portal and Central Supplier Database on 1 April 2015. The e-Tender Publication portal provides a single platform for the publication of tenders to eliminate duplication and fragmentation of notices for government tenders. The Central Supplier Database maintains a database of organisations, institutions and individuals who can provide goods and services to government, and serves as a single source of key supplier information. The process to finalise the draft Public Procurement Bill will be enhanced in 2019/20. Once effected, the legislation will introduce a series of governance reforms to the contemporary public procurement process and improve access to opportunities for small, medium and micro enterprises (SMMEs).
Update the 2005 Integrated Small business Strategy and ensure that the responsibilities and resources of the Department of Small Business Development are aligned (2017 Survey).	A National Evaluation of the 2005 Integrated Strategy for the promotion of Entrepreneurship and Small Enterprises was concluded in March 2018. The Evaluation and Implementation plan was approved by Cabinet and will inform the review of the strategy that has now been initiated.
Lighten regulatory burden of B-BBEE codes on young firms (2017 Survey).	No action taken.
Collect and publish data on borrowing conditions by firm size to increase transparency in the lending market and encourage competition. Lower barriers to entry for foreign banks and other lenders, being mindful of financial stability and consumer protection. Work with lenders to improve the government-backed credit guarantee scheme to make easier to use and access, and increase take-up (2017 Survey).	No action taken.

Recommendations from the previous Survey	Actions taken
Broadening tax bases to help finance requirements for stronger and sustainable growth	
Broaden personal and corporate income tax bases by reducing deductions, credits and allowances. Increase tax rates on higher incomes. (2015 Survey).	The 2017 Budget created a new top tax bracket with a marginal tax rate of 45%. The dividend withholding tax rate was increased from 15% to 20%.
Broaden the VAT base and strengthen VAT compliance. Proceed with the introduction of a carbon tax (2015 Survey).	The VAT exemption for fuels is being reviewed. The carbon tax has been adopted in July 2019.
Other recommendations	
Increase property taxation by building capacity at the municipal government level (2015 Survey).	No action taken.
Reduce the level and dispersion of import tariffs further to encourage competition and long-term productivity growth. Investigate areas where tariff reductions on consumer goods are possible (2015, 2010 Survey).	No action taken.
Increase reliance on environmentally related taxes, such as fuel levies (2015, 2010 Survey).	A Waste Board is being created which will impose a levy on waste from tyres.
Climate change mitigation and green growth	
In designing climate change mitigation policies, favour broad and easy-to-implement instruments with limited demands on administrative capacity, such as a simple carbon tax (2015, 2013, 2010 Survey).	The carbon tax has been adopted in July 2019.
Reduce implicit and explicit subsidies for energy and coal consumption, and use other instruments, such as cash transfers or supply vouchers, for protecting the poor (2015, 2013, 2010 Survey).	The diesel fuel levy refunds for the electricity sector were reduced from April 2016. The 2017 Budget proposed a review of the VAT exemption of transport fuels in consultation with stakeholders.
Electricity prices should be allowed to rise further to fully cover capital costs. Favourable pricing arrangements for large industrial users of electricity should be renegotiated (2015, 2010 Survey).	NERSA approved an average annual price increase of 9.4% for 2016/17 and 2.2% for 2017/18.
Accelerate the allocation of water-use licenses and ensure that charges for water reflect supply costs and scarcity (2015, 2013 Survey).	The application process for water-use licences has been streamlined to accelerate allocations.
Price environmental externalities, including carbon emissions, and scarce resources, particularly water, appropriately (2015 Survey).	A tyre levy has been implemented from 1 February 2017 which will address the externalities associated with tyre disposal.
Improving labour market outcomes	
Proceed with the introduction of the national minimum wage and develop apprenticeship and internship programmes to increase youth inclusion (2017, 2015, 2013 Survey). Streamline conciliation and labour arbitration by strengthening the initial sorting of claims	
Limit the number of appeals and time allowed to appeal in labour disputes	
Enforcement of existing labour laws relating to labour broking should be tightened, but liberal arrangements for temporary employment should be maintained (2015, 2010 Survey)	No action taken.
The arbitration process for dismissals for cause should be speeded up and simplified (2010 Survey).	No action taken.
The use of wage subsidies should be expanded, possibly by building on the existing learner ships, but with a reduced administrative burden. (2015, 2010 Survey).	The Employment Tax Incentive has been extended until 2019.
Probationary requirements in respect of new hires of young employees should be extended (2010 Survey).	No action taken.
Making the education system more effective	
Expand the Accelerated Schools Infrastructure Development Initiative programme to address infrastructure backlogs and improve the delivery of learning materials (textbooks, desks, libraries and computers) with priority to the most deprived schools (2015, 2013 Survey).	136 new schools were built and completed in 2016/17, 167 provided with sanitation facilities, 344 with water and 134 with electricity. The department committed to provide at least two libraries in each province with the ASIDI allocation. The delivery of learning materials has improved to close to 100% coverage in 2017.

Recommendations from the previous Survey	Actions taken
Expand the Funza Lushaka bursary programme for teaching studies and allow more immigration of English teachers (2015, 2013 Survey).	The Funza Lushaka bursary allocation has increased by over ZAR 100 million since 2015 and the programme continues to boost the supply of skilled teachers. Around 10 000 newly qualified teachers under the age of 30 have entered the system each year since. The number of students supported is expected to decline over the MTEF due to increases in university fees.
Provide more school leadership training and support staff in exchange for stricter accountability. Allow the education authorities to appoint and dismiss school principals in a more flexible way (depending on progress on school performance in Annual National Assessments and on external reviews), while making school principals responsible for yearly teacher evaluations and monitoring teachers' daily attendance (2015, 2013 Survey).	In 2016, the department introduced a new policy defining the role of school principals and the key aspects of professionalism, image and competencies required. A new collective agreement on quality management of principals is with the teaching union. The use of competency assessments when appointing new principals is under consideration in the bargaining council, but some provinces have voluntarily already implemented this tool.
Empower the independent federal evaluation unit NEEDU, join the Programme for International Student Assessment (PISA) and the Teaching and Learning International Survey (TALIS) and undertake an OECD Review of Evaluation and Assessment Frameworks for Improving School Outcomes (2015, 2013 Survey).	No action taken.
Improvements in basic education should be prioritised, even though the contribution to raising employment will be small in the near term (2015, 2010 Survey).	Spending on basic education continues to be the largest share of the national budget.
Other	
Set up a scheme of universal student loans contingent on future incomes, with participation from banks and government guarantees (2017 Survey).	
Choose infrastructure investments with the highest social returns to facilitate prioritisation and cost control (2015 Survey).	Infrastructure projects remain concentrated in energy, education, health, water and transport sectors.
Improve employment opportunities by expanding affordable public transport, including integrating minibuses into the public transport system, and building new, denser settlements closer to economic centres (2015 ,2010 Survey).	Public transport has been expanded further in major cities. The first upgraded PRASA train went into commercial operation in March 2017. Construction continues of bus rapid systems continues in 13 cities across the country, including the four major cities with systems already in operation.

Recommendations for the chapter Building an inclusive social protection system

Main finding	Recommendations
Key recommendations	
The current pension system is not adequate in reducing the risk of old-age poverty. Pension coverage is not satisfactory and replacement rates are low.	Introduce a mandatory pension scheme after the finalisation of the health reform and focus the old-age grant on individuals without a pension income or with low pensions to reach a minimum income in a manner preserving the long run fiscal impact.
Access to health care is unequal. Financing of health care is unbalanced with high spending in private health for a small fraction of the population. Prices of health services in the private sector are high.	Gradually increase the public financing of health care through a form of public insurance at a pace and scale that is affordable. Entrust an independent body to develop a price schedule for reimbursement of health care.
Tobacco consumption remains high, as 19% of the adult population are daily smokers and 14.1% of the population reported binge drinking.	Develop prevention of non-communicable diseases and strengthen the promotion of a healthier lifestyle.
Adjusting the social transfer system	
Unemployed working age workers are not covered and participation in labour activation programme is low.	Scale up the Labour Activation Programmes by gradually increasing the number of participants in skills development and training programmes through the UIF programmes.
The level of the child support grant is insufficient to lift above food poverty all children.	Consider an additional means-tested support on top of the child support grant for children in households with a revenue such that the whole family lies below the food poverty line.
Informal employment is relatively high. 31% of workers are informally employed with little social protection.	Better cover informal workers when introducing the new social protection system.
Building a comprehensive pension system	
As designed, replacement rates will be low for middle and high-income workers. Additional saving plans will be necessary to reach decent replacement rates.	Consider introducing automatic enrolment in occupational pension plans and subsidisation of low-income earners to ensure high coverage of complementary pension schemes.
Many workers withdraw partially or totally, savings in retirement funds when switching to new occupations or unemployed, rendering replacement rates low.	Install mandatory preservation of retirement plans and at least partial annuitisation of savings-retirement pay-outs.
The retirement industry is fragmented. There are many dormant retirement funds and unclaimed benefits.	Consolidate retirement funds by requiring the merger of funds not meeting a minimum size or not receiving a contribution for three years in a row.
Reforming the health care system	
Obesity rates have reached alarming levels in South Africa.	Generalise programmes to assess children's health and raise awareness of the risks linked to obesity, and promote healthy diet and sports activity.
There are important disparities on health spending across provinces not necessarily related to health needs. Transparency is lacking on budget allocated to health at the province level.	Improve the capacity of district hospitals and managers of district health offices in budget formulation and give them more freedom to allocate their resources depending on needs.
Access to primary care facilities is uneven across provinces and districts contributing to congestion in hospital services. The low number of health professionals restrict access to quality care.	Accelerate the upgrading of public clinics and better co-ordinate and contract with private doctors to guarantee access to doctors in primary care.
There is no costing of the financial needs of the national health insurance. The current cost of private health care in South Africa is high and should not be taken as a benchmark for costing the needs of the NHI.	Estimate precisely the financing need of the NHI. Consider introducing progressively a combination of payroll social contributions, VAT and personal income tax to finance the National Health Insurance fund.
There is no binding tariff regulation in South Africa. Out-of-pocket payments have increased. The price setting does not consider quality of care, nor tackle supply-induced demand behaviour.	Set binding prices for mandatory reimbursement of treatments covered by the prescribed minimum benefits package.
There are too many options in the health insurance market leading to limited risk pooling and favouring risk selection.	Limit the number of options per scheme with a basic option corresponding to a revised prescribed minimum benefits (PMB) scheme. Revise the PMB to be simpler, easier to implement and develop a universal and agreed coding system of health services.
There is no comparable information system to monitor quality of care and outcomes in the public and private system. This hinders the development of genuine pay for performance reimbursement contracts or allocation of resources.	Develop a system of information to oversee health care delivery, coding, quality of care and incentivise managers and practitioners to provide high quality services.

Recommendations for leveraging tourism development for sustainable and inclusive growth

Main finding	Recommendations
Key Recommendations	
Access to visa is difficult from several sending countries.	Implement electronic visa programmes on a large scale for emerging target markets.
Tourism in South Africa is concentrated in few regions and does not spread into remoter areas.	Investments in transport and tourism infrastructure have to be aligned to connect tourists to places.
There are multiple licences required in different administrations to open a small tourism unit.	Reduce red tape and regulatory burden for entrepreneurs and small enterprises.
Increasing the attractiveness as tourism destination	
High crime rates could deter potential tourists from selecting South Africa as destination.	Seek to improve perceptions of safety through higher visibility of safety personnel in prime tourist spots and by collecting and disseminating indicators of crimes related to tourists.
South Africa ranks low in international openness	Increase the number of countries falling under the visa-waiver agreement.
Visa regulation for minors are not clearly communicated and create administrative burden for potential tourists even from visa exempt sending countries.	Clarify and simplify rules regarding visa regulations with respect to documents required by minors.
Travel mobility and flow of visitors between South Africa and other SADC countries is hampered due to visa processing procedures.	Join regional visa agreement in the SADC region to support regional integration and attractiveness for overseas tourists travelling to the region.
Overseas visitors spend on average more and are more likely to participate in activities related to natural attractions, cultural heritage and wildlife.	Continue focusing marketing efforts on core competitive assets and key source markets with high growth potential.
Domestic tourism remains below its expected potential on the back of a lacking tourism culture shaped by the legacy of apartheid and affordability due to subdued economy.	Support domestic tourism development to counter seasonality by diversifying products and pricing mechanisms.
Ensure effective governance of tourism	
Budget allocation for tourism at the provincial and local level are often insufficient as the sector is competing with policy fields that are of higher importance to the local population.	Create frameworks governing infrastructure and other conditional grants to provide additional revenues to subnational budgets and provide a dedicated financial source for local tourism development, marketing and maintaining natural and cultural tourism resources.
Despite their legislative mandate to plan for and drive tourism development, planning for tourism by local governments risks falling short of achieving its full potential due to the sheer volume of responsibilities in service delivery – especially in distressed regions.	Ensure that local level governments have sufficient capacity to support planning for sustainable tourism and to adapt to challenges imposed by climate change by sending experienced destination managers to struggling municipalities. Provide capacity building programmes and additional training where needed.
Policy strategies are often developed in silos, not taking into account the interconnectedness with other policy sectors.	Put in place co-ordination mechanism across policy sectors to align strategies and that serve a common overarching goal for development including sustainable tourism growth. Such a coordination mechanism could be put in place at the presidency office to ensure a whole of government approach, particularly for ministries with mandates heavily impacting tourism. Ensure that the needs of the tourism industry are considered as part of the transport access and infrastructure planning.
Other	
Many accommodation services use intermediary suppliers that source the bulk of their fresh fruit and vegetable produce from distant urban wholesale markets	Capacity building workshops by accommodation services could provide better information to local enterprises regarding procurement, product safety and standards requirements and create links between accommodation services and local suppliers to facilitate their integration into local supply chains.
There is a lack of data to create an understanding of local value chains and the general benefits of tourism for the local economy.	Improve the economic analysis of tourism activity with better data and research, also for the regional level.
Tourism provides a range of low-skilled tasks, but a low quality workforce can affect visitor experience.	Use vocational and on-the-job training programmes to support skills development in the tourism workforce.
The sustainability of small micro and medium sized enterprises in the tourism value chain is particularly affected during and post the implementation of government measures to curb the spread of Covid-19.	Increase and extend the relief support in sectors hard hit by the crisis, in particular for tourism sector, up to mid-2021, particularly if there is a renewed virus outbreak later in the year.

2. Building an inclusive social protection system

South Africa has an incomplete social protection system without a mandatory pension savings scheme. Designing a universal insurance pension system would allow to reduce the important government funded pension grant system and ensure that the old-age population has decent income. Only 40% of employees are contributing to a form of saving-retirement scheme, with often a low pension. Moreover, South Africa has a dual, public and private, health care system. Half of the country's health-care spending goes to the private sector, which covers only 16% of the population. Moreover, the health care system fails to deliver affordable quality services. The COVID-19 pandemic has highlighted the unequal distribution of health care services between public and private health providers. Around 70% of critical care beds available were in the private health care sector. Finally, the sizeable unconditional cash transfer system though reaching a large share of the population fail to lift many children in the poorest families above the poverty line.

The social protection system is incomplete

South Africa has made important progress in broadening social assistance since 1994. The social grants programmes are reaching over 17 million beneficiaries and around half of all South African households. Social grants are the main government instrument to reduce poverty, and inequality and remedy the long-lasting effects of the apartheid era. However, South Africa still lacks a comprehensive social protection system. There are various inadequacies between the provisions of the current system and the situation and risks faced by different population groups. Social assistance targets a mix of age-related needs (child and old age grants) and disease-related needs (disability and care dependency). However, there are important gaps in the coverage and provision of social protection (Box 2.1).

Firstly, there is no mandatory pension coverage (Table 2.1). The absence of mandatory pension coverage has led to the development of many private and occupational pension schemes that are only partially fulfilling the need for longevity risk coverage. Secondly, unemployed adults aged 18–59 are not covered by the social assistance or insurance schemes. Moreover, the duration of the unemployment benefits is short and unemployed individuals financial position deteriorates quickly thereafter, when they are not covered anymore. Thirdly, health care access is almost universal and provided by the government but due to poor delivery, many people revert to private health insurance and facilities leading to significant inequalities in health care access and outcomes.

Table 2.1. The current structure of social protection

Social assistance (Non-contributory)	Social insurance (Contributory)	Occupational and voluntary schemes (Contributory)
Old age grants	Unemployment insurance	Pension and Provident Funds
Child care grants	Compensation Funds for occupational injuries and diseases	Retirement annuities
Disability	Road accident fund	Medical schemes
Foster care		
Care dependency		
Social relief of distress		
War veterans		

Source: OECD, 2019.

Fragmentation of the management of the social protection system between different government departments and of the delivery between different agencies and bodies is undermining efficient delivery. At least seven government departments are involved in the policy development of social protection and different agencies are responsible for the delivery of the different grants and funds.

The main challenge of the social protection system has been the growing number of beneficiaries and the incapacity of the system to lift them all above the poverty line. Priority has been given to raise the number of beneficiaries of the different grants, in particular of the old age grant.

The current financing of the overall social protection systems also presents some gaps and may pose sustainability risks in the future. The government funds social grants and public health care entirely through tax revenue. Combined, they represent around 24% of government spending. The prospects of further expansion of social assistance coverage and spending are limited though in the current fiscal juncture and any improvement in life expectancy will push up social assistance spending.

According to official projections, future social and health spending does not threaten the sustainability of public finances (Department of Social Development, 2016b). However, in a tight fiscal situation due to low growth, it crowds out other spending, such as on education and infrastructure, which would undermine growth prospects further. It is thus necessary to rethink the financing of social protection, in particular, with respect to the agenda of introducing mandatory pension schemes and national health insurance.

In the following sections, the four main components of social protection are reviewed: social assistance, pension insurance, health care and unemployment benefits. Health care, longevity and unemployment are the main financial risks workers and individuals face. However, these risks are not well covered in the South African social protection system. Moreover, low coverage pushes up spending on social assistance (old age grant) and on private insurance (private health schemes and private provident pension funds). Against this background, the government has published a discussion paper to reform social protection (Box 2.1).

Box 2.1. Government discussion paper on social security reform

Comprehensive social security in South Africa (released in November 2016)

Background

- There is no mandatory pension. About 2.7 million formal sector workers – primarily low-income earners – are excluded from occupational pension schemes.
- Members of private retirement funds rarely receive a sufficient income in retirement, in part because they do not preserve their savings throughout their career and in part, because their savings are eroded by high administrative costs.
- Social assistance does not reach all target groups and its cash payment system is expensive.
- There is insufficient policy coordination between social insurance funds such as the Unemployment Insurance Fund, workers' Compensation Fund and the Road Accident Fund. The funds also have separate systems and administration, resulting in high costs and increasing the scope for fraudulent claims.

Main proposals

- Establishment of a social security fund: introduce a public fund to provide pensions, death and disability benefits and unemployment benefits.
- Extending social assistance: a universal child, disabled and old age grant is proposed, replacing tax rebates for high-income families.
- Enhancing social insurance funds: institutional consolidation is proposed by merging the departments or entities managing social assistance and social security programmes in the different ministries.
- Regulatory reforms of the pensions and life insurance industry are also proposed (prudential, governance, fiduciary responsibility, transparency and control of costs).
- Better policy co-ordination between the proposed department of social security and the department of labour including sharing facilities at the territorial level.
- Alignment of social security with National Health Insurance (NHI) issues include:
  - The role of earnings-related contributions as a financing mechanism;
  - The tax treatment of medical expenses and associated risk-pooling arrangements;
  - The alignment of medical benefits provided by compensation funds and the RAF with the NHI system.

Source: Comprehensive social security in South Africa, released in November 2016, South Africa Government.
https://www.gov.za/sites/default/files/gcis_document/201611/comprehensivesocialsecurityinsouthafricaa.pdf

Assessing social transfers and the unemployment insurance

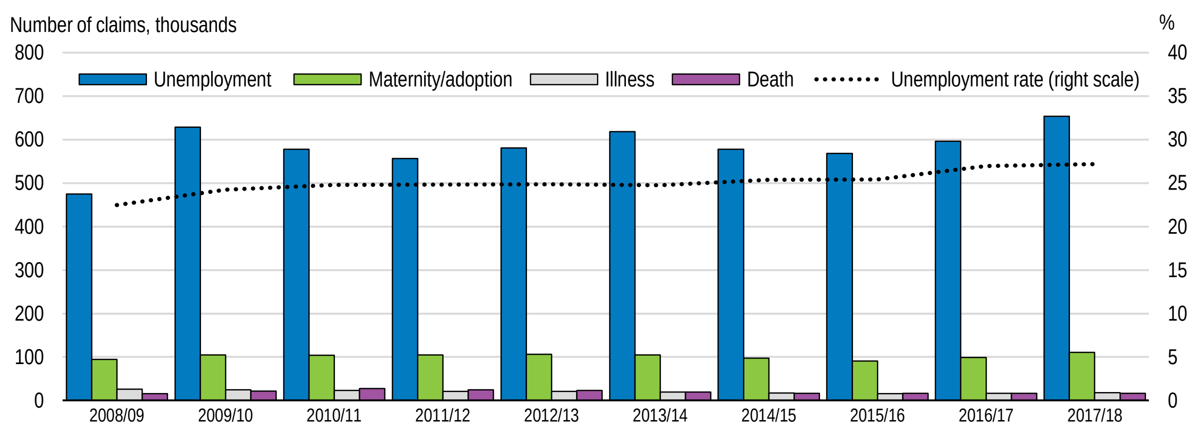
Develop active labour market policies to complete the unemployment insurance scheme

The public Unemployment Insurance Fund (UIF) is the largest of the three social insurance programmes (Compensation Fund and Road Accident Fund). It provides short-term benefits to workers when they become unemployed or are unable to work due to illness, maternity leave or adoption leave. It also provides a death benefit to the dependents of a deceased contributor. The UIF is funded entirely through contributions from employers and employees and the returns generated on investments. The contribution rate is 2% of wages equally paid by the employee and the employer. Contributions to the UIF are subject to a maximum earnings ceiling (SARS, 2017). The UIF has accumulated a substantial surplus, which is managed by the Public Investment Corporation (National Treasury, 2019a).

The total number of claims has been increasing since 2015/16, driven by rising unemployment (Figure 2.1). In 2018/19, around 770 000 claims were received (Department of Labour and UIF, 2019). The UIF is effective in terms of service delivery and has improved the processing times for claims (Department of Labour and UIF, 2018), but many of the unemployed do not receive unemployment benefits.

Figure 2.1. Unemployment insurance claims by type of benefit

Unemployment insurance claims by type of benefit



Note: Claims data taken from the Unemployment Insurance Fund Annual Report 2018. Official unemployment rate is an average over four quarters corresponding to the reporting periods of the UIF.
Source: (Department of Labour and UIF, 2018; Statistics South Africa, 2018c).

StatLink http://dx.doi.org/10.1787/888934005986

The Unemployment Insurance Amendment Act of 2016, which came into effect in 2019, expanded the level and reach of benefits. In particular, after becoming unemployed, workers have one year instead of currently 6 months to claim their benefits. The benefit duration is increased from eight months to a year. Civil servants and students completing apprenticeships or vocational education and training programmes are covered. Finally a better coverage of maternity leave is provided (66% replacement rate up to a maximum benefit of ZAR 17 712 per month). Income from contributions and investments should be sufficient to cover the expanded benefit pay-outs.

In response to the global financial crisis, the Labour Activation Programmes (LAP) Unit was established within the UIF. This unit provides training and reskilling opportunities for unemployed UIF beneficiaries to enable them to either start their own business or re-enter the labour market. In 2017, 11 744 unemployed

UIF beneficiaries participated in various skill training programmes conducted in partnership with TVET colleges and Sector Education and Training Authorities (SETAs) (Department of Labour and UIF, 2018). The Labour Activation Programmes should be scaled up by considerably increasing the number of individuals participating in skills development and training programmes. There is a need to develop specific training and employment programmes such as the public employment programme for long-term unemployed.

To respond to the impacts of the COVID-19 pandemics and the ensuing lockdown, the government established a Temporary Employee/Employer Relief Scheme (TEERS) within the UIF. It covers people who test positive for COVID-19 or need to be quarantined as a result of exposure, reduced work time and unemployment benefits. This benefit is applicable to contributing employers to the UIF. The minimum benefit payable is equal to the national minimum wage of ZAR 3 500 per employee, or the sectoral minimum wage and a maximum benefit of ZAR 6 370. It was payable for the duration of the national lockdown or up to three months, whichever period is the shortest. As of end June 2020, the UIF had paid a total of ZAR 28 billion to over 4 million employees under this benefit.

Overview of cash transfers

South Africa has an extensive and well-functioning means-tested cash-transfer system, which the government has progressively scaled up since the end of Apartheid. Cash transfers form the backbone of South Africa's overall social protection system. The social assistance programme (i.e. social grants) provides income support for the elderly, children, people with disabilities and social relief for individuals and households that experience sudden income distress (Table 2.2). Around 17.5 million out of 57 million South Africans now receive social grants – the majority of which are children and the elderly, with little support for the unemployed. Social assistance plays a critical role in reducing poverty, inequality and protecting vulnerable households from economic shocks. Social grants are funded from tax revenues, are non-contributory and unconditional. They comprise the largest segment of social protection expenditure at around 84%. However, poverty incidence remains relatively high at 26% for the entire population (measured as revenue below 50% of the median income).

The South African Social Security Agency (SASSA) was established in 2006 to administer and pay social grants on behalf of the Department of Social Development, which is responsible for policy and legislation. There have been significant improvements in SASSA's administration of grants, which now works with the South African Post Office (SAPO) and commercial banks to provide social grant payments using biometric data. However, many remote areas lack adequate infrastructure so that cash payments lead to higher operating costs (Department of Social Development, 2016c). Leveraging the extensive infrastructure coverage of the postal service can improve the reach of the rural poor, who are often excluded from grants because of geographical barriers.

The economic restrictions due to the COVID-19 pandemic have led to severe distress for households that lack income and savings. Between three and five million informal-sector workers and their families are particularly vulnerable. As many of these workers live with grant recipients, government has used the existing grant system to support those most vulnerable. The government has augmented the social grants budgets by ZAR 25 billion to assist vulnerable groups (National treasury, 2020). Existing social grants are temporarily increased and a new social relief of distress grant for unemployed adults is being introduced (Table 2.2). Lengthy administrative procedures, such as registering new beneficiaries and checking their incomes, are required before the new grant can be paid.

Table 2.2. COVID-19 measures to increase social grant spending

In Rand

	Baseline per month	Number of beneficiaries	Top-up	Top-up %
Child support (1)	445	12 811 209	300	67.4%
Old-age	1 860	3 672 552	250	13.4%
Disability	1 860	1 045 388	250	13.4%
Foster care	1 040	339 959	250	24.0%
Care dependency	1 860	155 094	250	13.4%
New social assistance grants		Amount per month	Number of beneficiaries	
Social relief of distress		350	700 000 – 8 MILLION	
Caregiver		500	7 167 022	

Note: After month on changed to caregiver grant.
Source: National Treasury, Supplementary Budget, June.

Steady increase in the number of grant beneficiaries

The number of beneficiaries has steadily increased from around 2.5 million people in 1998 to approximately 11 million in 2006 and reached 17.5 million in 2017/18 (SASSA, 2018). The increase in beneficiaries has mainly been driven by the expansion of the child support grant, reaching almost 12.3 million children in 2017/18 (Figure 1.2). The number of children receiving the child grant increased rapidly during the 2000s due to increased take- up and an increase in the upper age limit from 7 to 14 years (Samson et al., 2008). The age limit was further raised to include all children under 18 years in later years.

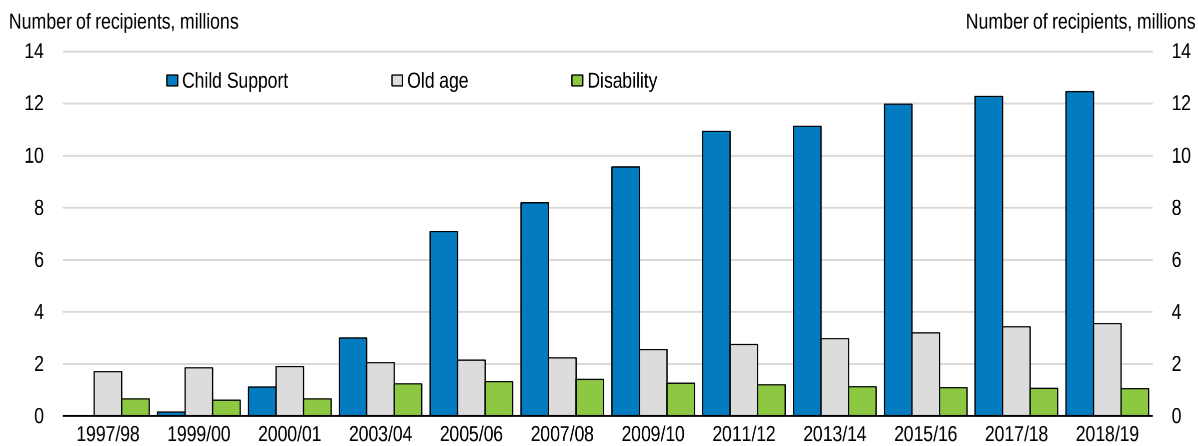
Table 2.3. Type of cash transfers

Name	Administration requirements
Old age grant	Provides income support to people aged 60 and older who earn an annual income of less than ZAR 82 440 (single) / ZAR 164 880 (married), and whose assets do not exceed ZAR 1 174 800 (single) / ZAR 2 349 600 (married)
War veterans grant	Provides income support to those who fought in World War II or the Korean War, and who earn an annual income of less than ZAR 82 440 (single) / ZAR164 880 (married), and whose assets do not exceed ZAR1 174 800 (single) / ZAR2 349 600 (married)
Disability grant	Provides income support to people with permanent or temporary disabilities who earn an annual income of less than ZAR 82 440 (single) / ZAR164 880 (married), and whose assets do not exceed ZAR1 174 800 (single) / ZAR2 349 600 (married)
Foster care grant	Provides grants for children in foster care
Care dependency grant	Provides income support to parents and caregivers of children who have physical or mental disabilities, and require regular care and support. Parents or caregivers must earn an annual income of less than ZAR 213 600 (single) / ZAR 427 200 (married)
Child support grant	Provides income support to parents and caregivers of children younger than 18 who earn an annual income of less than ZAR 50 400 (single) / ZAR 100 800 (married)
Grant-in-Aid	Is an additional grant to recipients of the old age, disability or war veterans grants who require regular care from another person because of their physical or mental condition.
Social Relief of Distress	Provides temporary income support, food parcels and other forms of relief to people experiencing undue hardship.

Source: National Treasury, 2019.

Figure 2.2. Distribution of social grants has been increasing

Social grants, number of recipients



Note: Recipients are only able to claim for one grant at any given time.
Source: South African Social Security Agency: Annual Report 2008/09; South African Social Security Agency: Annual Report 2018/19.

StatLink http://dx.doi.org/10.1787/888934006005

Coverage rates have improved

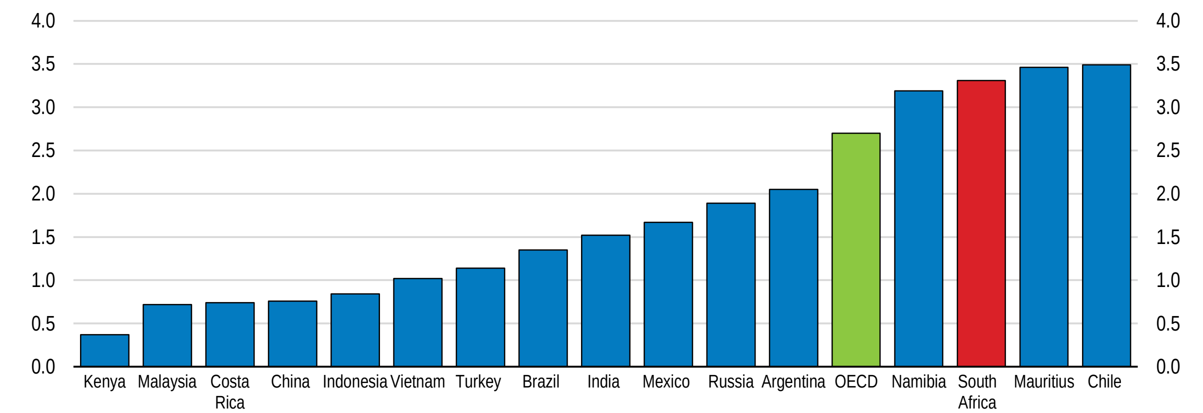
The coverage of social grants has improved thanks to a combination of policy changes, outreach campaigns to raise awareness and service delivery improvements. Coverage rates across the poorest 60% of the population is far above average coverage rates of other upper-middle income countries (World Bank, 2018a). According to the General Household Survey 2017, the percentage of individuals in the population that benefited from social grants increased from 12.8% in 2003 to 30.8% in 2017 (Statistics South Africa, 2018a). At the same time, the percentage of households that received at least one social grant increased from 30.8% in 2003 to 43.8% in 2017.

The composition of social assistance has shifted

Public expenditure on social assistance programmes is relatively high in South Africa compared with other low to upper-middle-income countries (Figure 2.3). In 2015, government expenditure on social assistance programmes amounted to 3.3% of GDP. This compares with 1.4% in Brazil, 1.5% in India, 1.9% in Russia and 2.7% in the OECD (World Bank, 2018b). The composition of social assistance spending has shifted towards old age and child support grants (Figure 2.4). In 2019/20, the value of the child support grant will increase by 4.9% to ZAR 425 per month, from ZAR405 per month in 2018/19. The old age grant will increase by 5% from ZAR 1 695 per month to ZAR 1 780 per month for beneficiaries up to 75 years. Annual adjustments to the value of social grants are made to compensate for projected inflation.

Figure 2.3. Spending on social transfers is high

Spending on social assistance programmes in 2015 (% of GDP)

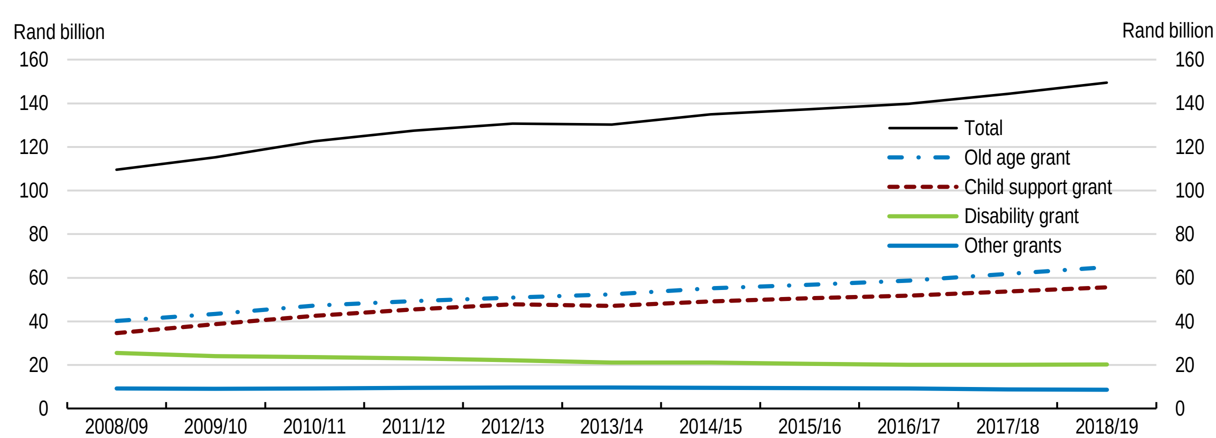


Note: Malaysia, Costa Rica, Turkey refer to 2013; China and Namibia refer to 2014; Kenya and India refer to 2016. Social assistance programmes are defined as non-contributory interventions designed to help individuals and households cope with chronic poverty, destitution, and vulnerability. Examples include unconditional and conditional cash transfers, non-contributory social pensions, food and in-kind transfers, school feeding programmes and public works (World Bank, 2018b).
Source: World Bank ASPIRE database, 2018.

StatLink http://dx.doi.org/10.1787/888934005435

Figure 2.4. Social grants spending has been increasing steadily in the last decade

Real expenditure on social grants



Note: Figures are expressed in 2016 prices (CPI December 2016=100).
Source: Author's calculations, South African Social Security Agency: Annual Report 2018/19, Statistics South Africa.

StatLink http://dx.doi.org/10.1787/888934006024

The impact of social grants on the poor

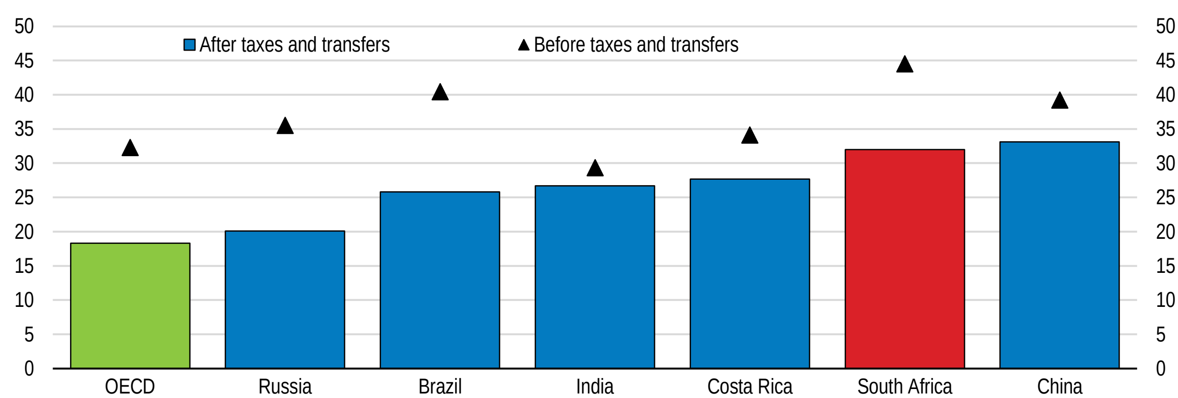
Effective at reducing poverty and inequality

There is extensive evidence showing that social grants have been successful in reducing extreme poverty and improving health and education outcomes (Figure 2.5). Social grants dominate the income profile of many poor households, accounting for as much as 71% of total household income for the poorest 20% of the population and is particularly successful in reaching the poorest households (World Bank, 2018a; Woolard and Leibbrandt, 2010). The World Bank estimates that grants and old-age pensions contributed 24% to poverty reduction and 44% to narrowing the poverty gap (distance to poverty line) between 2006 and 2015 (World Bank, 2018a). Social grants are therefore a crucial source of income for poor families and provide a financial lifeline amid high levels of unemployment. However, 21% of people aged 60 and above remain poor.

Cash transfers, particularly the child support grant, are the most progressive of all spending programmes as the poorest 40% of individuals receive 69% of all transfers (Woolard et al., 2015; Inchauste et al., 2014). Furthermore, they augment the incomes of the poorest decile by more than tenfold, far larger than in other middle-income countries such as Argentina, Brazil and Mexico. The Gini coefficient, a measure of income inequality, is reduced from 0.715 for household market income to 0.623 after taxes and transfers (OECD Income Distribution and Poverty Dataset).

Figure 2.5. Poverty rate after taxes and transfers

% of population with 60% or less than the median disposable income, 2016 or latest year available



Note: Data for South Africa are for 2015 and provisional, Costa Rica for 2018, Brazil for 2013 and China and India are for 2011.
Source: OECD Income Distribution Database.

StatLink http://dx.doi.org/10.1787/888934005454

Child support grants improve child well-being and support human capital development

South Africa's child support grant is one of the largest unconditional cash transfer programmes for children in the world. It is widely regarded as one of the government's most successful interventions, particularly due to its high take-up and extensive coverage (Samson et al., 2008). Between 70 and 80% of children in the bottom six income deciles benefit from the grant (Grinspun, 2016). For poor families, the child grant is an important source of financial support, providing basic needs such as food, schooling and health care (Zembe-Mkabile et al., 2015).

The grant increases the nutritional well-being of recipient children as indicated by improved height-for-age scores (Coetzee, 2013). It reduces child hunger and the likelihood of illness and improves school attendance for pre-school, early grades and adolescents (Samson et al., 2008; DSD, SASSA and UNICEF, 2012). Children that receive the grant are also found to progress through the schooling system faster, with studies showing a lower likelihood of repetition and improved maths and reading scores (Coetzee, 2013; DSD, SASSA and UNICEF, 2012). Receipt of the grant has been shown to increase labour-seeking behaviour in recipient households, and generate a range of positive impacts for adolescents. Eyal and Woolard (2011) find that mothers who receive the child support grant in their 20s have significantly higher labour force participation and employment probabilities.

The old age pension grant affects labour force participation among adults and child outcomes positively

For nearly 75% of South Africans over the age of 60, the old age grant is the main source of income. While technically a cash transfer for older persons, extensive evidence points to the majority of recipients, especially women, sharing the pension within households (Ralston et al., 2015; Strijdom, Diop and Westphal, 2016). This is because household structures are often multigenerational, largely due to segregation policies of the apartheid era (lack of enough housing) and the high HIV/AIDS prevalence. Estimates indicate that one grant reaches up to six persons in a recipient's household (Strijdom, Diop and Westphal, 2016). The grant can have a positive impact on the well-being of children through higher school attainment and primary school completion rates, decline in hours worked by children and improved health indicators (Budlender and Woolard, 2006; Van Biljon, 2017). Research has also shown that there is a positive correlation between households with an old age grant recipient and women living in that household participating in the labour force.

Issues of concern and proposals for broadening the social protection

Universalising the child support and old age grants

Many eligible children are excluded from receiving the child support grant. The two most common reasons given by caregivers for not applying for the grant were that they believed their income was too high and that they did not have the correct documentation. Problems around infrastructure, understaffed offices, complicated and lengthy application processes and a lack of awareness about eligibility impeded the rollout of the grant during the initial years (Eyal and Woolard, 2011). A recent study estimates that almost 18% of eligible children are not receiving the child grant (DSD, SASSA and UNICEF, 2016).

Universal or near-universal provision of child and family benefits is a reality in many high-income OECD countries, while in other parts of the world coverage tends to be targeted, usually towards poor families (International Labour Office: Social Protection Department, 2015). Some middle-income countries have made great progress towards achieving universal coverage, for instance Argentina in 2009 with *Asignación universal por hijo*. In South Africa, an upward adjustment in the means-test threshold at regular intervals since 2008 has opened up access to more poor households (Grinspun, 2016).

Universalising the child support grant would reduce the administrative burden and cost of means testing for both the state and caregivers and enable all children to access the benefit regardless of the caregivers' income (Delany, Proudlock and Lake, 2016). The Inter-department Task Team on Social Security and Retirement Reform (IDTT) proposed that social grants be aligned with the personal income tax rebate structure to allow the means tests to be phased out and reach universal coverage (Department of Social Development, 2016c).

In general, universal pensions provide flat-rate benefits for all elderly people, while means-tested pension systems provide benefits to the poor who are usually not covered by other contributory elements of the pension system (World Bank, 2018b). Means-tested pensions are the most common in most regions (Pension Watch, 2019).

Universal and means tested old age pensions have clear trade-offs in terms of efficiency, cost, and effectiveness of implementation (World Bank, 2018b). Fiscal costs, sustainability and duplication of benefits present major challenges to the roll-out of a universal social pension (Guven and Leite, 2016). Universal social pensions are also argued to be less cost-effective at fighting poverty compared to poverty-targeted cash transfer programmes. Dorfman (2015) shows that social pension systems targeted at the elderly poor have been found to reduce national poverty at almost twice the rate of a universal approach.

Social pensions certainly have a role to play in closing the old-age security gap for those not covered by contributory schemes. Changes in the old-age grant should be linked to the planned introduction of a mandatory contributory pension scheme, depending on the complementary role it may play for individuals to reach the targeted income replacement rate (see Section 3).

The value of the child support grant is argued to be too low

There are concerns that the child support grant is too low. Evidence shows that the grant is not adequate on its own to meet even the most basic needs of its beneficiaries (i.e. food costs) and is insufficient for providing greater dietary diversity (Zembe-Mkabile et al., 2015). Food insecurity, stunting and child malnutrition remain significant challenges, and have deteriorated since 2012 despite more than 12 million children receiving the grant (World Bank, 2018a).

In 2018, the national food poverty line was ZAR 547 per person per month. People living below this line are considered to live in extreme poverty. The child grant (ZAR 445 per month in 2020/21) lies well below the food poverty line (for adults).

Proponents for increasing the child grant argue that a larger impact can be realised if the amount is increased. Budlender (2016) proposes that the grant should as a first step be set at the official food poverty line, which would not require any changes to the current administration of the grant. The government allocated ZAR 65 billion for the child support grant in 2019/20. If the grant were increased from ZAR 425 to ZAR 547, it would require an additional allocation of approximately ZAR 20 billion per year, which is hardly possible in the current budgetary situation.

However, instead of increasing the child support grant to the food poverty line, particularly in the case that it is universalised, the government could consider an additional means test for extremely poor households. For example, only households with a revenue such that the whole family lies below the food poverty line would receive extra-support. The value of such an extra-amount should be decided taking into account budget constraints.

Extending the cut-off age for the child support grant to 21 years

A criticism of South Africa's social assistance programme is that it does not address poverty and unemployment among adults, particularly the vulnerable youth. Unemployment amongst the youth (15–24 years) was at 52.8% in 2018, compared to 27.5% for the full working age population (15–64 years) (Statistics South Africa, 2018c). Arguments to increase the cut-off age of the child grant are based on the lack of adequate social security coverage for young people who are either still completing secondary education, or are unable to find work or do not have the financial means to study further.

The child support grant terminates in the month that the child turns 18, with no consideration of the child's education status. This often disrupts the financial stability of households, particularly where there are children who do not pass secondary education by the time they turn 18. In 2018, only 48.1% of students that were enrolled for Grade 10 in 2016 wrote the final secondary examination in 2018 (i.e. 512 735 of 1 067 075 students). Of this group, 78.2% passed. This means that from the Grade 10 class of 2016, around 660 000 children either dropped out of the system without finishing secondary education or are repeating certain years after they have turned 18, when they are no longer eligible to receive the child grant. Raising the age of the child grant does not address the underlying structural failures in the secondary education system. It may also create perverse incentives for beneficiaries to not complete secondary education by the age of 18 in order to continue receiving the grant up to the higher cut off age limit.

The government is gradually rolling out a fully subsidised fee-free higher education and training to all current and future undergraduate university and Technical and Vocational Education and Training (TVET) college students from poor and working-class families (National Treasury, 2018). The employment tax incentive aimed at addressing unemployment and the lack of skills amongst the youth, has been extended. Raising the age of the child grant may render these measures redundant, and limit the ability to serve other priorities.

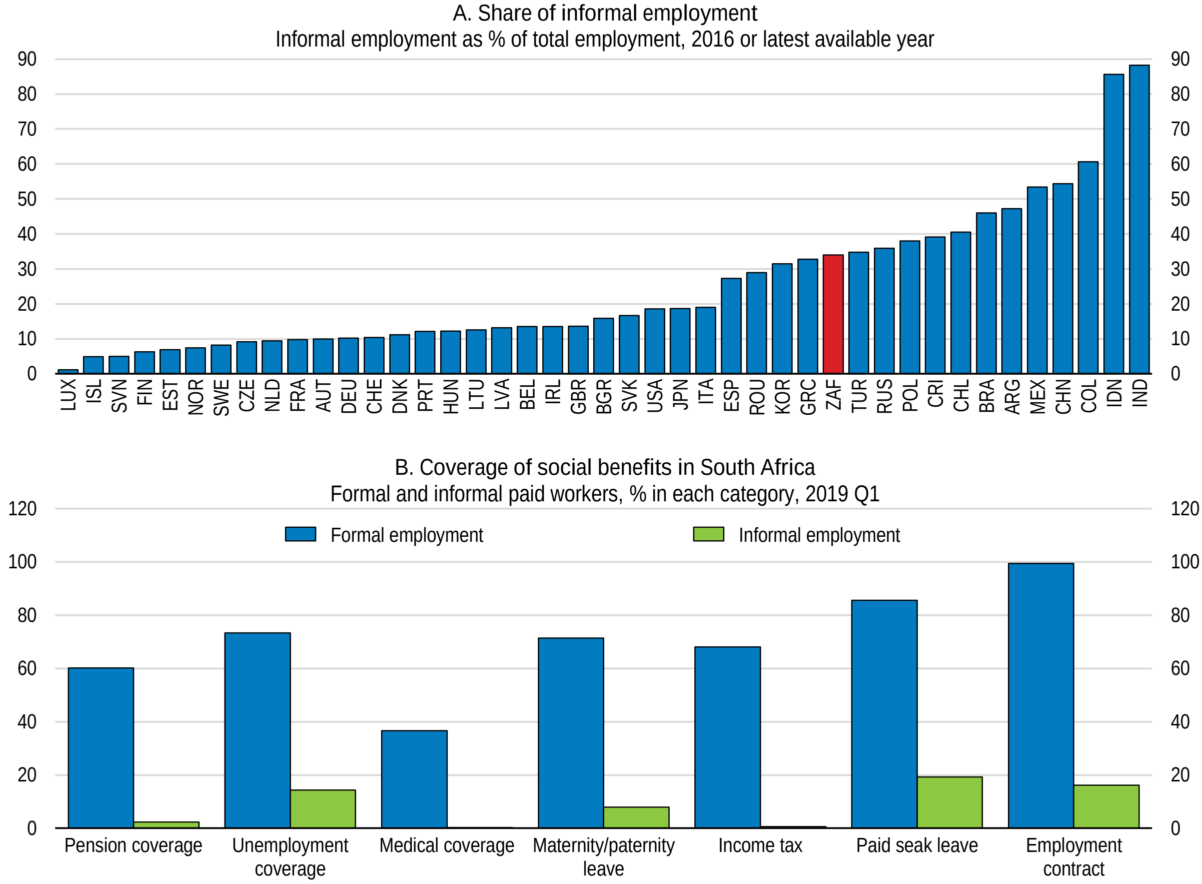
Broadening coverage of informal workers

At 32%, the informality rate in South Africa is considerably lower than the Latin American and Caribbean average (51%). Registration of firms is high in South Africa, almost 91% according to the World Bank. Employment status is less compliant, leaving space for informal employment. Informal employment represents a third of employment in South Africa (Figure 2.6). Informal employment recovers different types of situation including subsistence informality, voluntary informality and informality induced by regulations. The most prevalent type of informality in South Africa is subsistence informality mainly amongst those with low levels of education and those living in non-urban areas (Fernandez et al. 2017).

According to the National Statistics' classification, about 74% of workers were working in the formal sector. Almost one million South African working in registered firms are informally employed, representing one fifth of the total informal workers. As a consequence, these workers are mostly not covered by pension provisions and unemployment benefits. As shown in Figure 2.6, medical coverage and pension coverage provided through employment packages are very low for informal workers. This is the case partly because pension insurance is not mandatory and provision of private health insurance by employers is not available in all firms, in particular in small size enterprises.

Therefore, working age informal workers do not directly benefit from social transfers (old-age and child grants, with exception of the disability grant) and are poorly covered for retirement income. However, they have access to health care provided by public health care service. In fact, as social protection benefits (health and pensions) are not systematically linked to employment it limits the incentives for the informally employed in registered firms to stand for their formalisation as they benefit from escaping income tax. The proposed reforms of introducing mandatory pension schemes and new health care system provides an opportunity to reduce informal employment. The financing and the conditions to be enrolled in these new schemes should include incentive mechanisms as subsidies and linking benefits to registration that reduce informal employment.

Figure 2.6. Coverage of informal workers is low



Source: ILO (2018), Women and men in the informal economy: a statistical picture (third edition); Statistics South Africa, Quarterly Labour Force Survey, Quarter 1: 2019.

StatLink http://dx.doi.org/10.1787/888934006043

Building a comprehensive pension system

South Africa is lacking a mandatory pension insurance. Rather than benefitting from potential savings during working life, retirees often fall back into the old-age grant system. Therefore, the social protection system, based only on old-age grant, does not protect financial risk associated with longevity and old-age revenue losses. This has led to an extensive old-age grant system and disincentives for long run savings, in particular for lower to middle-income people. Indeed, in many segments of the population, individuals are under-saving or dis-saving before retirement or using their savings in a sub-optimal way to access the old-age grant. South Africa is with New Zealand and Ireland among the few countries that do not have a mandatory pension insurance neither public nor private.

The current pension system is not adequate in reducing the risk of old-age poverty

Coverage is modest

Pension coverage is not satisfactory. It is difficult to gauge exactly the number of formal workers covered by any form of retirement saving provisions. Indeed, in the absence of mandatory pension insurance, businesses and trade unions have established retirement savings and insurance arrangements for their employees and members. According to the Quarterly Labour Force Survey (QLFS) about 6.5 million workers representing 40% of employees were contributing to a pension scheme in December 2018 (Statistics South Africa, 2018d).

The Government Employees Pension Fund (GEPF) is the largest occupational pension fund. It covers retirement, death and disability benefits of government employees. In 2018, the GEPF received contributions from 1.2 million active members and provided benefits to 450 322 pensioners or beneficiaries. Members with less than 10 years of contributions receive a lump sum at retirement while those with more than 10 years of contributions and above retirement age receive a lump sum and a monthly pension (annuity) (GEPF, 2018). In addition, workers resigning or leaving the public service can withdraw their accumulated contributions without any obligation to transfer it to another pension fund.

Private sector workers are covered by occupational pension plans. Coverage varies according to a worker's income, the sector of employment and the degree of unionisation in that sector. Low-income workers are mostly not covered (Department of Social Development, 2016a). Self-employed and informal workers can contribute to private pension funds but coverage is low. Among the 40 private sector bargaining councils, 29 offer a savings and insurance arrangement covering around 2.5 million workers. Unions govern many savings-retirement funds, often called provident funds.

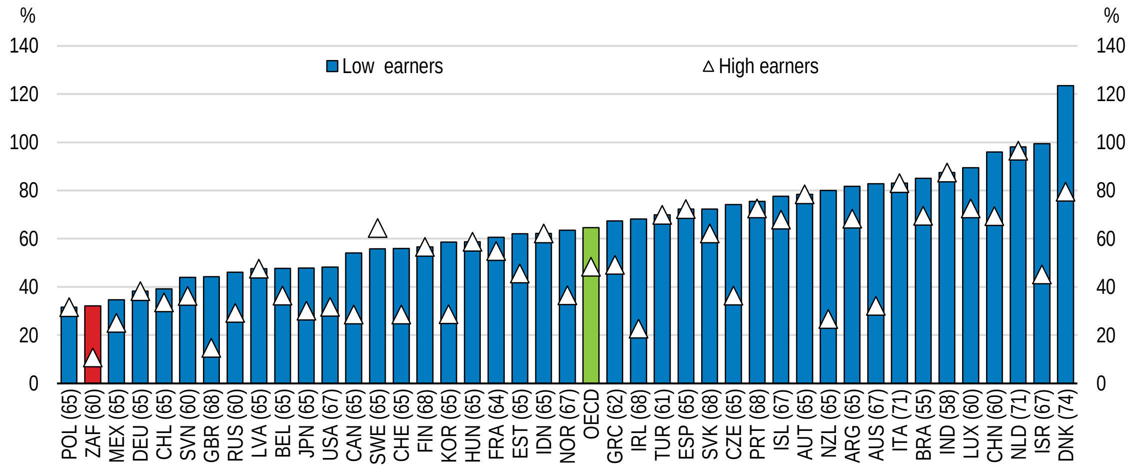
In 2018, there were 5 118 registered retirement funds of which 1 647 funds are active (a fund with members for whom it receives contributions and/or pays benefits). They cover around 11 million active contributors and 5.5 million pensioners, dependants and unclaimed benefit members. However, there is some double counting, as some individuals are members of more than one fund (FSCA, 2018).

Pension revenues are low, increasing the risk of old age poverty

Pension revenues are not adequate, contributing to old-age poverty. South Africa's poverty rate is relatively high when compared with OECD and emerging countries (Balestra et al., 2018). The old-age poverty rate is 21% compared with 26% for the entire population (measured as revenue below 50% of the median income) (OECD, Income distribution database, 2018). South Africa has the lowest gross replacement rate across OECD and partner countries based on mandatory schemes (Figure 2.7). The gross replacement rate is defined as future gross pension entitlement divided by gross pre-retirement earnings for someone currently entering the labour market at age 20. The gross replacement rate appears low because in the GEPF, as well as in most of the occupational and savings-retirement funds, workers can partially withdraw their funds at retirement in a one-off payment. The absence of medium-term saving vehicle explains partly these withdrawals on retirement funds. For example, civil servants affiliated with the GEPF have a theoretical 50% replacement rate, but due to the option of opting out and receiving a lump-sum payment, the effective replacement rate can differ substantially.

Figure 2.7. Pension levels are low

Gross pension replacement rate upon retirement



Note: Expected retirement age in year 2070 reported in parenthesis.
Source: OECD (2017), OECD Pensions at a Glance 2017.

StatLink http://dx.doi.org/10.1787/888934006062

Issues with the current retirement fund industry

There are some issues with the current retirement fund industry, which contribute to the low adequacy of the pension system. The large number of pensions and savings-retirement funds, more than 5 000, is not efficient. Around a third of the funds are dormant and not receiving pension contributions anymore (FSCA, 2018). The Financial Sector Conduct Authority (FSCA) is in charge of licencing, supervising and verifying that retirement funds fulfil their promises and preserve individual financial interests.

The government has already introduced measures to reform South Africa's retirement industry and improve coverage. Substantial changes to the regulation of the financial sector were introduced recently to address some of the shortcomings of the retirement industry (see Box 2.2). However, there is room to improve the effectiveness of the pension industry further. For instance, retirement funds not receiving a contribution for three years in a row should see their portfolio transferred to another retirement fund. In addition, retirement funds not reaching a minimum size should be closed or required to merge with other existing funds.

Many savings-retirement beneficiaries do not claim their benefits partly due to financial illiteracy and lack of knowledge of their rights. In 2018, 3.6 million pension accounts were not claimed, representing around ZAR 34 billion. An individual may have many pension accounts, for instance, in the case they often switched their employer. The FSCA has initiated a campaign to inform people and has put in place a register where people can verify whether they have a pension account. Retirement funds should be required to do more to track their beneficiaries and to inform them about their entitlements when they are close to retirement age.

Many retirement funds charge high administration and asset management costs that erode the value of workers' accumulations. Some also deliver a poor investment return. The FSCA has identified numerous supervisory issues related to boards' roles and costs, high remuneration, failure to submit annual financial statements and valuation reports in some retirement funds. These observations call for giving more power to the FSCA to sanction or impose measures to address these issues.

Box 2.2. Recent pension reforms

In 2013 and 2015, the government introduced several reforms to the retirement fund industry to strengthen its governance, to harmonise tax deductions across retirement schemes, guarantee the preservation of retirement benefits and incentivise the annuitisation of pensions.

2013: Governance of retirement funds and taxation of pension contributions

- The FSCA is given responsibility to monitor trustees' appointments and ensure that boards and trustees meet and fit proper requirements; and to supervise that they are independent and free of conflicts of interest.
- Whistle-blowing protection for Board members, valuators, principal/deputy officers, and employees who disclose material information to the Registrar (FSCA).
- Fund board members/trustees to attain skills and training as prescribed by the Registrar, within 6 months.
- Criminalisation and extending personal liability to employers in respect of non-payment of pension contributions to a pension fund.
- Protection for board members/trustees from joint and several liability, if they act independently, honestly and exercise their fiduciary obligations.
- Require pension funds to notify the Registrar of their intention to submit an application to register prior to commencing the business of a pension fund.
- Same tax deductions for all contributions into retirement funds (retirement annuities, pension funds and provident funds).
- Introduced partial annuitisation of benefits from provident funds, finally delayed to 2021.
- Threshold to purchase an annuity increased from ZAR 75 000 to ZAR 150 000.
- Tax-free lump sum at retirement increased from ZAR 315 000 to ZAR 500 000 in 2014.
- Taking effect from March 2016, tax deduction on employer and employee contributions to a pension fund, provident fund or retirement annuity fund up to 27.5% of the higher between remuneration and taxable income. A ceiling of ZAR 350 000 per annum applies.

2015 Taxation laws amendment

- A higher threshold to purchase an annuity of ZAR 247 500.

2017 Regulation of pension funds

- A default in-fund preservation arrangement (conservation of savings until retirement) to members who leave the services of the participating employer before retirement.
- A default investment portfolio to contributing members who do not exercise any choice regarding how their savings should be invested.
- Incentivising for annuity payment within retirement funds.

However, the most important issue with private retirement funds is the early withdrawals from retirement funds during a worker's career, which is the primary cause for low replacement rates. Many workers liquidate their funds each time they change their job. The government has already introduced different provisions to limit withdrawals of workers' accumulated contributions and to incentivise workers to receive their pension in an annuity instead of a lump sum (see National Treasury 2017 and 2018b). For instance, if more than one third of the accumulated fund is withdrawn, tax applies, incentivising to transfer retirement savings to another retirement fund. Indeed, when workers transition to a new employer with a different retirement fund, contributions are often withdrawn. This is particularly true for provident funds. To transform these savings-retirement funds into a real retirement income, preservation of funds until retirement age and at least partial annuitisation should be mandatory as a counterpart to the tax deduction on contributions.

Reforming the pension system

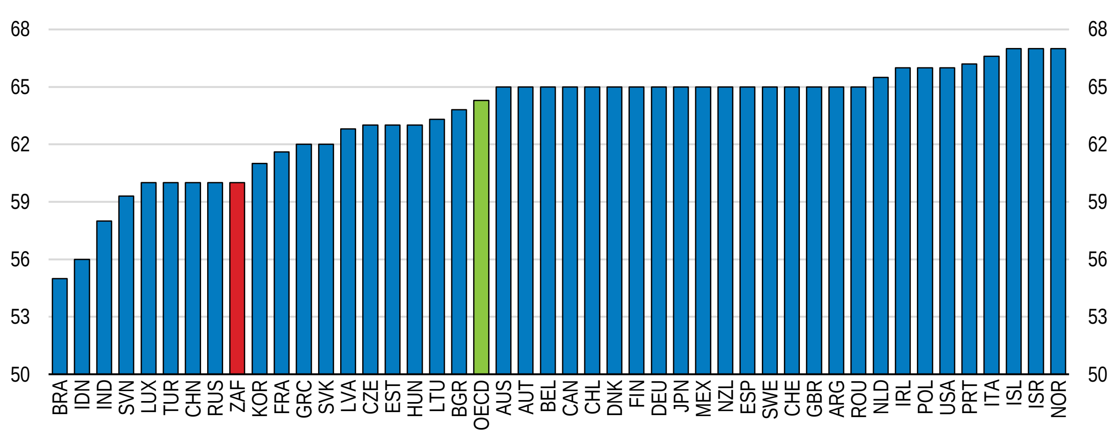
Rationales for setting up a mandatory pension insurance scheme

The low level of retirement income and coverage call for reforming the pension system. The fragmentation of the pension system with important variations in pension coverage provisions across sectors argue for a consolidation of pension provision rules. The arguments for a mandatory pension scheme include protection against old age income poverty risk, better risk pooling and higher economic efficiency (Barr, 2012). The Taylor committee report has already recommended the establishment of a comprehensive pension system (Taylor Vivienne, 2002). Based on the interdepartmental task team report on social security, the government published in November 2016 a discussion paper recommending the establishment of a mandatory pension scheme. The aim is to establish a comprehensive social security system which comprises a three-tier system: universal old age grant, a mandatory pension scheme and voluntary pension funds.

Moreover, the timing for introducing a mandatory pension scheme is favourable given the current demography. The current retirement age at 60 years in many pension schemes and 65 years for civil servants is adequate when compared to emerging and OECD countries (Figure 2.8). The current retirement age may seem high because of the low survival probability during old age (Figure 2.9) (Balestra et al., 2018). However, the survival rate will pick up progressively as cohorts highly affected by the HIV/AIDS disease fade out. Moreover, the average survival rate masks important dispersion in life expectancy linked to race, education and employment status. Therefore, in designing the mandatory pension scheme, the needs of low-income workers who tend to have a lower life expectancy should be taken into account through death/survivor benefit provisions.

Figure 2.8. The retirement age is adequate

Current retirement ages, years, men, 2016

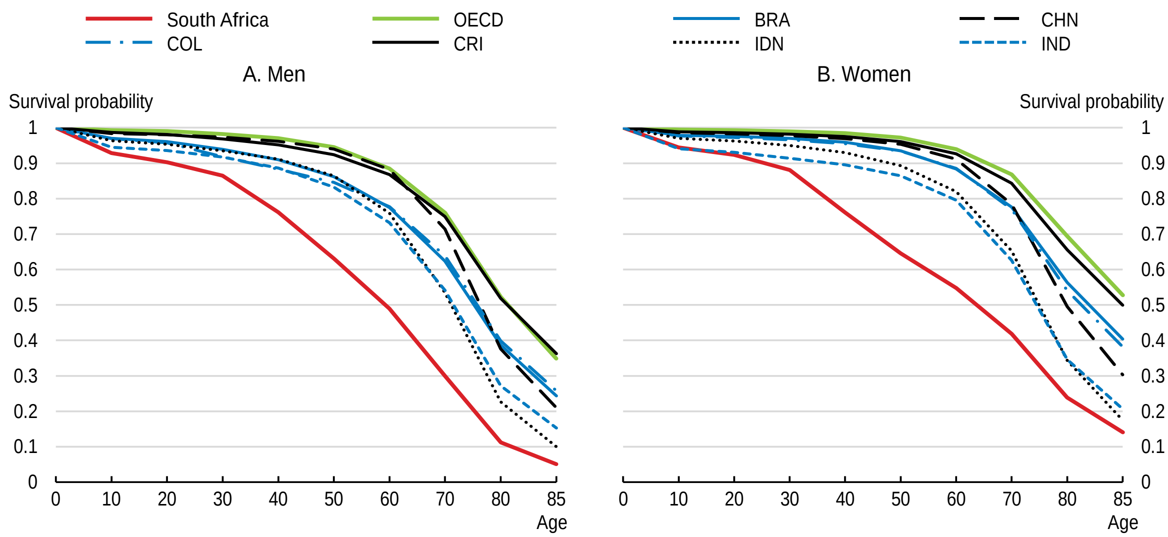


Note: The current retirement age is calculated assuming labour market entry at age 20.
Source: OECD (2017), OECD Pensions at a Glance 2017.

StatLink http://dx.doi.org/10.1787/888934006081

Figure 2.9. Mortality is still high

Survival probability by age, 2010-14

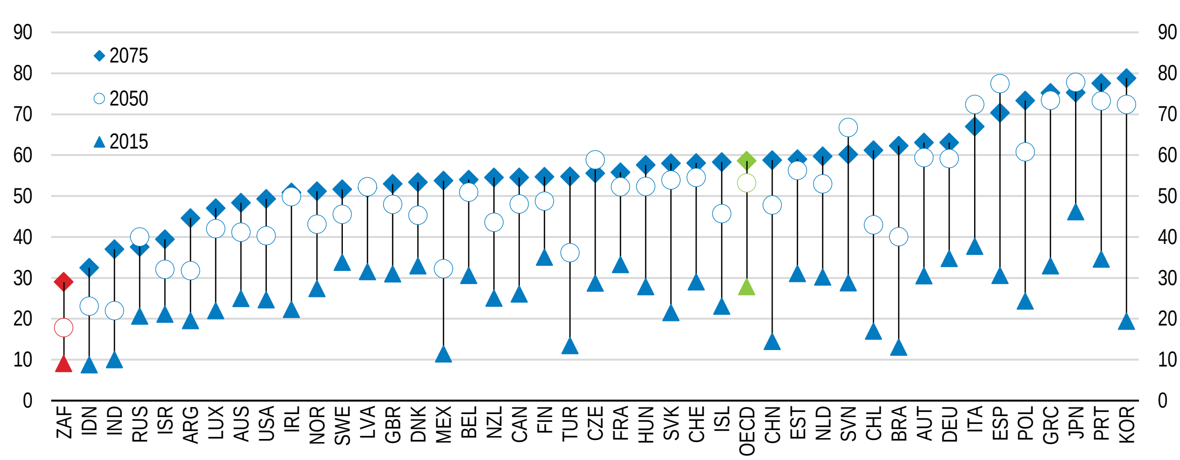


Source: Balestra et al. (2018), "Inequalities in emerging economies: Informing the policy dialogue on inclusive growth", OECD Statistics Working Papers, 2018/13.

StatLink http://dx.doi.org/10.1787/888934006100

The evolution of the dependency ratio is favourable for setting up a mandatory pension scheme now as it will mature before the arrival of large cohorts in retirement age. As seen in Figure 2.10, South Africa has the lowest dependency ratio (percentage of individuals above retirement age per working age population) among OECD and emerging economies. In 2050, the dependency ratio will remain favourable while by 2075, the dependency ratio will have caught up with the 2015 OECD average. It takes 35–40 years for a pension scheme to mature as the first cohort of workers with full contribution duration reaches retirement age.

Figure 2.10. The evolution of the dependency ratio remains favourable



Note: The demographic old-age dependency ratio is defined as the number of individuals aged 65 and over per 100 people of working age defined as those aged between 20 and 64.
Source: OECD (2017), Pensions at a Glance 2017.

StatLink http://dx.doi.org/10.1787888934006119

Policies to safeguard and build robust pension schemes

Automatic adjustment mechanisms

Automatic adjustment of pension system parameters allows pension financing to be closely aligned with demographic and economic trends. Like other pre-commitment mechanisms in economic policymaking – in monetary and fiscal policy, for example – it is designed to enhance credibility and provide assurance that public pension schemes will not place an unexpected burden on public finances in the future. Given the difficult process of pension reform, many countries have introduced automatic adjustment mechanisms to cope with trend changes or shocks that threaten the actuarial equilibrium (Fall and Bloch, 2014). For instance, pension benefits can be reduced through automatic sustainability factor, which take into account financial imbalances (Canada, Germany, Japan, and Sweden). Many countries have introduced adjustment mechanisms to take into account changes in life expectancy. The adjustment can link the pension level, the retirement age or the contribution period to life expectancy. In South Africa, introducing a regular analysis of the evolution of life expectancy (every five years for instance) to decide whether the parameters of the mandatory pension schemes need to be adjusted would reinforce the sustainability of the scheme.

Automatic enrolment in occupational pension plans

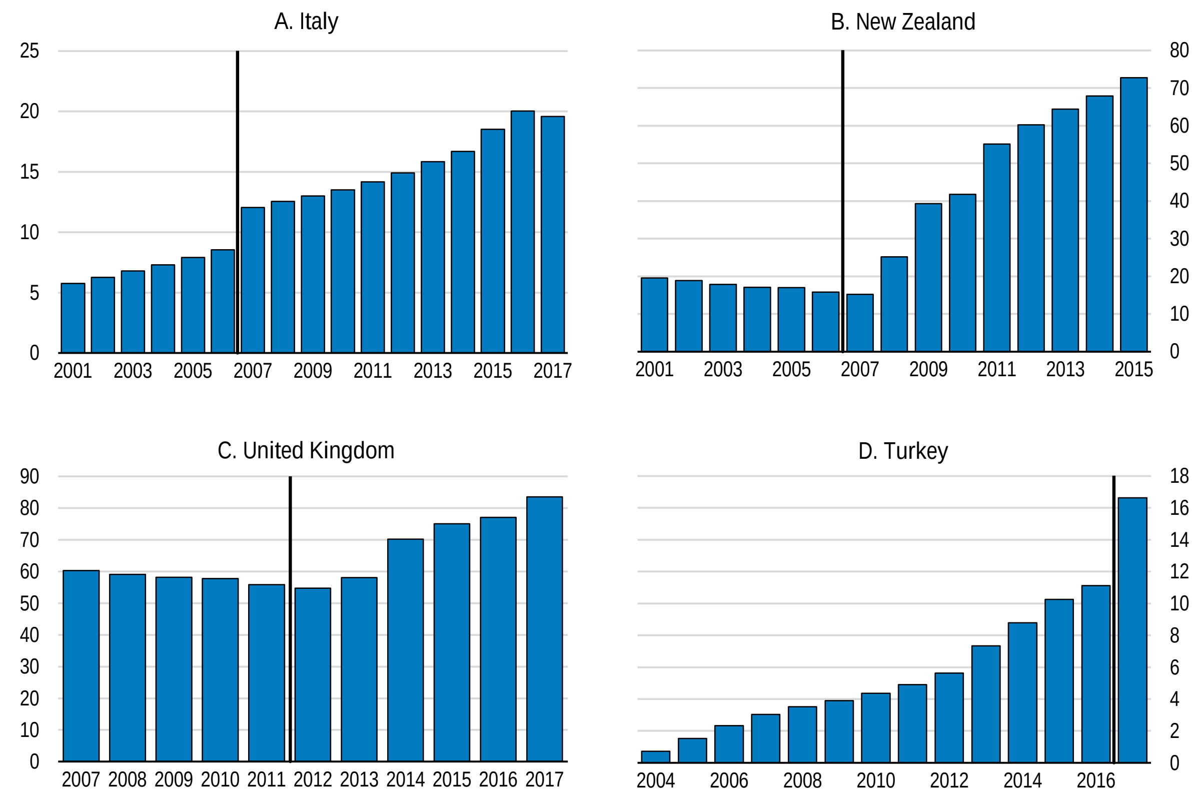
Occupational pensions will play an important role for middle and high-income earners to reach a decent replacement rate. In most of the existing occupational plans, enrolment is automatic and comes with the labour contract. However, as a mandatory pension scheme is introduced, enrolment in occupational plans may not be automatic any more.

Introducing automatic enrolment has increased coverage of private pension in many countries (Figure 2.12). The default rate at which contributions should be set in an automatic enrolment scheme depends on how the private pension system interacts with the public PAYG pension system. In the case of South Africa, in addition to the basic contribution rate, higher contribution rates could be considered for high income earners to ensure that the targeted replacement rate is met for different income levels.

Financial and non-financial incentives can be used to encourage automatically enrolled workers to stay enrolled and to not opt out. Historically, tax deductions and tax relief have been the main type of financial incentives provided by governments to promote private pensions (OECD, 2014a). However, the largest coverage gaps are concentrated among lower and middle-income households who may draw little benefit from these tax incentives. In order to encourage people in such households to stay enrolled, countries often provide other kinds of financial incentives: matching contributions (from the employer and/or the state), government flat subsidies and guarantees.

Figure 2.11. Pension coverage increases after introduction of automatic enrolment

Coverage of private pension plans before and after the introduction of automatic enrolment



Note: Participation is measured as the number of members enrolled in a pension plan (i.e. having assets or accrued benefits in a plan). It is expressed as a percentage of the working-age population (15-64) in the case of Italy and Turkey; as a percentage of people under age 65 in the case of New Zealand; as a percentage of eligible employees in the case of the United Kingdom. Vertical lines represent the dates when the automatic enrolment scheme was established.
Source: OECD (2019), Inclusiveness and Finance, www.oecd.org/daf/fin/financial-markets.

StatLink http://dx.doi.org/10.1787/888934006157

Building on the proposals of the government discussion paper

A three level pension system

The South African government proposes a three-level pension system in its discussion paper on social security. The old-age grant would be generalised to all individuals aged 60 years and above or 65 years and above (also envisaged as retirement age). The second pillar would be the new mandatory pension scheme managed through the National Social Security Fund (NSSF). Finally, occupational and voluntary retirement funds will serve as complementary retirement insurance (Box 2.3).

The objective of the new pension system is to target a minimum replacement rate of 40% through the combination of the old-age grant and the mandatory pension scheme for revenues up to an income ceiling (ZAR 178 464 applied in the unemployment insurance fund). For individuals earning more than the income ceiling (around 20–25% of workers), it is necessary to complement mandatory savings with an occupational pension plan and/or a private pension plan.

The government's targeted replacement rate is based on simulation made in 2012 before the introduction of a minimum wage in January 2019 amounting to around ZAR 42 000 annually, which will be progressively expanded to all sectors. Therefore, all workers in the formal sector should qualify for the mandatory pension schemes, which will reinforce the coverage of the pension system. However, a specific enrolment system should be designed for self-employed and informal workers, in particular for their participation in the second tier of the mandatory system. In particular, the contribution subsidy considered in the proposal should specifically target informal workers and low earning self-employed but will need strong enrolment efforts.

The Government Employee Pension Fund (GEPF) covers civil servants. The contribution rate is 20.5% for employees and employers combined and 23.5% for members of the army and intelligence service while for the NSSF the proposed contribution rate is 10% plus 2% for the unemployment insurance fund (as now). The targeted replacement rate of the GEPF is 50%. For instance, for the inclusion of civil servants in the NSSF, their current contributions could be separated in two parts: 12% going to the NSSF with mandatory enrolment and the rest going to an occupational account managed by the GEPF. A transition period should be put in place. For example, only workers with less than 20 years of contribution would be enrolled in the NSSF and new civil servants, which leaves enough time to accumulate pension rights in the new system. Such a mechanism would preserve retirement plans of workers leaving the public service soon and ease the transition between private and public service.

A related issue is the management of the mandatory pension scheme. As the proposed mandatory pension scheme is a pay-as-you-go (PAYG) system and will need adjustments of the parameters because of the ageing of the population, a public entity with clear a governance structure is better suited to manage the system. A public entity or agency should manage the mandatory pension scheme. However, the governance of the public entity should be transparent and its management duly selected. First, the board composition should be broadened to include representatives of private sector employees and employers. Second, a specific body should be established and tasked to review the parameters of the system with regard to life expectancy evolution, labour market dynamics, etc. That body would make recommendations to the government for the evolution of the parameters of the scheme to guarantee its adequacy, funding and sustainability.

Introducing a mandatory pension scheme with a 10% contribution rate will affect the structure of the retirement fund industry. Indeed, a 10% contribution rate will crowd out part of actual contributions to occupational pension and provident plans. Provisions should be adopted guaranteeing that existing plans will not be dismantled for workers above 50 years (less than ten years to retirement age) that would not be covered by the new mandatory scheme. Moreover, there should be mandatory negotiations between workers' representatives and employers in firms or sectors providing occupational plans to set up continuation conditions of occupational plans so that workers can complement the mandatory retirement benefit. Finally, as already mentioned, incentives to consolidate the retirement industry should be provided to raise efficiency.

The NSSF will also provide disability and survivor benefits. Part of the contributions to the NSSF will cover risk benefits. A clear distinction between disability and survivor benefits should be made and between events happening during working age and retirement. During the working-age period, disability provisions should be further consolidated with existing risk funds (the Compensation fund). Whereas the disability and survivor benefit provisions seem reasonable, their funding scheme with regard to pension financing is not clear. As pension liabilities will grow overtime, a clear separation of pension provisions including pension survivor benefits from disability benefits is important for monitoring pension liabilities and financing needs.

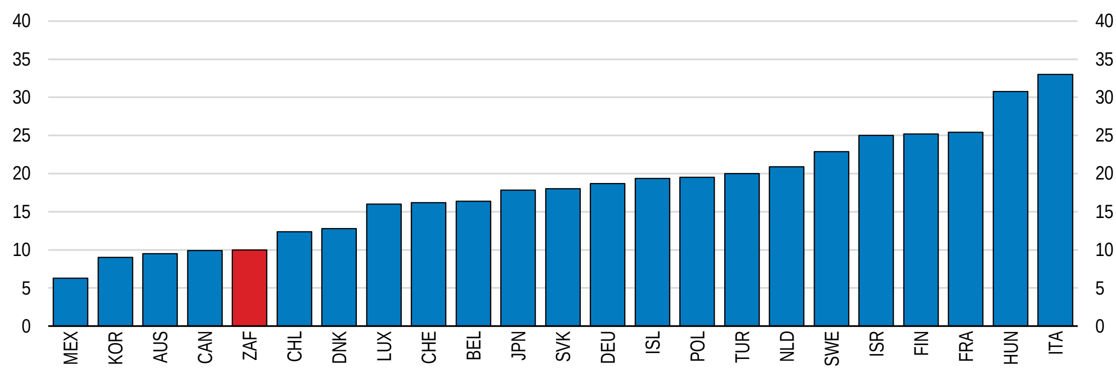
Choosing the main parameters of the mandatory pension scheme

The government proposal has opted for a defined benefit pay-as-you go scheme (PAYG). Some parameters are key for the financial sustainability and adequacy of defined benefit schemes (Fall and Bloch, 2014). In particular, the robustness of PAYG defined benefit schemes to macroeconomic trend changes (productivity, ageing or migration) will depend on the capacity to adjust key parameters such as contribution rates, retirement age or the accrual rate (Fall, 2014).

The contribution rate to the NSSF is proposed to be 12% decomposed as 2% for the unemployment insurance and 10% for the retirement and risk benefits (disability and survivor benefits). The 10% contribution rate is not particularly high when compared to the OECD average (Figure 1.11). Canada and Australia have a pension scheme that is close to that proposed in South Africa. The public pension in Canada targets a 25% replacement rate for a 9.9% contribution rate. However, in Canada and Australia, occupational pensions and capital income constitute an important share of old-age income. Moreover, many old-aged people have to rely on work income in these countries. Work income represents 26% and 24% of the income of old people in Australia and Canada respectively (OECD, 2017b).

Figure 2.12. The proposed contribution rate is not high

Mandatory pension contribution rates for an average worker in 2016, %



Note: In some cases, pension contribution revenues have been calculated assuming that the revenues are split between different social security programmes in the same proportion as the contribution rates. The total contribution includes payments from people who are not employed (principally the self-employed). In Denmark the ATP contribution is expressed as percentages of AW earnings of DNK 412 555.
Source: OECD (2017), OECD Pensions at a glance 2017 and OECD calculation.

StatLink http://dx.doi.org/10.1787/888934006138

The adequacy of the proposed pension scheme relies heavily on the old-age grant and the length of the contribution period. OECD simulations show that for a 0.6% accrual rate per year of contribution, a 24% replacement rate (out of average career wage) is reached only after 40 years of contributions (see Fall and Steenkamp, 2020, Table 1).

If the accrual rate is 1% per year then the replacement rate reaches 20% for 20 years of contributions and 40% for 40 years of contributions (see Fall and Steenkamp, 2020, Table 1, Scenario B and C). The overall replacement rate depends on the old age grant, which all workers will receive if universalised. Therefore, to reach the targeted average 40% replacement rate, there is a trade-off between 0.6% accrual rate plus a universal old-age grant and a 1% accrual rate without an old-age grant.

An important dimension to take into account when setting the parameters of the scheme is the evolution of life expectancy. South Africa's demography is favourable for setting up a PAYG pension scheme, as overall life expectancy is low. However, life expectancy of participants in the pension scheme (workers and high-income earners) is higher than the average (Balestra et al., 2018). Old age longevity is expected to improve over time and could accelerate as well as survival probabilities at all age, as health delivery and living conditions improve.

Simulation of an ageing scenario where South Africa reaches the old age survival probabilities of Brazil shows that the individual actuarial balance of the scheme becomes highly favourable to individuals and may threaten its sustainability (see Fall and Steenkamp, 2020, Ageing scenario, Table 2 vs scenario D, Table 2.4). It means that a mechanism to adjust regularly the parameters of the scheme should be established from the beginning to guarantee the sustainability and adequacy of the pension scheme with regard to demographic evolutions.

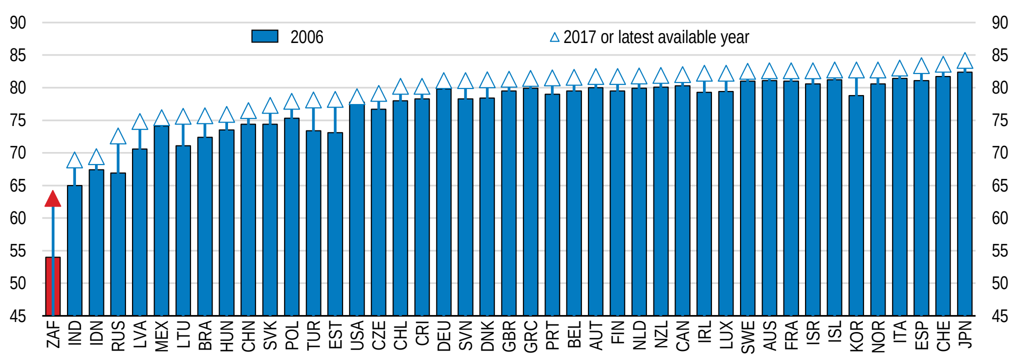
Reforming the health care system for better quality, access and efficiency

Overview of health outcomes, healthy life styles and preventive policies

Although many health outcomes have improved significantly over the last decade, there is ample room for improvement. Life expectancy has increased in the last ten years from 54 to 63 years (Figure 2.13). The infant mortality rate has decreased from 39 to 23 infant deaths per 1 000 live births between 2009 and 2017; it is, however, still high by OECD standards. Prevention and treatment of tuberculosis and diseases of the respiratory system also show noticeable progress. However, tuberculosis remains a challenge, with a high number of new cases and multi-drug-resistant cases.

Figure 2.13. Life expectancy is improving

Life expectancy at birth, total population, years

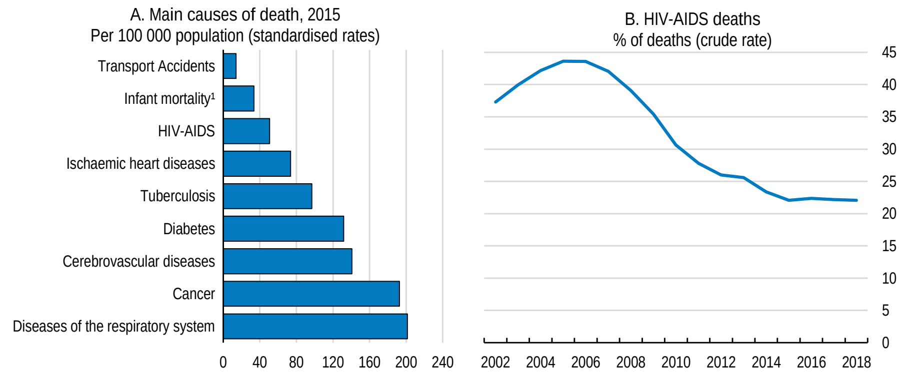


Source: OECD Health Statistics; Statistics South Africa.

StatLink http://dx.doi.org/10.1787/888934006176

The improvement in life expectancy is also a result of important government investment in the ARV programme that is now funding treatment for 4.6 million people. While deaths related to HIV/AIDS have more than halved since 2006, it is expected to contribute to further improvements of life expectancy (Figure 2.14). However, several diseases still cause high death rates, which are above OECD standards. In particular, diseases of the respiratory system, cancer and cerebrovascular disease's display high death rates (Figure 2.14). Diabetes treatment has seen no progress in the last ten years.

Figure 2.14. Despite progress, the main causes of death are still high



1. Deaths per 1 000 live births.
Source: OECD Health Statistics; Statistics South Africa.

StatLink http://dx.doi.org/10.1787/888934006195

Box 2.3. Health Policy response to COVID-19

A strict national March 26 at the strictest level (5). The lockdown was alleviated on the June 1 and put in level 3, giving more freedom of movement. The Level 3 allows persons to leave their place of residence to travel to work, buy goods and services, to move children or attend a school or learning institutions for instance. The nationwide lockdown was accompanied by a public health management programme. The initial strategy has focused mainly on behaviour change (for example, social distancing, wearing masks and not going to work when sick), early detection of cases through community screening and testing, contact tracing, disease surveillance and public health campaigns to reduce transmission of the virus in communities. By end of June, 1.630 million tests were conducted, 151 thousands positive cases identified and 2 657 deaths.

The national institute for communicable diseases (NICD) reported 10 700 COVID-19 admissions from 269 facilities (71 public sector and 198 private sector) between March 5 and June 21, 2020. These were the key findings:

- Among 8 245 (77%) patients with data on co-morbid conditions, 2 810 (34%) had one co-morbid condition and 3126 (37%) had two or more co-morbid conditions.
- Of the 5 836 patients who had a co-morbid condition, the most commonly reported were hypertension 3419 (59%) and diabetes 2813 (48%); and there were 1 116 (19%) patients admitted with HIV, 240 (4%) with active tuberculosis (TB) and 579 (10%) patients with previous history of tuberculosis.
- Obesity, while not consistently recorded for all reported COVID-19 admissions, was noted by clinicians as a risk factor in 297 (3%) patients.
- Some of the factors associated with in-hospital mortality were older age groups; male sex; and having co-morbid hypertension, diabetes, chronic cardiac disease, chronic renal disease, malignancy, HIV and obesity.

As the pandemic evolves, the strategy has shifted towards managing the increased volumes of patients that require hospital care. The objective is to rapidly scale up the capacity of hospitals to treat COVID-19 patients, including within intensive-care units. It is planned to set up field hospitals and other temporary facilities, procure equipment, recruit staff and buy medicines.

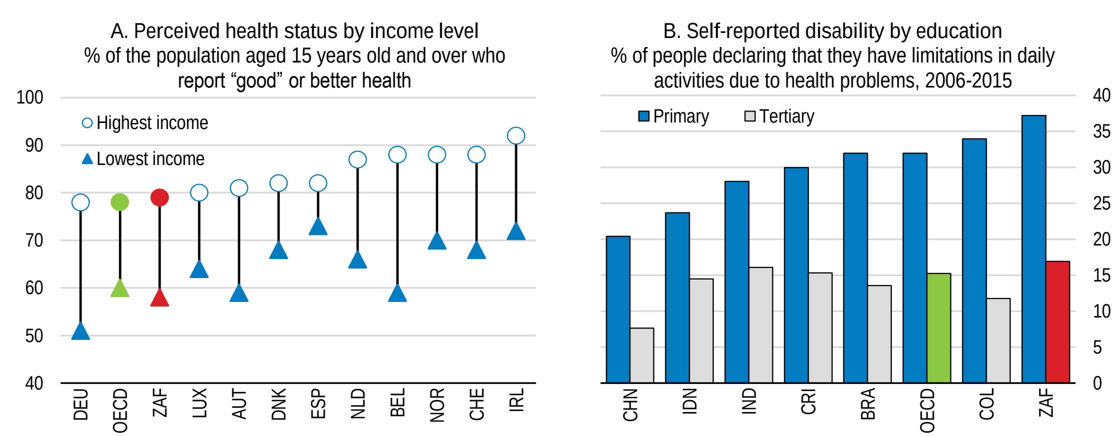
In response to the COVID-19 crisis, closer co-operation and pooling of available resources between the public and private sectors has been initiated. Most of the intensive/critical care beds are in the health private sector. Estimates vary widely. In April, the ministry of health estimated the total number of critical beds at around 3 300, with two-thirds of those in the private sector. However, healthcare provider Netcare estimates there are some 6 000 beds, with around 3 800 in private hospitals. Early June, the government and the health private sector representatives agreed on a daily fee of up to 16,000 rand ($950) for COVID-19 patients that get treated in critical care beds in private hospitals.

The government has increased financial support to the health sector to cope with the pandemic. In the June Supplementary Budget, ZAR 25 billion has been allocated to the health sector to cope with expenses related to the pandemic. In addition, ZAR 445 million has been allocated through the disaster funds mainly for personal protective equipment for health workers.

Source: National Treasury, Supplementary Budget, June 2020 and Ministry of Health, press release.

Despite formal equal access, health outcomes vary significantly by socio-economic status. There are still substantial differences in life expectancy and health status according to race, education and income (Statistics South Africa, 2018b). High-income individuals report having a better health status than low-income individuals, as in all countries. However, the difference between the two groups in South Africa is not as large as in many OECD countries (Figure 2.15, Panel A). The gap between the share of individuals reporting a disability amongst tertiary educated people and those with primary education is the highest among OECD and emerging countries (Figure 2.15, Panel B). These disparities may be explained by differences in the quality of health care accessed, financial access barriers, in living and working conditions, and in smoking and other risk factors.

Figure 2.15. Health inequalities are high



Note *for panel B*: Data are pooled across all available years 2006-2015.
Source: OECD (2017), OECD Better Life Index; Balestra, C., et al. (2018), "Inequalities in emerging economies: Informing the policy dialogue on inclusive growth", OECD Statistics Working Papers, No. 2018/13, OECD Publishing, Paris, https://doi.org/10.1787/6c0db7fb-en.

StatLink http://dx.doi.org/10.1787/888934006214

The government has devoted important efforts to stop the HIV/AIDS pandemics, treat millions of individuals, prevent the mother-to-child transmission of the disease and develop preventive policies. Efforts preventing non-communicable diseases and strengthening the promotion of a healthier lifestyle have to be strengthened.

Obesity rates have reached alarming levels in South Africa. 37.3% of adult women are obese; this is the third highest rate among OECD and partner countries, just below Mexico and the United States (Figure 2.16, Panel C). As obesity is linked to the prevalence of diabetes and chronic diseases, it drives negative health outcomes and also increases in related health costs. Obesity is linked to co-morbid diseases like diabetes, hypertension, diseases of the respiratory system and cerebrovascular diseases that have a high mortality incidence in South Africa (Figure 2.14). In particular, type 2 diabetes is highly prevalent among obese black women in South Africa (Kruger et al., 2005).

The government has developed a national health promotion policy and a strategy for the prevention and control of obesity in South Africa (2015–2020). These programmes include actions targeting weight goals, healthy eating, physical activity and behavioural change (Department of Health, 2015a). The strategy identifies community services and primary health care services as the key actors for prevention and early detection. The implementation of these actions should be scaled up. South Africa has introduced a tax on sweetened beverages. The sale of sweetened beverages in school should be banned and preventive health messages linked to their advertisement.

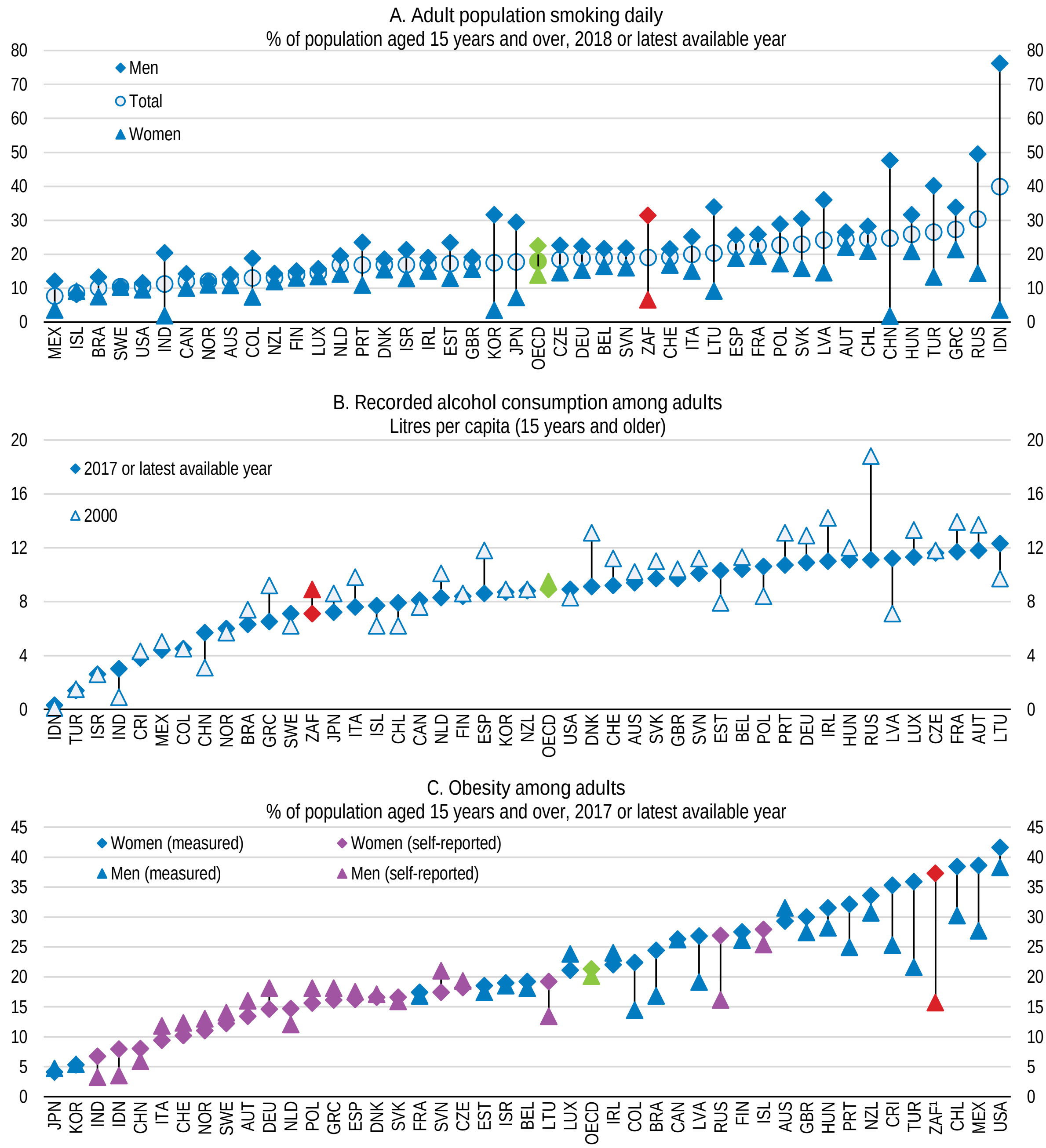
Early school-based prevention programmes to promote a healthy lifestyle can reduce the prevalence of diabetes, whereas early control, counselling and quality management in the primary care sector can avoid high costs due to chronic complications that are common for diabetes when left untreated or poorly controlled (OECD, 2014b). South Africa has already a health programme targeting schools. It should be generalised to all schools and used to interact with parents to raise awareness of the risks linked to obesity, provide advice on diet and sports activity.

General practitioners and medical schemes should be incentivised to take on a greater role in prevention and chronic disease management as a fundamental part of their role as primary care provider. For example, they could act as main co-ordinator between primary and specialist care, while also supporting the patient through patient education and strengthening self-management practices (OECD, 2014b).

Tobacco consumption remains high, as 19% of the adult population are daily smokers. The rate of smokers is particularly high among men at 31% (Figure 2.16). Deaths related to tobacco consumption are high (Fuchs et al., 2018). Since 1994, the government has raised the tax on tobacco significantly. The combined excise tax and the value added tax was increased from 32% of the retail price to reach 50% by 1997. In 2006, the total tax target was increased to 52%. However, the tax burden of 52% (i.e. excise tax plus VAT) of the retail selling price of the most popular brand in each tobacco product category was changed in Budget 2015 to focus on excise tax component alone (i.e. removed the VAT component) to equate to 40%. Since 2017, tax on tobacco has further increased every year.

The authorities' efforts to reduce tobacco consumption have shown effects as the proportion of regular smokers among adults in South Africa has declined markedly over the past two decades (31.0% in 1994 and 19% in 2016). The tobacco tax policy is credited for the decrease in tobacco consumption (Van Walbeek, 2002). (Stacey et al., 2018) argue that a more aggressive excise tax policy could lead to improvements in health and raise revenue. They estimate that an excise rate of 60% on tobacco would result in a gain of 858 923 life years (Stacey et al., 2018). Efforts to reduce tobacco consumption should be pursued both by further increasing taxes and specific information and education campaigns. The draft tobacco bill presented by the government in May 2018 to further regulate sale and advertising of tobacco products and packaging is a move in the right direction.

Figure 2.16. Health risk factors are high



Note: Self-reported.
Source: OECD Health Statistics Database.

StatLink http://dx.doi.org/10.1787/888934006233

Alcohol consumption is high. 33.1% of above 15 years olds reported drinking alcohol and 15.9% and 2.7% of men and women respectively are alcohol dependent (Health System Trust, 2018). Moreover, of all drinkers, 43% reported binge drinking representing 14.1% of the total population. The average quantity of alcohol drunk per adult, at 7.5 litres, is below the OECD average, but still high (Figure 2.16).

Since 2002, South Africa has been increasing the tax on alcoholic beverages. In 2012, the alcohol tax burden as a percentage of the weighted average retail selling prices for wine, beer and spirits were 23, 35 and 48% respectively (National Treasury of South Africa, 2014). However, the tax burden (i.e. excise tax plus VAT) was changed in Budget 2015 to focus on excise tax component alone (i.e. removed the VAT component) to equate to 11%, 23% and 36% for wine, beer and spirits respectively. In almost all the following years, the tax on alcoholic beverages was raised with a different treatment for local beer with low alcohol content and wine, to limit the impacts on low-income individuals and on wine producers.

Policy measures targeted to reduce alcohol consumption should follow an integrated approach that extends beyond price incentives, including educational and preventive programmes. These include measures targeting underage drinking, drinking during pregnancy, drunken driving, and alcohol abuse behaviour such as binge drinking. Additional measures to reduce alcohol consumption could therefore include the banning of advertisement, restricting places of sale as well as strengthening preventive programmes targeted at vulnerable population groups, which tend to consume more alcohol (National Treasury of South Africa, 2014).

Improving the coherence and organisation of the health care system

Inefficient health spending structure

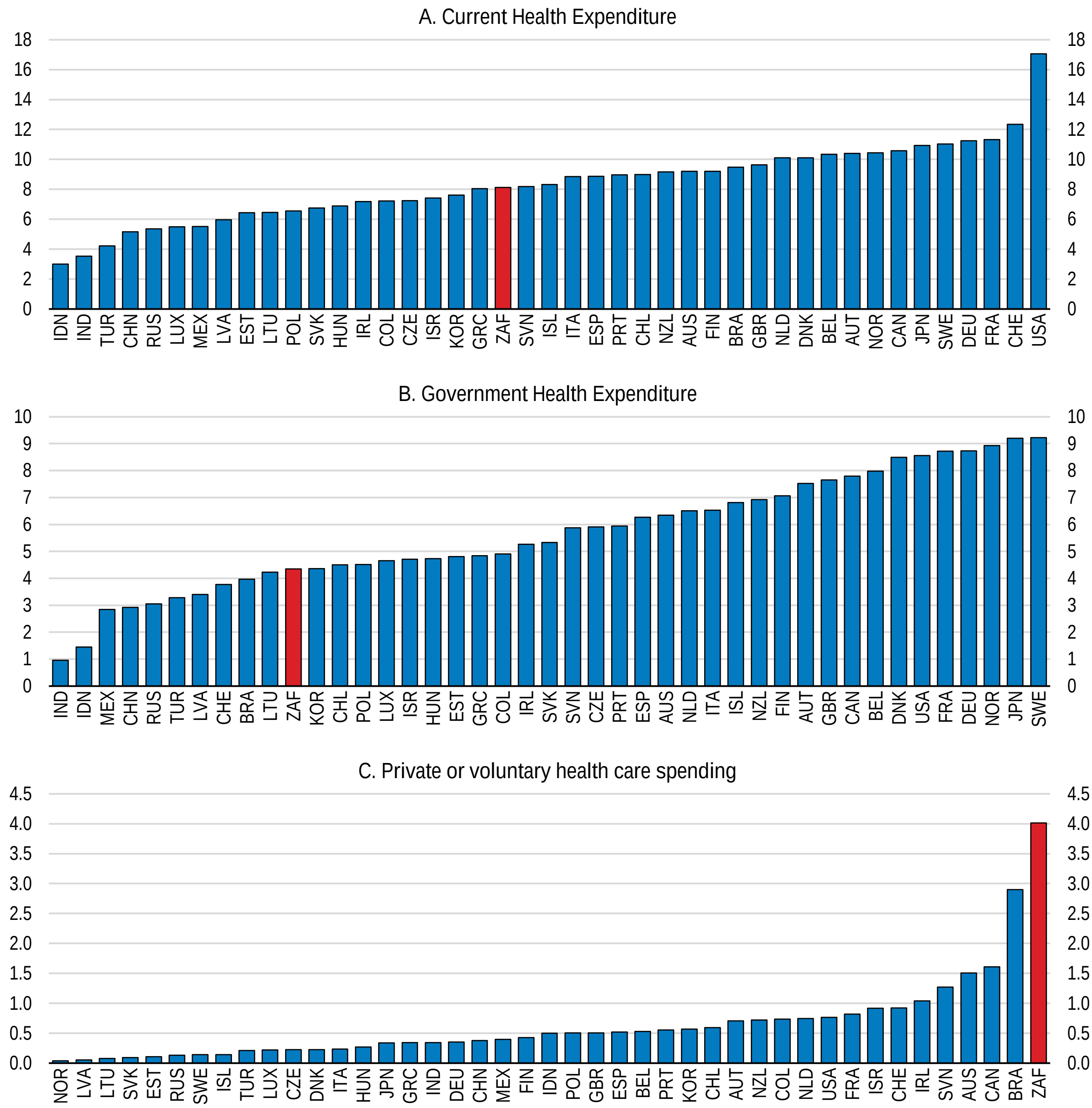
At 8.1 % of GDP in 2016, health spending seems high for an emerging economy and is comparable to the OECD average (Figure 2.17, Panel A). However, the total spending masks an unbalanced structure and important inefficiencies. In particular, government spending is low while private spending is the highest amongst OECD and emerging countries (Figure 2.17, Panel B and C). Government health spending has been increasing only slowly since 2010 by 0.1% of GDP per year and most of the increase has been due to wages and HIV/AIDS treatment.

The unbalanced private and public structure of spending accentuates inequalities. Public health services cover all citizens but some people above a means-tested income threshold are subject to co-payments. However, private voluntary health insurance covers 16.9% of individuals, but amounts to half of the country's health spending (Statistics South Africa, 2018b).

Many households not holding a private insurance use private facilities instead of free access to public facilities, because of perceptions of poor quality of health services and difficult access (waiting time and unsatisfactory conditions) of public health-care facilities. 27.4% of households indicated that they would go to private doctors, clinics or hospitals, even though they do not have a private insurance (Statistics South Africa, 2018b). This indicates that there is room to improve health spending. Inefficiencies are also high in the private health sector where unregulated price increases are not related to the quality of services (Competition Commission, 2018) (see section 2.4.3 below).

Figure 2.17. Health spending is mostly private

Spending as % of GDP, 2017



Source: WHO Global health expenditure Database.

StatLink http://dx.doi.org/10.1787/888934006252

Within the public sector, there is room to improve the allocation and execution of health spending (James et al., 2018). South Africa has a three-level government structure (National, 9 provinces and 278 municipalities). Public providers owned by provinces and municipalities deliver most government health services. Provincial health budgets are transferred from national government, on average 80% from the allocation formula and the other 20% are conditional grants based on priority areas as HIV/AIDS interventions, infrastructure projects and are needs based (James et al., 2018). The allocation of conditional grants is the responsibility of the Department of Health and reflects differences in provincial needs.

Most of the inefficiencies in public health spending lie at the provincial level. The use of the budget allocated to the health sector at the provincial level is entirely a province-level decision. There are important disparities in the amount spent on health across provinces not necessarily related to health needs. More transparency is needed at the provincial level on the budget allocation to the different health care sectors to guarantee that the health sector is appropriately financed. Health facility budgets are not standardised across provinces (James et al., 2018). Regularly updating the budget allocation process at the provincial level will help to better match the needs of the different sectors. Developing diagnosis-related groups will help in assessing the needs of health care providers and give incentives to managers for better performance. Moreover, improving the capacity of district hospitals and managers of district health offices in budgeting would be an important first step to ensure their needs are better reflected in the budgets.

Finally, the wage bill and its strong increases are a binding constraint on public health providers' activities. The growing number of personnel and substantial wage increases drive the rise in the wage bill, while the budget allocation by central and local government has not matched these increases in the recent years, crowding out maintenance of facilities and now freezing employment.

Challenges related to introducing a National Health Insurance scheme

The dual health system is not optimal in terms of funding arrangements and use of health facilities. While public health providers are for the benefit of all citizens, they receive those that are most exposed to diseases and the most fragile segments of the population. The lack of coordination between public and private health care facilities creates an overuse of public facilities while the prices of private facilities are high, due in part to lower volume.

To address the failure of the current health system, the Department of Health has initiated an overhaul of the health system through the introduction of a National Health Insurance (NHI) fund. A white paper on the introduction of the health insurance fund was published for comments in 2015 and 2017 and a draft bill in July 2018. The NHI fund aims to provide universal health coverage. Tax revenues and mandatory contributions would finance the NHI. In the white paper, different financing scenarios have been considered, including a payroll tax, VAT and a supplementary income tax earmarked for health spending (Department of Health, 2015b). Further analyses of the financing of the NHI initiatives with the introduction of a mandatory pension schemes are provided in section 5 below.

The NHI fund would contract with public and private health care providers based on a large basic basket of health benefits including primary care, emergency and hospital-based services. It would act as a single buyer and provider of health care, excluding the existing 80 private insurance schemes (medical schemes). Such a player should have the capacity to better negotiate prices –provided public tenders are fair and competitive-, ensure risk pooling and generate efficiency gains.

There are many controversies and concerns around the introduction of the national health insurance initiative. One of the major issue is the co-existence of private health insurers with the NHI. Indeed, the introduction of the health insurance fund has strong implications for the private insurance industry. There are three options:

- First, the NHI is the only player and private insurance schemes are given no role in the NHI. In this case, employees while contributing to the NHI may still revert to medical schemes or private health care providers for any need not covered by the NHI or if they are not satisfied with the service provided by the NHI. This option would take no advantage of the skills, infrastructure and knowledge of the existing insurance industry to run a complex mandatory public provision and private health delivery relationships. Also, private health spending is a voluntary contribution decided by individuals or through collective agreements provided by the employers. The failure of the public service to deliver quality health care has led to individuals opting for private insurance despite the higher contributions. Therefore, unless the quality of public health services is improved, the introduction of the NHI may not eliminate the need for private insurance. However, the introduction of mandatory contributions to the NHI will limit the affordability of private insurance for households.

- Second, there is a complementary role left for private insurance as the scope of coverage of the NHI is then focused on primary care and a prescribed minimum basket. The complementary role can have two dimensions, one is to top up the share of payments not covered by the NHI and the other to cover treatments not offered through the NHI.
- The third option is to allow individuals to decide which medical scheme, including the NHI, will administer their NHI contract. In that case, individuals are entitled a NHI coverage/contract with an annual value and a defined benefit package and they choose among health insurers one administrator of their insurance. The NHI would be in charge of collecting contributions, defining the benefit package and the pricing of included health services. The health insurers would compete to attract members without the possibility to charge any additional fees for the services included in the benefit package.

The government has decided to increase finance to public health and to roll out progressively the NHI. It means that for a long time the NHI will coexist with private insurance schemes. Individuals would eventually renounce to their private insurance only if the quality of care and the administrative efficiency of the NHI are substantially higher than current performance of the public health care. In the meantime, the scope of private health insurers to set multiple benefit options and supplementary benefits and premiums leading to risk selection and small, fragmented risk pools should be limited and regulated. The benefit package of the NHI contract should be clearly defined and a ceiling in administration costs set.

The introduction of the NHI is in its second preparatory phase. It is crucial to build administrative capacities for performance-based management, including the introduction of diagnostic-related group pricing mechanisms for hospital and specialised services and capitation for primary care. An important part of the role of the NHI will be to control cost developments to ensure affordability of health care and incentives for investing in equipment and new efficient treatments. Moreover, the distinction between national health policy and related programmes and their financing and health care services through NHI should be clarified.

The health insurance market

The private health sector represents half of the health spending, but caters to only 16% of the population. The private sector has two components: the medical insurance schemes that provide health coverage to insured individuals and their relatives and private health care providers such as private doctors, clinics and hospitals. In 2017, there were 21 schemes open to all individuals and 59 restricted schemes mostly sponsored through employment (Table 2.4). Some schemes are small: 34 schemes have below 15 000 beneficiaries. On average, one member covers 1.2 dependents. Most of the schemes offer more than two benefit options, which leads to a segmented market. The Prescribed Minimum Benefit (PMB) package, defined by the government and monitored by the Council for Medical Schemes, is the only common feature.

The main concern in the private sector has been the rising tariffs of health care reflected in medical scheme contribution increases for comparable or lower health care benefits. Contributions and spending have been increasing steadily in the last decade (Figure 2.18). The average contribution rate increase across the medical scheme industry was 11.3% between 2016 and 2017 and 7.2% between 2017 and 2018 while inflation was 6.4% in 2017 and 4.7% in 2018 (Council for Medical Schemes, 2018). OECD analyses found that South Africa's hospital prices are high and comparable to advanced countries like the United Kingdom, Germany and France (Lorenzoni and Roubal, 2016). Apart from health care prices, among the factors that may explain the rise of the cost of medical insurance are the low degree of competition in the market, the cost of administration, the role played by the prescribed minimum benefit package and the number of options.

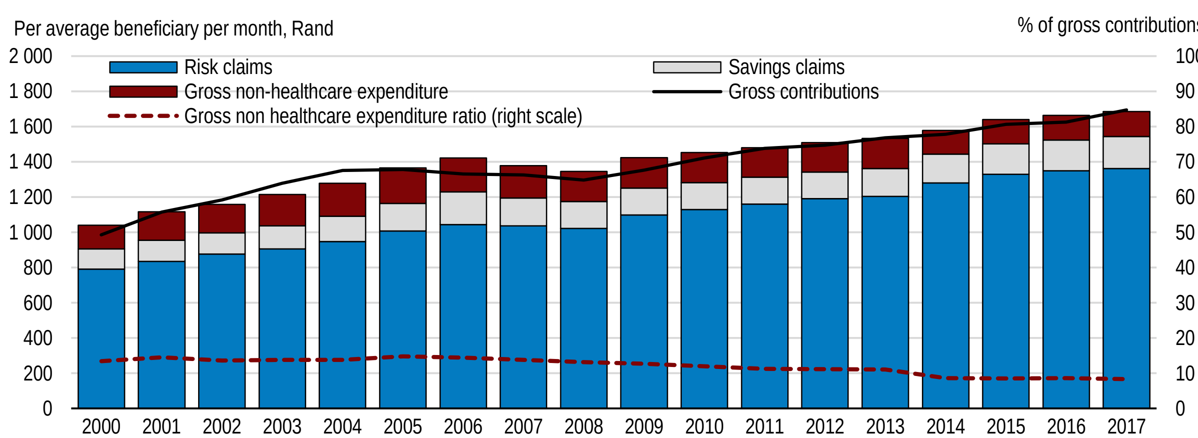
Table 2.4. Main indicators of the medical scheme industry

	Open	Restricted	Total
Number of schemes	21	59	80
Members	2 366 197	1 646 525	4 012 722
Dependants	2 594 258	2 265 056	4 859 314
Beneficiaries	4 960 455	3 911 581	8 872 036
Dependent ratio	1.21	1.38	
Number of options	137	141	278
Average number of options	6.50	2.40	3.50
Brokers costs (%GCI)	2.0%	0.1%	1.2%
Administration expenditure (%GCI)	8%	6%	7%

Source: Council of Medical Schemes Annual Report, 2018.

Figure 2.18. Financial structure and evolution of medical schemes

Claims and non-health care expenditure (2017 prices)



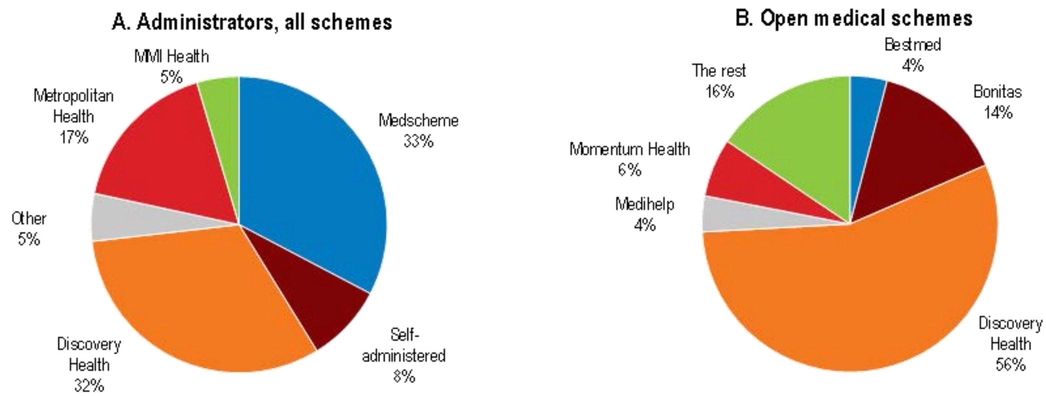
Source: Council of Medical Schemes, 2018 annual report.

StatLink http://dx.doi.org/10.1787/888934006271

The low number of actors in the medical insurance industry can explain the rising tariffs (Figure 2.19). In the open schemes market, the market share of the biggest scheme is 55% and the top three represent 75% of the market. In the restricted schemes market, the market share of the biggest scheme is 47% and the top three represent 66% of the market. The preliminary conclusions of the assessment conducted by the Competition Commission point to regulatory barriers (minimum size for starting, reserve ratio, financing conditions) that limit entry in the market and no vigorous competition between open schemes (Competition Commission, 2018). The Competition Commission recommends facilitating the entry of regionally based schemes. However, medical schemes are non-profit organisations. Therefore, the room for competition is linked to the administration fees, the quality of care and the client-relationship management. It is not clear that more medical schemes will bring value and may reduce risk pooling.

Figure 2.19. Market concentration in the private health care sector

Market shares, 2017



Source: Council of Medical Schemes, Annual Report 2018, https://www.medicalschemes.com/files/Annual%20Reports/CMS_AnnualReport2017-2018.pdf.

StatLink http://dx.doi.org/10.1787/888934006290

Administrators covering 91.5% of beneficiaries manage most of the medical schemes. Administrators are for profit organisations that operate medical contracts on behalf of medical schemes and receive management fees. The top three administrators cover 81.7% of beneficiaries. The self-administered medical schemes only cover 8.5% of beneficiaries. The fees paid to these administrators represented on average 7% of the gross contribution income in 2017, with open schemes incurring higher administration fees. Moreover, brokers intervene in the market, with ambiguous relationships with medical schemes. Fees paid to brokers represented 1.2% of the gross contribution income but they also pay some affiliation royalty fee to medical schemes. The Competition Commission found that the interests of the for-profit administrators are dominant and scheme members and trustees are too weak or disempowered to force administrators to deliver value for money. Non-healthcare expenditure represented 8% of gross contribution income in 2017 and for the 10 largest schemes it ranges from 7.4% to 11.9% of gross contribution income compared to only 3% on average for OECD countries (Council for Medical Schemes, 2018). As medical schemes are non-profit organisation and members' contributions are subsidised, the government could put a ceiling on the share of fees paid to administrators. This ceiling could be determined by comparing the administration cost of the different schemes, referring to international best practices and set in a range between 3 and 5% including brokers' fees.

The number of options in the medical schemes increases the complexity for clients and limits the risk pooling. On average, open schemes had 6.5 options per scheme and an average of 17 272 members per option. Restricted schemes had an average of 2.4 options per scheme, with an average of 11 677 members per option. The number of options per scheme should be limited to three (basic, middle and high) with a basic option corresponding to a revised prescribed minimum benefits package (PMB). The system of options confuses clients on the benefits provided by the prescribed minimum benefits package (Competition Commission, 2018). Moreover, the PMB could contribute to rising health costs, although the Competition Commission did not find convincing evidence that the PMB is driving up costs. However, the Competition Commission observed a shift in diagnosis patterns from non-PMB to PMB diagnoses by all medical service providers, but particularly by medical specialists. This may reflect practitioners' abuse of coding and supply-induced demand behaviour.

The NHI framework plans to reform the prescribed minimum benefits to provide a broader coverage. Broadening the coverage of the PMB will limit the need for extra-options. However, it would require strengthening the control of the pricing of services covered by the PMB and the referral system of care.

In particular, it should cover for more out-patient care to limit the admission of patients to hospitals, which often comes at a higher cost. Moreover, currently, medical schemes have little or no bargaining power over prices once a treatment is classified as covered by PMB package. This incentivises health providers to prescribe more services if the patient can access PMB benefits. Also, the access and implementation of the PMB is considered overly complex. The revised form of the PMB should be simple, easy to implement and requires defining clear guidance classification of health care services and developing a universal and agreed coding system.

Improving the delivery of health care

Reforming the primary and outpatient care sector

Developing a well-performing primary health care system is recognised as key for the success of the NHI and better health outcomes (Department of Health, 2015b). South Africa has chosen a decentralised management system of health care with the district health system being the level at which delivery of primary care is organised. The primary health care system has been seriously challenged by the emergence of the HIV/AIDS epidemic, and associated tuberculosis, as well as the quadruple burden of this disease, which includes violence and injuries, maternal and child mortality, and chronic non-communicable diseases (NCDs).

As part of the NHI initiative, a reorganisation and reinforcement of the primary health care system is underway. A list of national norms and standards has been established in part informed by the Ideal Clinic Project pilots. The objectives are to improve infrastructure and patient experience. Many clinics in the 10 NHI pilot districts are at various stages of infrastructure replacement, backlog maintenance and refurbishment in order to qualify for the Ideal Clinic status. Also, district clinical specialist teams have been set up to deliver maternal and child health care. Community-orientated primary care has also been implemented in some districts, where teams of community health workers, supported by nurses, take responsibility for addressing health needs of a designated group of households.

However, there are still many shortcomings in the delivery of primary health care leading to poor health outcomes and long waiting times for hospital services. Access to primary care facilities is uneven across provinces and districts contributing to congestion in hospital services. In rural areas access can be difficult due to long distances to public health facilities (Mcintyre and Ataguba, 2017). Public clinics are the first level health facilities, but the quality is uneven among provinces (Table 2.5). Among the public clinics, only 43.5% qualify for ideal clinics with important disparities among the provinces. (Health System Trust, 2018). The government should accelerate the upgrading of public clinics, which are essential for better primary health care delivery and the success of the NHI.

The low number of health professionals and their distribution across provinces and between public and private facilities restricts access to quality care in many districts (Table 2.5). The number of doctors and nurses is low, in particular when compared with OECD countries (Figure 2.20). Moreover, private doctors and specialists outnumber the public health practitioners. This contributes to the lack of doctors in rural areas and in primary care facilities. As a consequence, first-contact primary care is mainly offered by nurses in 80% of all consultations in the public sector and there is evidence that nurses struggle to substitute for medical generalists (Mash et al., 2016).

The low number of health practitioners leads to a high workload, in particular in public health facilities. The average number of patients seen per professional nurse and clinical doctor per workday is 25.4 and 21 respectively (Health System Trust, 2018). The high number of patients weighs heavily on the quality of care and satisfaction of patients in the public service. Moreover, the distribution of associated practitioners, such as retail pharmacists, is also uneven and contributes to low access (Mcintyre and Ataguba, 2017). The government has initiated programmes to increase the number of doctors by sending many students to Cuba and urging national universities to increase study places for doctors and nurses.

More effort and financing should be devoted to medical faculties to increase their capacities. Increasing the number of health practitioners is key for better health care delivery and would raise competition in the private sector and limit price increases.

Table 2.5. The distribution of health facilities and personnel across provinces is uneven

		Eastern Cape	Free State	Gauteng	Kwa Zulu Natal	Limpopo	Mpumalanga	Northern Cape	North West	Western Cape	South Africa
Population[1]	Number	6.4	2.8	14.2	11.0	5.7	4.4	1.2	3.8	6.6	56.5
	%	11.70	5.1	25	19.7	10.3	7.9	2.2	6.8	11.5	100
All health facilities		882	283	503	741	536	348	182	339	371	4 184
Public clinic		731	220	334	608	456	241	130	264	203	3187
Central Hospital		1	1	4	1					2	9
CHC/CDC[2]		41	10	39	21	26	56	33	46	67	339
District Hospital		65	25	12	39	30	23	11	13	34	252
Private Hospital		20	19	96	37	12	18	3	9	46	260
Provincial Hospital		3	1	3	3	2	2	1	2	1	18
Regional Hospital		5	4	9	13	5	3	1	3	5	48
Specialised Hospital		16	3	6	19	4	5	3	2	13	71
% Ideal clinics		20.4	51.1	78.6	63.5	25.2	30.3	55.3	39.3	54.3	43.5
PHC doctor clinical work load		18.9	15.5	21.6	21	19.1	15.1	12.9	11.2	26.7	21
PHC utilisation rate		2.3	1.9	1.5	2.5	2.5	2.1	2.2	1.9	2.2	2.1
Number of clinical associate workers		4 438	2 009	8 589	9 780	10 670	6 640	2 553	6 059	3 542	54 180
Number of enrolled nurses[3]		3 263	939	7 694	9 926	4 085	1 861	237	958	2 606	31 591
Number of professional nurses		15 552	8 056	36 948	32 530	12 116	7 551	2 278	9 885	17 176	142092
Nb. of medical practitioners including specialists	Public	2 080	957	5 543	4 189	1 308	1 157	478	1 050	3 064	19 828
	Private	872	958	9 418	3 437	240	398	144	373	6 421	23 675
Per capita public sector provincial expenditure (ZAR)		3 304	3 762	3 903	3 623	2 968	2 763	4 419	2 885	4 242	3 530

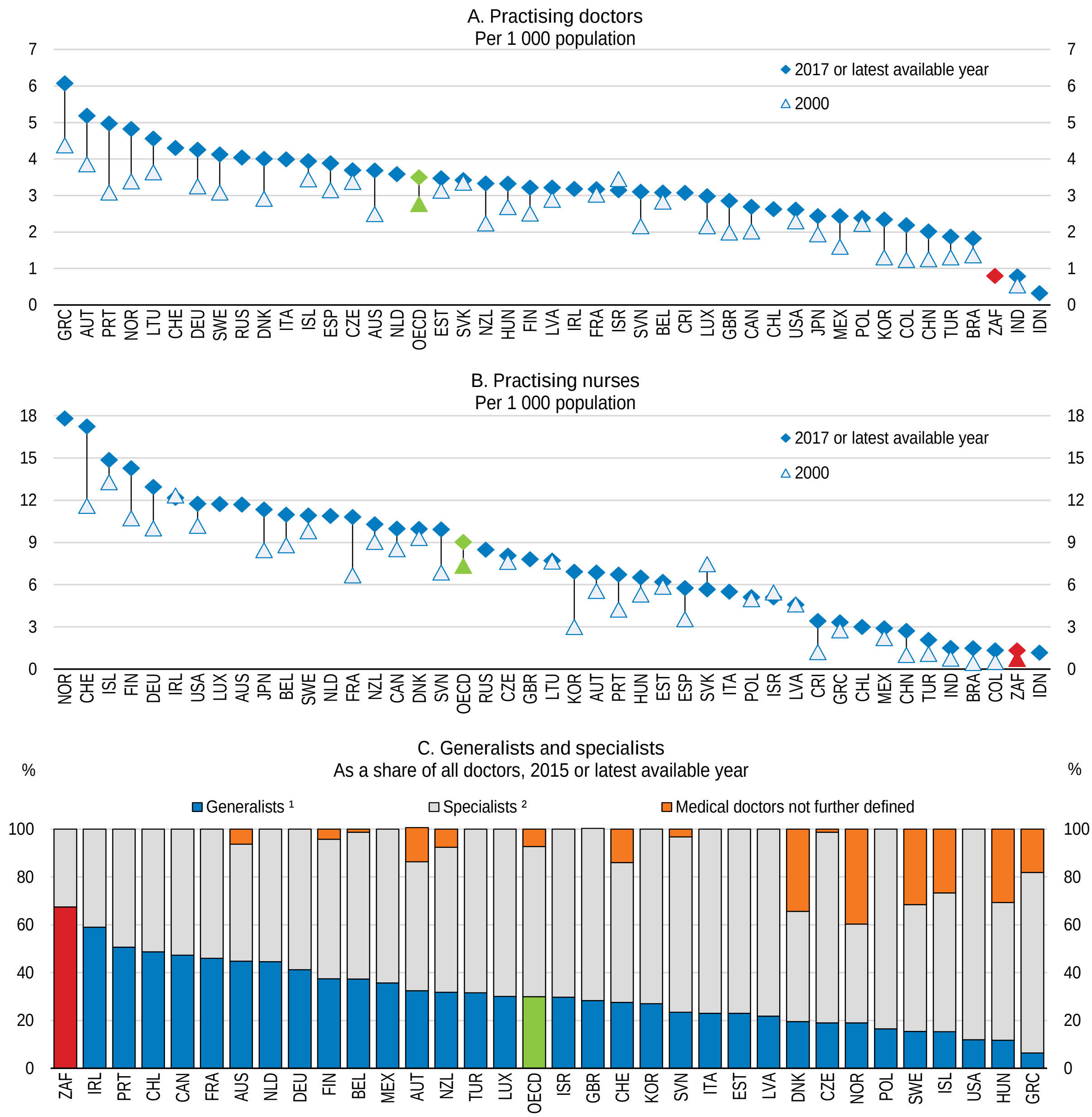
Note: 1) Mid-year 2017, whole population, million. 2) Public sector only. 3) Community Health Centre/Community Day Centre. PHC: Primary health care.
Source: South Africa Health Review 2018.

There are no information systems in the public and private sector to track the quality of health care delivered. This is harmful to public health care facilities as perceptions determine people's view of the quality of care. In 2017, 55.1% of patients were 'very satisfied' and 26.7% 'somewhat satisfied' with public sector health services, whereas the corresponding figures for private-sector health care were 91.5% and 5.8% (Statistics South Africa, 2018b). Sanitary conditions, waiting times and the lack of appropriate drugs are key determinants of low satisfaction (Mcintyre and Ataguba, 2017). The quality of care is affected by low availability of drugs (Bheekie and Bradley, 2016). The government has introduced the Office of Health Standards Compliance (OHSC), through the 2013 National Health Amendment Act, to assess health facilities. However, the OHSC inspections focus mostly on structural measures of the quality of care, such as the availability of physical, administrative and other infrastructure of facilities. An information system should be put in place to oversee the technical application of protocols and measure health outcomes. Such a system would incentivise managers and practitioners to provide better care quality.

South Africa needs to better co-ordinate the total existing general practitioners in the primary care service. There are around 19 000 established medical practitioners, working as primary care doctors in the private or public sector. A better co-ordination and contracting with private doctors is necessary to guarantee access to doctors in primary care. In the NHI framework, a mapping of private doctors with primary care facilities should be introduced. For instance, contracting private general practitioners to serve one or two days per week in public clinics will ease the burden for public hospitals. Moreover, the general practitioners should play a mandatory gate-keeping role. That would reserve hospital services for emergency and acute diseases. However, to make a significant contribution, these doctors need to be re-orientated and upskilled for their role in the future primary healthcare system (Mash et al., 2016).

The contract to attract private general practitioners to serve part-time in public facilities should be a mix of capitation fees and fee-for-service. For both GPs and specialists, the remuneration should include more quality-based components. Developing e-health and including incentives for GPs and specialists to co-operate through an electronic health system would also increase efficiency.

Figure 2.20. The number of health practitioners is low



1. Generalists include general practitioners/family doctors and other generalist (non-specialist) medical practitioners.
2. Specialists include paediatricians, obstetricians/gynaecologists, psychiatrists, medical, surgical and other specialists.

Note for panel A: Data Chile, Greece, and Portugal refer to all doctors licensed to practise, resulting in a large over-estimation of the number of practising doctors (e.g. of around 30% in Portugal). Data for Canada, France, Iceland, Slovak Republic and Turkey include not only doctors providing direct care to patients, but also those working in the health sector as managers, educators, researchers, etc. (adding another 5-10% of doctors).

Note for panel B: Data for France, Iceland, Ireland, Portugal, Slovak Republic, Turkey, the United States, include not only nurses providing direct care to patients, but also those working in the health sector as managers, educators, researchers, etc. Austria and Greece report only nurses employed in hospital. Data in Chile refer to all nurses who are licensed to practise.

Note for panel C: In Ireland and Portugal, most generalists are not GPs ("family doctors"), but rather non-specialist doctors working in hospitals or other settings.

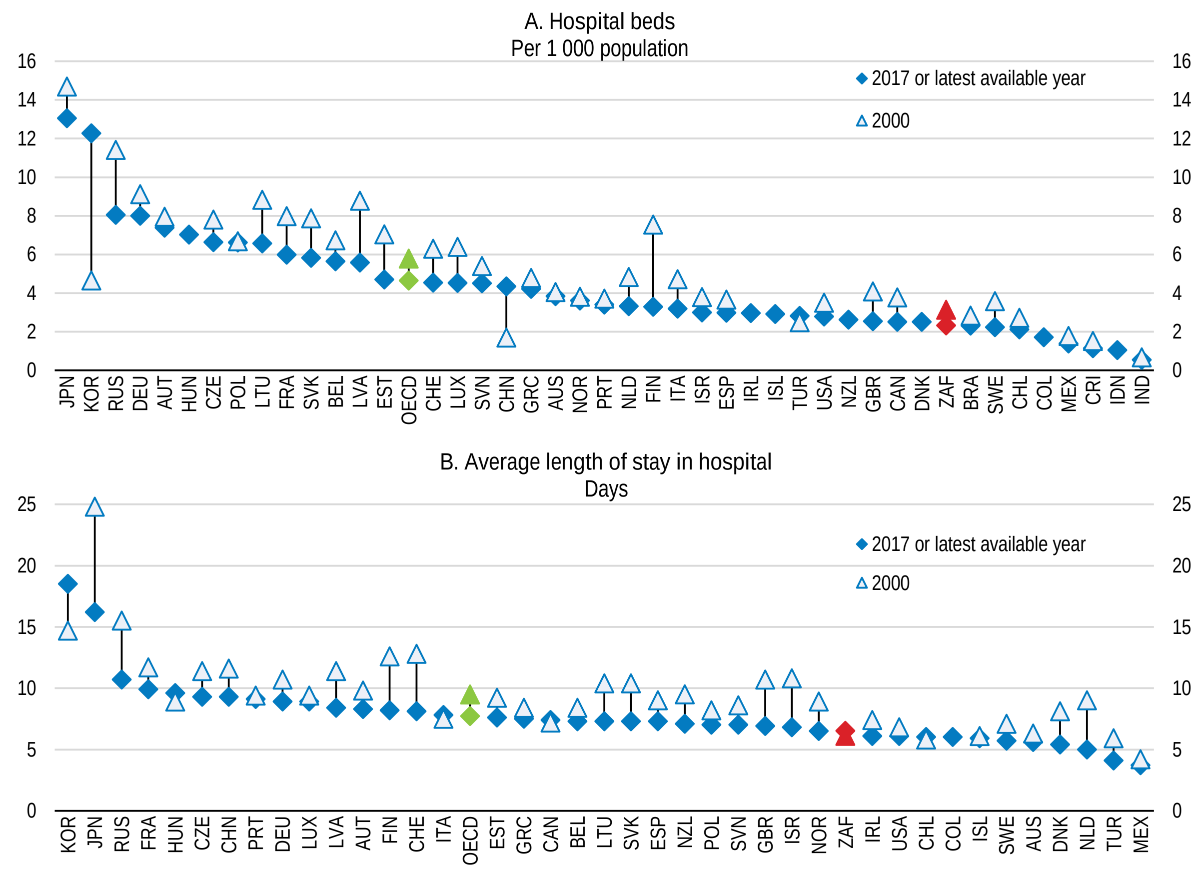
Source: OECD Health Statistics Database; OECD (2017), Health at a Glance 2017: OECD indicators; South Africa Health Review, 2018.

StatLink http://dx.doi.org/10.1787/888934006309

Reforming hospital management and in-patient care

South Africa had 658 hospitals in 2018 among which 260 are private hospitals. The spatial distribution of public hospitals is quite even but KwaZulu Natal has more public hospitals than other provinces when population size is taken into account (Table 2.7). Private hospitals are mostly in urban and metropolitan areas. Moreover, the number of hospital beds is low when compared with OECD standards (Figure 2.21, Panel A). However, the relatively low average length of stay in hospitals helps to ease access (Figure 2.21, Panel B). The average length of stay in hospitals is often regarded as an indicator of efficiency. But it should not come at the expense of early discharge of people. The absence of performance indicators does not allow to assess the relevance of this indicator. However, new medical technologies – in particular the diffusion of less invasive surgical interventions – and better anaesthetics have made day care interventions possible, and reduced the unit cost per intervention by shortening the length of a hospital stay (OECD, 2017a). More use of these ambulatory procedures can help to reduce the average length of stay.

Figure 2.21. The number of hospital beds is low



Note for panel B: Data for Canada, Japan and Netherlands refer to average length of stay for curative (acute) care (resulting in an underestimation). In Japan, the average length of stay for all inpatient care was 28 days in 2017 (down from 39 days in 2000).
Source*:* OECD Health Statistics Database.

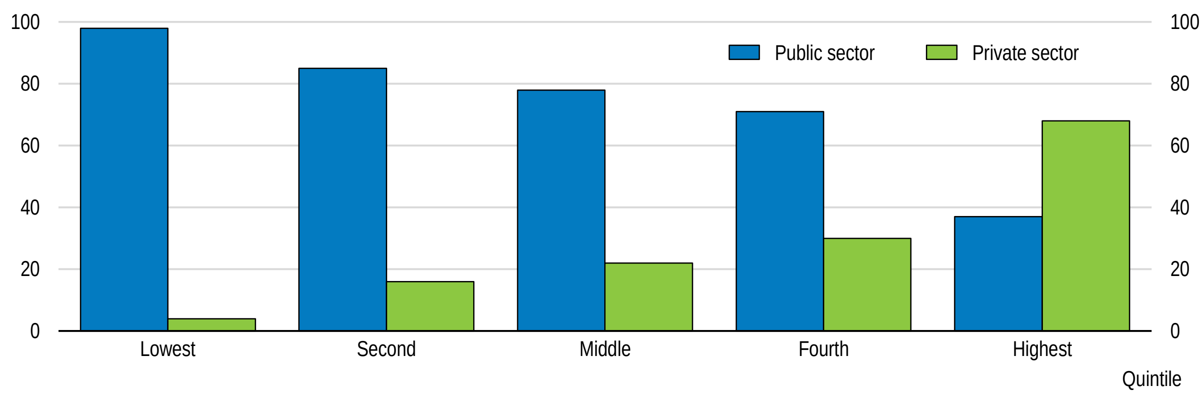
StatLink http://dx.doi.org/10.1787/888934006328

Hospital facilities are overused contributing to the low quality perception. Indeed, the majority of use of health services occurs in the public sector, both for out-patient services (over 70%) and even more for in-patient care (over 80%) (Mcintyre and Ataguba, 2017). Public hospitals provide care to the 84% of South

Africans (even if almost everyone has access) who are uninsured, albeit with approximately 70% of the country's hospital beds (Ranchod et al., 2017). Both low- and high-income people use public hospital services. Figure 2.22 indicates that while 98% of the lowest quintile turn to public facilities for out-patient care, 37% of the highest quintile did use public services (Statistics South Africa, 2018b). Figure 2.22 also suggests high out-patient care in public hospitals. While out-patient care tends to be more cost effective than in-patient care, it is an inefficient use of hospital resources when it substitutes for in-patient and primary care. Hospital resources should be devoted primarily to acute care. Through the NHI framework, out-patient care should be shifted mostly to primary care and private general practitioners.

Figure 2.22. Outpatient health care services by household income

Percentage of respondents age 15+ who received outpatient health care services



Source: Statistics South Africa (2019), South Africa Demographic and Health Survey 2016.

StatLink http://dx.doi.org/10.1787/888934006347

The allocation of resources, the effectiveness of treatments and the appropriateness of care received are important parameters for the efficiency of hospitals. There are different ways to optimise hospital care, for example by streamlining procedures, adjusting treatment methods or creating economies of scale through co-ordinated care provision. However, there is no comparable information system to monitor quality of care and outcomes in the public and private system (Ranchod et al., 2017). There is currently no legislative requirement nor is there a dedicated agency with a mandate to manage and improve the access to more sophisticated information beyond pure clinical coding for reimbursement purposes. Moreover, there is no electronic health record systems, which would be used for quality of care evaluation. These factors present in the private and public sectors hinder the development of genuine pay for performance reimbursement contracts or allocation of resources.

Quality-improvement institutions that work across both the public and private sectors are essential. The Office of Health Standards Compliance (OHSC) is an important first step, but a further focus on both accountability and quality improvement (as opposed to measurement) is required. The OHSC should be mandated to require the necessary improvement in care strategies and to publish comparable quality indicators to develop accountability.

The remuneration scheme should be used to incentivise hospitals to search for efficiency gains. Developing a Diagnosis-Related Group (DRGs) system will allow to benchmark hospital performance in terms of efficiency and best practices and select the sub-group that is used to set prices including case payments and allocation of global budgets. A mix of capitation and fee-for-service payments for hospital out-patient care could also be developed. Though remuneration of health practitioners in the hospital system is lower than in private facilities, the remuneration level is not low and tends to be high with seniority and management responsibilities (Department of Public Service and Administration, 2018).

Giving more responsibility to hospital managers is essential to drive efficiency and better performance. Within the NHI framework, it is proposed to introduce Contracting Units for Primary Health Care (CUP) at the decentralised level. The management authority will be given to individual public hospitals and organisational entities such as CUPs. While the CUPs would be the providing body, hospital managers should be given leeway to allocate their resources efficiently. OECD analysis found that it could help health facilities to increase their responsiveness to changing needs during the fiscal year – and consequently ensure better budget execution (James et al., 2018). Delegating more power to hospital managers should be accompanied by more accountability whereby managers could lose their job if they misappropriate funds. Programmes to raise management skills of hospital directors should be put in place to handle increased devolution of responsibilities.

Regulating the private health care sector

The pricing of private health care and the volume of activity are the key element for a sustainable private health industry, affordable health care and access for low-income people to private health care. Moreover, it will play an important role in the NHI framework. OECD analyses found prices in the private sector particularly high for an emerging country (Kumar et al., 2014, Barber et al., 2018, and Lorenzoni and Roubal, 2016). However, spending in the private sector has also been driven by increasing consumption of health services.

There is currently no binding tariff regulation in South Africa. This is the result of successive decisions and lack of legislative provisions and implementation. In 2004, the competition authority prohibited a process of collective bargaining with tariff schedules defined by the main actors in the private health industry (medical schemes, association of private hospitals and the medical association). Then, in 2009 the Council for Medical Schemes provided reference prices for healthcare goods and services through a National Health Reference Price List (NHRPL). Following this initiative, the Department of Health initiated a process to determine a binding reference price list, which was challenged and struck down by the courts.

The absence of price regulations has led to important increases in out-of-pocket payments, which is a concern for access to health care. In 2017, the level of out-of-pocket expenditure represented at least 19.8% of total health care expenditure among medical scheme beneficiaries. The bulk of out-of-pocket payments were for out-of-hospital medicine claims (33%).

Since 2010, prices are set following two processes. Formal annual negotiations take place between medical schemes (often represented by their administrators) and corporate providers (hospital groups, pathology groups, etc.). These negotiations take the form of bilateral agreements regarding tariffs for mostly fee-for-service and some reimbursement contracts. As healthcare professionals (including GPs, specialists, and allied professionals) practice independently, medical schemes generally determine annual increases in underlying fee-for-service tariffs for individual health professionals by inflating the prior year's tariffs close to inflation. Individual health professionals are free to accept these tariffs, or to charge any other tariff, opening room for out-of-pocket payments. These prices do not consider quality of care, nor tackle supply-induced demand behaviour.

For a financially sustainable private health sector and an affordable national health insurance including private health providers, it is essential to introduce a pricing system that contains health cost increases. The competition commission has ruled out returning to a collective bargaining system. Therefore, it is necessary to build a price reference system that guides price setting.

A price schedule provides a basis for reimbursement of health care providers and brings predictability. Such a system is necessary for the introduction of the NHI as it will allow comparing public and private providers and defining the reimbursement level for the different types of health care. Across OECD countries, price-setting norms and institutions have developed over a long period of time and are, in many cases, the outcome of negotiations between the health sector and government (Barber et al., 2018). South Africa needs to develop a national coding system combined with disease classifications, commonly agreed with all health actors that serve as the common language by which medical services are recorded and billed. Several OECD countries have established hospital pricing schedules that incorporate relative cost weights and allow for the comparison of resource intensity and complexity of most hospitals (and in some cases, out-patient) services (Barber et al., 2018).

OECD analysis recommends that the process of going from codes to price schedules be entrusted to an independent body to guarantee integrity and independence (Barber et al., 2018). Also the competition commission has recommended to set up such an independent body with the participation of physicians' associations, hospitals and other health professionals, along with medical schemes and the government. More precisely, the competition commission recommends that an independent supply-side regulator be established to oversee and manage functions related to healthcare capacity planning, economic value assessments, the determination and implementation of appropriate payment mechanisms, and outcome measurement, registration, and reporting (Competition Commission, 2018).

The price schedule would then serve as the basis for negotiations to set reimbursement rates. Schemes and hospitals would then focus on negotiating overall price levels, accounting for geography and specialised functions (such as emergency departments, trauma and cancer centres). Such benchmarks will also allow competition authorities and courts to assess situations of unwarranted and excessive charging behaviour, and strengthen patient protection.

However, as reimbursement of treatments covered by the prescribed minimum benefits package are mandatory, setting binding prices for these treatments are necessary for predictable costing and funding. Within the NHI framework with a broader treatment coverage, such binding pricing is essential to assess the financing needs of the NHI.

Moreover, most of the remuneration of private providers is based on fee-for-service models. The fee-for-service model is known to increase the volume of activity at the expense of quality and to inflate health cost. In this model, insurers and patients bear the entire financial risk. It has led to the development of important out-of-pocket payments and a low level of reimbursement of certain treatments. Price schedules combined with prospective budgets can help counter the tendency for over-provision. A better combination of capitation and fee-for-service payment will help to guarantee value-for-money and predictability.

The financing of the new social protection system

South Africa has an ambitious reform agenda on social protection. The introduction of a government sponsored mandatory pension and health insurance schemes will represent an important transfer from privately financed social protection to publicly funded provisions.

The government discussion paper on social security reform proposes a 10% contribution rate on wages for pension provisions, which corresponds approximatively to 5% of GDP. However, the increase on government revenues would not necessarily corresponds to net increases for workers and households, as they would substitute partially for current private or occupational contributions for health and retirement.

Wage based pension contributions is common as it ties pension levels to contribution levels and periods. However, a one-off 10% increase on labour cost could hamper employment. It is then essential that this contribution at least partially substitute for current contributions to pension schemes. Moreover, the low growth environment is not favourable for introducing mandatory social security contributions. However, the low level of social contributions and the overall low level of the tax wedge leave room for introducing social contributions on the payroll in the future. South Africa has a low tax wedge at 15.3% of labour costs at the average wage level compared with the OECD average at 36% and to Brazil (32.5%) or China (32.9%) (Table 2.6). The tax wedge measures the difference between the labour costs to the employer and the corresponding net take-home pay for the employee and takes into account employee and employer social security contribution and the personal income tax. However, given the progressivity of income tax, the tax wedge in South Africa increases to 20.9% for a single earner at 167% of the average wage. This is still lower than the OECD average at 40.4% or for Brazil and China at 36.3% and 35.2% respectively for the same level of earnings (Table 2.7). Moreover, the average wage in South Africa is particularly high resulting from a highly unequal wage distribution; it is about five times higher than the median wage. The low income tax base is the result of a highly skewed wage income distribution and of a high income threshold for beginning to pay tax (OECD, 2015a). The threshold was equivalent to 36% of average earnings in 2017/18.

Table 2.6. Tax wedge is low

As % of labour costs.

Country	Total tax wedge[1]	Personal income tax	Social security contributions		Labour cost[3]
			Employee	Employer[2]	
	(1)	(2)	(3)	(4)	(5)
Brazil	32.5	0.04	6.68	25.82	19167
China	32.9	0.52	7.94	24.43	24095
India	2.2	2.22	0	0	5413
India (SSC)[4]	8.3	2.12	1.67	4.53	5670
Indonesia	7.8	0	1.88	5.93	7191
South Africa	15.3	12.77	0.8	1.78	38104
OECD average	36.0	13.5	8.2	14.4	49820

Note: Single individual without children at the income level of the average wage. 1. Due to rounding, the total in column (1) may differ by one or more percentage points from the sum of columns (2)-(4). 2. Includes payroll taxes where applicable. 3. Dollars with equal purchasing power. 4. Results apply only for the minority case where the employee works in a firm with more than 20 employees.
Source: OECD 2018, Taxing wages 2018.

Table 2.7. Tax wedge variations with family size and marginal tax rates

By household type and wage level (as % of labour costs), 2016.

Income tax plus employee and employer contributions less cash benefits					Marginal rate of income tax plus employee and employer contributions less cash benefits			
Family-type:	single	single	single	single	single	single	single	single
	no children	no children	no children	2 children	no children	no children	no children	2 children
Wage level (% of AW):	67	100	167	67	67	100	167	67
	(1)	(2)	(3)	(4)	(1)	(2)	(3)	(4)
Brazil	32.5	32.5	36.3	32.5	32.5	36.9	42.9	32.5
China	32.4	32.9	35.2	32.4	24.4	34.4	39.1	24.4
India	0	2.2	1.6	0	0	0	0	0
India (SSC)[2]	26.1	8.3	7.7	26.1	26.1	6.2	6.2	26.1
Indonesia	7.8	7.8	7.8	7.8	7.8	7.8	7.8	7.8
South Africa	11.5	15.3	20.9	11.5	20.6	26.7	31.7	20.6
OECD average	32.2	36	40.4	15.2	41.7	45	47.1	47.6

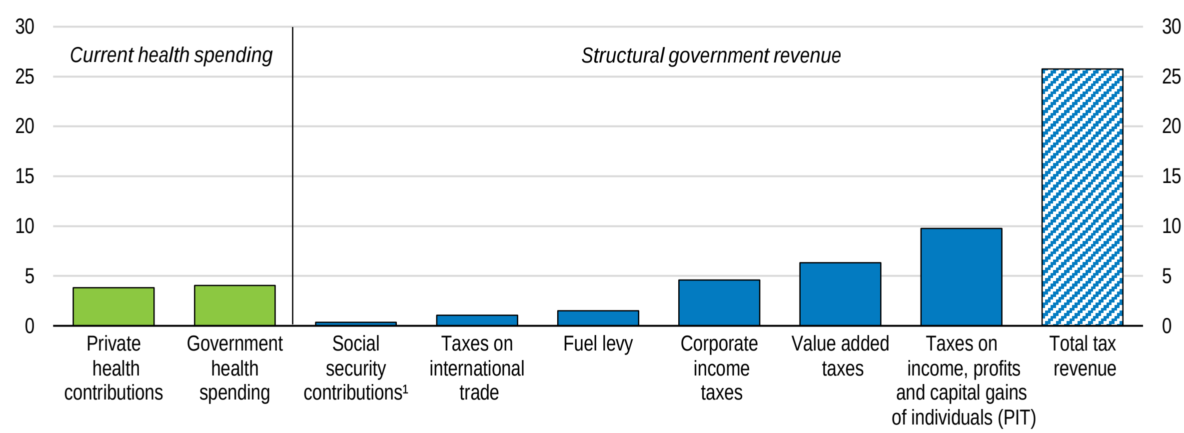
Note: Results apply only for the minority case where the employee works in a firm with more than 20 employees.
Source: OECD (2018), Taxing wages 2018.

The funding of the NHI must be adequate to deliver good quality health services for all citizens. The current cost of private health care in South Africa is high and should not be taken as a benchmark for costing the needs of the NHI (Lorenzoni and Roubal, 2016). However, as the range of benefits and coverage would be extended, public health spending NHI would need to rise. Moreover, not all the current 4.4% of GDP government health spending can be transferred to the NHI fund. The government will continue to finance the development of health facilities and specific programmes. Initial estimate of the NHI financing needs amounted to 6% of GDP that is an additional 2% of GDP of public health spending. A higher estimate of a total substitution of private spending by public spending would amount to 4% of GDP (current private health spending). An estimation of the funding necessary to cover health benefits offered by the NHI is necessary to properly design the funding mechanism of the NHI. There is detailed information on the cost of private health care that could be used to estimate the cost of the NHI package if provided by the private sector. The government should develop a detailed information system to estimate the cost of the NHI reform when delivered by public sector health facilities.

In the current low growth environment, introducing social contributions on payroll for pensions would make hardly possible to increase government tax revenues to finance the NHI. In the white paper, three income sources were considered for NHI financing: value added tax, personal income tax and payroll social security contributions, or a combination of them. Figure 2.23 shows the size of different source of government revenues compared to health spending. Taxes on income, profits and capital gains of individuals and value added taxes are the two primary sources of government revenues while social security contributions are negligible.

Figure 2.23. Comparing different source of government revenues to NHI financing needs

% of GDP, 2017/18



Note: Social security contributions refer to the Skills Development Levy.
Source: National Treasury Budget Review, 2019.

StatLink http://dx.doi.org/10.1787/888934005663

OECD calculations show that the value added tax rate would increase by 4.5 or 9 percentage points from 15% to 19.5% or 24% to match 2% or 4% of GDP in additional revenues respectively (Table 2.8). Such an increase is hardly feasible unless it is phased in progressively and may have VAT evasion effect. Estimation using the total wage bill of workers in the formal sector indicates that an 4% or 8% social security contribution rate on the gross wage would raise the needed additional financing for the NHI. Such payroll social contributions for health have to be compared with actual private contributions to insurance schemes. The gross contribution to insurance schemes per average beneficiary per month was ZAR 1 695 in 2017 (Council for Medical Schemes, 2018). The effective contribution amount per member is higher as members contribute for their relatives. Given the monthly ZAR 3 500 minimum wage and that around half of workers earn below the minimum wage, the government will have to subsidise at least partially low-income workers' contributions. Also, the government will have to cover non-contributors as the unemployed, retirees, students and all other non-earners for their enrolment in the NHI.

Table 2.8. Increase in VAT necessary to finance the national health insurance

	2016/17	2017/18	2018/19
VAT revenue collected (ZAR billion)	289.167	297.998	325.917
VAT rate (%)	14%	14%	15%
Revenue per percentage point of VAT	20.7	21.3	21.7
Nominal GDP (ZAR billion)	4412.7	4721	5059.1
4% of nominal GDP (ZAR billion)	176.508	188.84	202.364
VAT increase required (percentage points)	8.5	8.9	9.3

Source: National Treasury Budget Review 2019, OECD calculations

The simulation in Table 2.9 shows the increase in tax rates for the different income brackets if additional 2% or 4% of GDP are raised through personal income tax and the amount is distributed proportionally across the different brackets. It indicates that effective tax rates would increase from 0.8 and 1.5 percentage point for the lowest bracket to 8.6 and 17.3 percentage points for the highest bracket for 2% and 4% of GDP additional tax respectively.

Additional financing the national health insurance of 2% or 4% of GDP is hardly feasible in the current low growth environment. However, increasing the budget of public health spending would allow to improve the delivery of health care in the public sector and level-up public health facilities. A small scale NHI could be considered to put in place the basis for a more ambitious NHI. As the economy recover and trust in government capacity to deliver proper health care increase, a combination of social security contributions, VAT and personal income tax seems appropriate to finance the NHI.

Table 2.9. Simulation of the increase in income tax rates to finance the national health insurance fund

Taxable income bracket	Registered individuals	Taxable income	Average effective tax rate 2018/19 by income bracket	New average effective tax rate by income bracket to fund ZAR 108 billion	Increase in the effective tax rate by income bracket to fund ZAR 108 billion	New average effective tax rate by income bracket to fund ZAR 215 billion	Increase in the effective tax rate by income bracket to fund ZAR 215 billion
ZAR thousand	Number	ZAR billion	%	%	in percentage point	%	in percentage point
ZAR 0 – ZAR 70 (indiv. below the tax threshold)	6 369 806	183.4	0	0	0	0	0
ZAR 70 – ZAR 150	2 385 046	254.0	4.0	4.7	0.8	5.5	1.5
ZAR 150 – ZAR 250	1 949 150	387.4	9.3	11.2	1.8	13.0	3.6
ZAR 250 – ZAR350	1 169 590	349.9	14.2	17.0	2.8	19.8	5.6
ZAR 350 – ZAR 500	984 790	408.5	18.6	22.2	3.6	25.9	7.3
ZAR 500 – ZAR 750	610 331	367.1	24.3	29.0	4.7	33.8	9.5
ZAR 750 – ZAR 1 000	261 631	224.7	29.5	35.2	5.8	41.0	11.6
ZAR 1 000 – ZAR 1 500	161 868	193.9	33.9	40.6	6.6	47.2	13.3
ZAR 1 500 +	120 751	362.7	44.1	52.7	8.6	61.3	17.3
Total paying taxpayers	7 643 157	2 548.2					

Source: National Treasury Budget Review 2019, OECD calculation.

Recommendations for Building an inclusive social protection system

Key recommendations	
The current pension system is not adequate in reducing the risk of old-age poverty. Pension coverage is not satisfactory and replacement rates are low.	Introduce a mandatory pension scheme after the finalisation of the health reform and focus the old-age grant on individuals without a pension income or with low pensions to reach a minimum income in a manner preserving the long run fiscal impact.
Access to health care is unequal. Financing of health care is unbalanced with high spending in private health for a small fraction of the population. Prices of health services in the private sector are high.	Gradually increase the public financing of health care through a form of public insurance at a pace and scale that is affordable. Entrust an independent body to develop a price schedule for reimbursement of health care.
Tobacco consumption remains high, as 19% of the adult population are daily smokers and 14.1% of the population reported binge drinking.	Develop prevention of non-communicable diseases and strengthen the promotion of a healthier lifestyle.
Adjusting the social transfer system	
Unemployed working age workers are not covered and participation in labour activation programme is low.	Scale up the Labour Activation Programmes by gradually increasing the number of participants in skills development and training programmes through the UIF programmes.
The level of the child support grant is insufficient to lift above food poverty all children.	Consider an additional means-tested support on top of the child support grant for children in households with a revenue such that the whole family lies below the food poverty line.
Informal employment is relatively high. 31% of workers are informally employed with little social protection.	Better cover informal workers when introducing the new social protection system.
Building a comprehensive pension system	
As designed, replacement rates will be low for middle and high-income workers. Additional saving plans will be necessary to reach decent replacement rates.	Consider introducing automatic enrolment in occupational pension plans and subsidisation of low-income earners to ensure high coverage of complementary pension schemes.
Many workers withdraw partially or totally, savings in retirement funds when switching to new occupations or unemployed, rendering replacement rates low.	Install mandatory preservation of retirement plans and at least partial annuitisation of savings-retirement pay-outs.
The retirement industry is fragmented. There are many dormant retirement funds and unclaimed benefits.	Consolidate retirement funds by requiring the merger of funds not meeting a minimum size or not receiving a contribution for three years in a row.
Reforming the health care system	
Obesity rates have reached alarming levels in South Africa.	Generalise programmes to assess children's health and raise awareness of the risks linked to obesity, and promote healthy diet and sports activity.
There are important disparities on health spending across provinces not necessarily related to health needs. Transparency is lacking on budget allocated to health at the province level.	Improve the capacity of district hospitals and managers of district health offices in budget formulation and give them more freedom to allocate their resources depending on needs.
Access to primary care facilities is uneven across provinces and districts contributing to congestion in hospital services. The low number of health professionals restrict access to quality care.	Accelerate the upgrading of public clinics and better co-ordinate and contract with private doctors to guarantee access to doctors in primary care.
There is no costing of the financial needs of the national health insurance. The current cost of private health care in South Africa is high and should not be taken as a benchmark for costing the needs of the NHI.	Estimate precisely the financing need of the NHI. Consider introducing progressively a combination of payroll social contributions, VAT and personal income tax to finance the National Health Insurance fund.
There is no binding tariff regulation in South Africa. Out-of-pocket payments have increased. The price setting does not consider quality of care, nor tackle supply-induced demand behaviour.	Set binding prices for mandatory reimbursement of treatments covered by the prescribed minimum benefits package.
There are too many options in the health insurance market leading to limited risk pooling and favouring risk selection.	Limit the number of options per scheme with a basic option corresponding to a revised prescribed minimum benefits (PMB) scheme. Revise the PMB to be simpler, easier to implement and develop a universal and agreed coding system of health services.
There is no comparable information system to monitor quality of care and outcomes in the public and private system. This hinders the development of genuine pay for performance reimbursement contracts or allocation of resources.	Develop a system of information to oversee health care delivery, coding, quality of care and incentivise managers and practitioners to provide high quality services.

References

Balestra, C. et al. (2018), “Inequalities in emerging economies: Informing the policy dialogue on inclusive growth”, *OECD Statistics Working Papers*, No. 2018/13, OECD Publishing, Paris, https://dx.doi.org/10.1787/6c0db7fb-en.

Barber, S. et al. (2018), “Harnessing the private health sector by using prices as a policy instrument: Lessons learned from South Africa”, *Health Policy*, Vol. 122/5, pp. 558-564, http://dx.doi.org/10.1016/J.HEALTHPOL.2018.03.018.

Barr, N. (2012), *The economics of the welfare state*, Oxford University Press, https://books.google.fr/books/about/Economics_of_the_Welfare_State.html?id=DOg0BM1XiqQC&redir_esc=y (accessed on 23 January 2019).

Bheekie, A. and H. Bradley (2016), “Re-engineering of South Africa’s primary health care system: where is the pharmacist?”, *South African Family Practice*, Vol. 58/6, pp. 242-248, http://dx.doi.org/10.1080/20786190.2016.1186365.

Budlender, D. (2016), “Increasing the amount of the Child Support Grant”, in *South African Child Gauge 2016*, Child’s Institute, University of Cape Town, http://www.ci.uct.ac.za/sites/default/files/image_tool/images/367/Child_Gauge/2006/Child_Gauge_2016-increasing_the_amount.pdf (accessed on 18 January 2019).

Budlender, D. and I. Woolard (2006), *The impact of the South African child support and old age grants on children’s schooling and work*, International Labour Office, Geneva, http://www.ilo.org/ipecinfo/product/download.do?type=document&id=4464.

Coetzee, M. (2013), “Finding the benefits: Estimating the impact of the South African child support grant”, *South African Journal of Economics*, Vol. 81/3, pp. 427-450, https://onlinelibrary.wiley.com/doi/epdf/10.1111/j.1813-6982.2012.01338.x.

Competition Commission (2018), *HEALTH MARKET INQUIRY*, http://www.compcom.co.za/wp-content/uploads/2018/07/Health-Market-Inquiry-1.pdf (accessed on 6 February 2019).

Council for Medical Schemes (2018), *ANNUAL REPORT: A Healthy Industry for all*, https://www.medicalschemes.com/files/Annual%20Reports/CMS_AnnualReport2017-2018.pdf (accessed on 8 February 2019).

Delany, A., P. Proudlock and L. Lake (2016), *Social assistance: Investing in children*, Children’s Institute, University of Cape Town, http://www.ci.uct.ac.za/sites/default/files/image_tool/images/367/Child_Gauge/2006/Child_Gauge_2016-Policy_Brief_2016_highres_final.pdf (accessed on 18 January 2019).

Department of Health (2015a), *Strategy for the prevention and control of obesity in South Africa 2015-2020*, https://www.health-e.org.za/wp-content/uploads/2015/12/National-Strategy-for-prevention-and-Control-of-Obesity-4-August-latest.pdf (accessed on 19 February 2019).

Department of Health, R. (2015b), *White Paper: National Health Insurance Policy*, https://www.mm3admin.co.za/documents/docmanager/f447b607-3c8f-4eb7-8da4-11bca747079f/00124581.pdf (accessed on 6 February 2019).

Department of Labour and UIF (2019), *Unemployment Insurance Fund (UIF) Annual Report 2019*, Department of Labour, Pretoria, https://www.sassa.gov.za/annual%20reports/Documents/SASSA%20Annual%20Report%202018-2019.pdf (accessed on 30 June 2020)

Department of Labour and UIF (2018), *Unemployment Insurance Fund (UIF) Annual Report 2018*, Department of Labour, Pretoria, http://www.labour.gov.za/DOL/downloads/documents/annual-reports/unemployment-insurance-fund/2018/uif2018AR.pdf (accessed on 1 February 2019).

Department of Public Service and Administration (2018), Salary scales, with translation keys, for employees on salary levels 1 to 12 and those employees covered by Occupation Specific Dispensations (OSDs), http://www.saou.co.za/wp-content/uploads/2016/04/18_1_p_20_06_2018_Appendices_A.pdf

Department of Social Development (2016a), *Comprehensive social security in South Africa Discussion document*, https://www.gov.za/sites/default/files/gcis_document/201611/comprehensivesocialsecurityinsouthafricaa.pdf.

Dorfman, M. (2015), "Pension Patterns in Sub-Saharan Africa", https://openknowledge.worldbank.org/handle/10986/22339 (accessed on 17 January 2019).

DSD, SASSA and UNICEF (2016), *Removing barriers to accessing Child Grants: Progress in reducing exclusion from South Africa's Child Support Grant*, UNICEF South Africa, Pretoria, http://www.dsd.gov.za (accessed on 18 January 2019).

DSD, SASSA and UNICEF (2012), *The South African Child Support Grant Impact Assessment: Evidence from a survey of children, adolescents and their households*, UNICEF South Africa, Pretoria, https://www.unicef.org/southafrica/SAF_resources_csg2012s.pdf (accessed on 14 January 2019).

Eyal, K. and I. Woolard (2011), *Female labour force participation and South Africa's Child Support Grant*, http://microdata.worldbank.org/index.php/citations/7189 (accessed on 14 January 2019).

Fall, F. and A. Steenkamp (2020). "Building an Inclusive Social Protection System in South Africa", *OECD Economics Department Working Papers*, forthcoming.

Fall, F. (2014), "Comparing the Robustness of PAYG Pension Schemes", *OECD Economics Department Working Papers*, No. 1134, OECD Publishing, Paris, https://dx.doi.org/10.1787/5jz158w3ghmx-en.

Fall, F. and D. Bloch (2014), "Overcoming Vulnerabilities of Pension Systems", *OECD Economics Department Working Papers*, No. 1133, OECD Publishing, Paris, https://dx.doi.org/10.1787/5jz1591prxth-en.

FSCA (2018), *2018 Annual Report*, https://www.fsca.co.za/Annual%20Reports/FSCA%20Annual%20Report%202018.pdf (accessed on 15 January 2019).

Fuchs, A. et al. (2018), "Long-Run Impacts of Increasing Tobacco Taxes Evidence from South Africa", No. 8369, World Bank, http://econ.worldbank.org. (accessed on 18 February 2019).

GEPF (2018), *Annual Report 2018*, http://www.gepf.gov.za/uploads/annualReportsUploads/AR_2018_(20181128)_Final_Submitted-min.pdf (accessed on 15 January 2019).

Grinspun, A. (2016), *No small change: The multiple impacts of the Child Support Grant on child and adolescent well-being*, Children's Institute, University of Cape Town, http://www.ci.uct.ac.za/sites/default/files/image_tool/images/367/Child_Gauge/2006/Child_Gauge_2016-no_small_change.pdf (accessed on 14 January 2019).

Guven, M. and P. Leite (2016), *Benefits and Costs of Social Pensions in Sub-Saharan Africa*, World Bank, http://documents.worldbank.org/curated/en/325281469593828257/pdf/107234-WP-add-series-PUBLIC.pdf (accessed on 17 January 2019).

Health System Trust (2018), *South African Health Review 2018*, http://www.hst.org.za/publications/South%20African%20Health%20Reviews/SAHR%202018.pdf

Inchauste, G. et al. (2014), *South Africa Economic Update: Fiscal Policy and Redistribution in an Unequal Society*, World Bank Group, Washington DC, http://documents.worldbank.org/curated/en/933231468101334970/pdf/921670WP0P131400SAEU60for0web01029b.pdf (accessed on 11 January 2019).

International Labour Office: Social Protection Department (2015), "Social protection for children:Key policy trends and statistics", ILO, Geneva, https://www.social-protection.org/gimi/RessourcePDF.action?ressource.ressourceId=51578 (accessed on 16 January 2019).

James, C. et al. (2018), "Health financing and budgeting practices for health in South Africa", *OECD Journal on Budgeting*, Vol. 2017/3, https://www.oecd-ilibrary.org/docserver/budget-17-5j8sd88t3sr3.pdf?expires=1549561403&id=id&accname=ocid84004878&checksum=63E3A184A0BB7A8E188F8FA6A0CF0DA1 (accessed on 7 February 2019).

Kruger, H. et al. (2005), "Obesity in South Africa: challenges for government and health professionals", *Public Health Nutrition*, Vol. 8/05, pp. 491-500, http://dx.doi.org/10.1079/PHN2005785.

Kumar, A. et al. (2014), "Pricing and competition in Specialist Medical Services: An Overview for South Africa", *OECD Health Working Papers*, No. 70, OECD Publishing, Paris, https://dx.doi.org/10.1787/5jz2lpxcrhd5-en.

Leibbrandt, M. et al. (2010), "Trends in South African Income Distribution and Poverty since the Fall of Apartheid", *OECD Social, Employment and Migration Working Papers*, No. 101, OECD Publishing, Paris, https://dx.doi.org/10.1787/5kmms0t7p1ms-en.

Lorenzoni, L. and T. Roubal (2016), "International Comparison of South African Private Hospital Price Levels", *OECD Health Working Papers*, No. 85, OECD Publishing, Paris, https://dx.doi.org/10.1787/5jrrxrzn24wl-en.

Mash, R. et al. (2016), "Strengthening primary health care through primary care doctors: the design of a new national Postgraduate Diploma in Family Medicine", *South African Family Practice*, Vol. 58/1, pp. 32-36, http://dx.doi.org/10.1080/20786190.2015.1083719.

Mcintyre, D. and J. Ataguba (2017), *Access to quality health care in South Africa: Is the health sector contributing to addressing the inequality challenge?*, https://www.parliament.gov.za/storage/app/media/Pages/2017/october/High_Level_Panel/Commissioned_reports_for_triple_challenges_of_poverty_unemployment_and_inequality/Diagnostic_Report_on_Access_to_Quality_Healthcare.pdf (accessed on 11 February 2019).

National Treasury (2020a), *Budget Review 2020*, National Treasury, Pretoria, http://www.treasury.gov.za/documents/national%20budget/2019/review/FullBR.pdf (accessed on 20 June 2020).

National Treasury (2020b), *Supplementary Budget 2020*, National Treasury, Pretoria, http://www.treasury.gov.za/documents/national%20budget/2020S/review/FullSBR.pdf (accessed on 29 June 2020)

National Treasury (2019a), *Budget Review 2019*, National Treasury, Pretoria, http://www.treasury.gov.za/documents/national%20budget/2019/review/FullBR.pdf (accessed on 25 February 2019).

National Treasury (2019b), *Estimates of National Expenditure 2019*, National Treasury, Pretoria, http://www.treasury.gov.za/documents/national%20budget/2019/ene/FullENE.pdf (accessed on 25 February 2019).

National Treasury (2018a), *Estimates of National Expenditure 2018*, National Treasury of the Republic of South Africa, Pretoria, http://www.treasury.gov.za/documents/national%20budget/2018/ene/FullENE.pdf (accessed on 17 January 2019).

National Treasury (2018b), *Taxation laws, Amendment bill*, National Treasury of the Republic of South Africa, Pretoria, http://www.treasury.gov.za/legislation/bills/2018/[B38-2018]%20(Taxation%20Laws).pdf

National Treasury (2017), *Taxation laws, Amendment bill*, National Treasury of the Republic of South Africa, Pretoria, http://www.treasury.gov.za/legislation/bills/2017/[B27-2017]%20(Taxation%20Laws).pdf

National Treasury of South Africa (2014), *A Review of the Taxation of Alcoholic Beverages in South Africa, A Discussion Document*, http://www.treasury.gov.za/public%20comments/Alc/Alcohol%20Tax%20Review%20-%20May%202014%20Discussion%20Paper.pdf (accessed on 18 February 2019).

OECD (2017a), *Health at a Glance 2017: OECD Indicators*, OECD Publishing, Paris, http://dx.doi.org/10.1787/health_glance-2017-en.

OECD (2017b), *Pensions at a Glance 2017: OECD and G20 Indicators*, OECD Publishing, Paris, https://dx.doi.org/10.1787/pension_glance-2017-en.

OECD (2016), *OECD CORE PRINCIPLES OF PRIVATE PENSION REGULATION*, https://www.oecd.org/daf/fin/private-pensions/Core-Principles-Private-Pension-Regulation.pdf (accessed on 30 January 2019).

OECD (2015), *OECD Economic Surveys: South Africa 2015*, OECD Publishing, Paris, https://dx.doi.org/10.1787/eco_surveys-zaf-2015-en.

OECD (2014a), *OECD Pensions Outlook 2014*, OECD Publishing, Paris, https://dx.doi.org/10.1787/9789264222687-en.

OECD (2014b), *OECD Reviews of Health Care Quality: Czech Republic 2014: Raising Standards*, OECD Reviews of Health Care Quality, OECD Publishing, Paris, http://dx.doi.org/10.1787/9789264208605-en.

Pension Watch (2019), *What and where? | Social pensions database | Pension watch*, http://www.pension-watch.net/social-pensions-database/social-pensions-around-the-world/ (accessed on 17 January 2019).

Ralston, M. et al. (2015), “Who Benefits--Or Does not--From South Africa’s Old Age Pension? Evidence from Characteristics of Rural Pensioners and Non-Pensioners.”, *International journal of environmental research and public health*, Vol. 13/1, p. 85, http://dx.doi.org/10.3390/ijerph13010085.

Ranchod, S. et al. (2017), “South Africa’s hospital sector: old divisions and new developments”, in *South Africa Health Review*, http://www.hst.org.za/publications/South%20African%20Health%20Reviews/10_South%20Africas%20hospital%20sector_old%20divisions%20and%20new%20developments.pdf (accessed on 13 February 2019).

Samson, M. et al. (2008), *Quantitative Analysis of the Impact of the Child Support Grant*, UNICEF, Cape Town, https://www.unicef.org/southafrica/SAF_resources_qachildsupport.pdf (accessed on 14 January 2019).

SARS (2017), *Unemployment Insurance Fund*, http://www.sars.gov.za/TaxTypes/UIF/Pages/default.aspx (accessed on 30 January 2019).

SASSA (2019), *South African Social Security Agency: Annual Report 2018/19*, http://www.sassa.gov.za/index.php/knowledge-centre/annual-reports.

SASSA (2018), *South African Social Security Agency: Annual Report 2017/18*, http://www.sassa.gov.za/index.php/knowledge-centre/annual-reports.

Stacey, N. et al. (2018), "Simulating the impact of excise taxation for disease prevention in low-income and middle-income countries: an application to South Africa", *BMJ Global Health*, Vol. 3/1, p. e000568, http://dx.doi.org/10.1136/bmjgh-2017-000568.

Statistics South Africa (2018a), *General Household Survey 2017*, Statistics South Africa, Pretoria, http://www.statssa.gov.za/publications/P0318/P03182017.pdf (accessed on 10 January 2019).

Statistics South Africa (2018c), *Quarterly Labour Force Survey: Quarter 3 2018*, Statistics South Africa, Pretoria, http://www.statssa.gov.zainfo@statssa.gov.za (accessed on 18 January 2019).

Strijdom, J., O. Diop and T. Westphal (2016), *Older person's grant: South Africa*, ILO Social Protection Department, Geneva, https://www.social-protection.org/gimi/RessourcePDF.action?ressource.ressourceId=53790

Taylor Vivienne (2002), *Report of the Committee of Inquiry into a Comprehensive System of Social Security for South Africa*, http://www.cdhaarmann.com/Publications/Taylor%20report.pdf (accessed on 22 January 2019).

Unemployment Insurance Fund (2018), *Annual Performance Plan*, Unemployment Insurance Fund (UIF), Pretoria, http://pmg-assets.s3-website-eu-west-1.amazonaws.com/UIF_MTEF_AND_ANNUAL_PERFORMANCE_PLAN_2018_-_19_Edited__Corrected.pdf (accessed on 30 January 2019).

Van Biljon, C. (2017), The effect of old age pensions on child deprivation: revisiting the role of gender The effect of old age pensions on child deprivation: revisiting the role of gender The effect of old age pensions on child deprivation: revisiting the role of gender Chloé van Biljon, University of Stellenbosch, Stellenbosch, http://www.ekon.sun.ac.za/wpapers/2017/wp132017http://resep.sun.ac.zawww.ekon.sun.ac.za/wpaper.

Van Walbeek, C. (2002), "Recent trends in smoking prevalence in South Africa: Some evidence from AMPS data", *South African medical journal*, Vol. 92 (6), pp. 468–72, https://www.researchgate.net/publication/11236719.

Woolard, I. and M. Leibbrandt (2010), "The Evolution and Impact of Unconditional Cash Transfers in South Africa. A Southern Africa Labour and Development Research Unit Working Paper Number 51", *A Southern Africa Labour and Development Research Unit Working Paper Number 51*, No. 51, SALDRU, University of Cape Town, http://www.saldru.uct.ac.za.

Woolard, I. et al. (2015), *How much is inequality reduced by progressive taxation and government spending?*, http://www.econ3x3.org/sites/default/files/articles/Woolard%20et%20al%20%202015%20Fiscal%20policy%20progressivity%20FINAL4_0.pdf (accessed on 14 January 2019).

World Bank (2018a), South Africa Poverty and Inequality Assessment 2018. Overcoming Poverty and Inequality in South Africa: Drivers, Constraints and Opportunities, World Bank, Washington DC, http://documents.worldbank.org/curated/en/530481521735906534/pdf/124521-REV-OUO-South-Africa-Poverty-and-Inequality-Assessment-Report-2018-FINAL-WEB.pdf

World Bank (2018b), *The State of Social Safety Nets 2018*, http://dx.doi.org/10.1596/978-1-4648-1254-5.

Zembe-Mkabile, W. et al. (2015), "The experience of cash transfers in alleviating childhood poverty in South Africa: Mothers' experiences of the Child Support Grant", *Global Public Health*, Vol. 10/7, pp. 834-851, http://dx.doi.org/10.1080/17441692.2015.1007471.

3 Leveraging tourism development for sustainable and inclusive growth

South Africa has turned towards tourism development to jump-start its weak economy. As tourism is a labour intensive sector that can also bring foreign currency into the country, the sector was identified as priority area by the South African government. Indeed, a doubling in international tourist arrivals from 1995 to 2017 was accompanied by a tripling of employment directly related to tourism. Despite South Africa's rich and diverse natural and cultural assets, tourism development has been challenged by the country's geographic location and perceived safety and security issues. As the country is a long-haul destination for many large source markets, good accessibility and international openness is key to expand international tourism, but current visa regulations put an administrative burden on potential tourists. While increasing tourist arrivals are necessary for tourism development, tourism growth has to be well planned and managed to be sustainable. Although the recent coronavirus (COVID-19) pandemic and resulting containment measures have hit the economy and in particular tourism, the sector has good potential to support the South African economy and contribute to employment growth post-COVID-19. Tourism provides job opportunities for different skills and experience levels allowing for greater social integration. For tourism development to translate into inclusive growth, the tourism industry needs to be integrated into the local economy and the benefits of tourism must spread geographically to also create economic opportunities in less travelled and less prosperous regions.

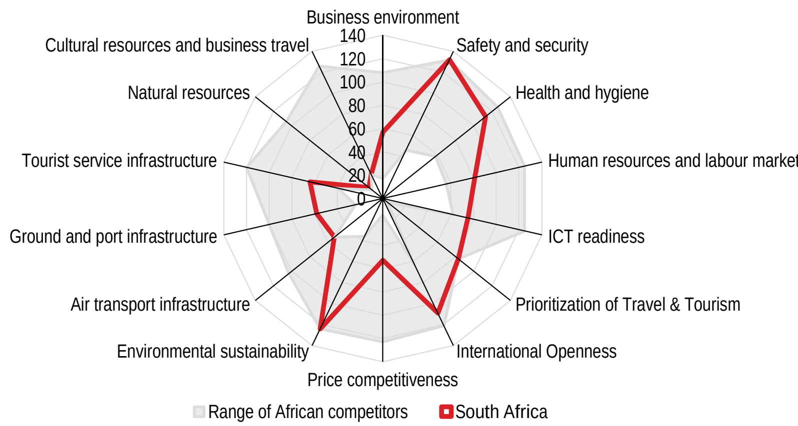
South Africa boasts varied landscapes, diverse wildlife and rich cultural resources. These assets corroborate the country's growing global competitiveness as a tourist destination (World Economic Forum, 2007; 2019). From 1995 to 2017, international tourist arrivals to South Africa more than doubled from around 4.5 million to over 10 million. Over the same period, employment directly related to tourism tripled reaching 4.5% of total employment in 2017 (OECD, 2020a). The recent coronavirus (COVID-19) pandemic and resulting containment measures have triggered an unprecedented crisis in the tourism sector (OECD, 2020b). Still, tourism is a labour-intensive sector that can also bring foreign currency into the country. As such, the sector offers significant opportunities for an economy with weak growth and high unemployment. In recognition of its potential as driver for economic growth, the South African government has identified tourism as priority area in the Industrial Policy Action Plan (IPAP, 2010), the New Growth Path (NGP, 2010) and the National Development Plan (NDP, 2013). To ensure that the sector continues to play a key role in the economy following the COVID-19 pandemic, a recovery plan is currently being finalised. This plan focuses on stimulating demand, protecting and renewing supply and strengthening enabling capability. A managed re-opening is envisioned, followed by growth interventions to reclaim market share and drive long term growth.

Tourism connects to different sectors through a multitude of direct and indirect goods and services as well as a wide array of stakeholders. Tourism outcomes therefore depend on the interplay of actors at the global, local and intermediate levels. As the sector cuts across various systems such as global trade, finance, transport, consumption, marketing and production, strategies to boost the tourism industry need to be well aligned and co-ordinated across policy sectors and across levels of government. Whilst the South African government has recognised the potential of the tourism sector for economic development, implementation of tourism strategies often falls short due to capacity constraints at the local level.

Within the sub–Saharan region, South Africa is a competitive tourism destination. Within the region, it ranks second behind Mauritius considering a range of indicators determining the competitiveness of destinations, ranging from business environment, infrastructure to international openness and attractiveness (World Economic Forum, 2019). Among all 140 countries ranked by the World Economic Forum, South Africa comes in 61st and thereby falls short of its target to become one of the top 50 destinations worldwide (South African Tourism, 2017). Given that South Africa is a long-haul destination for many large source markets, good accessibility and international openness are key to expand international tourism. While South Africa's air transport infrastructure is well developed compared to African competitors, the country lags far behind in terms of international openness (Figure 3.1). In addition, concerns around safety, security, and increasingly environmental sustainability of tourism, of particular concern considering natural resources are seen as such a strength, could deter potential tourists from selecting South Africa as a destination.

Figure 3.1. South Africa is a competitive tourism destination on several dimensions, 2019

Rank from 1 (best) to 140 (worst), 2019



Note: Range of selected competitors include Botswana, Namibia, Mauritius, Kenya and Tanzania.
Source: World Economic Forum (2019), Travel and Tourism Competitiveness Index, http://www3.weforum.org/docs/WEF_TTCR19_data_for_download.xlsx

StatLink http://dx.doi.org/10.1787/888934006366

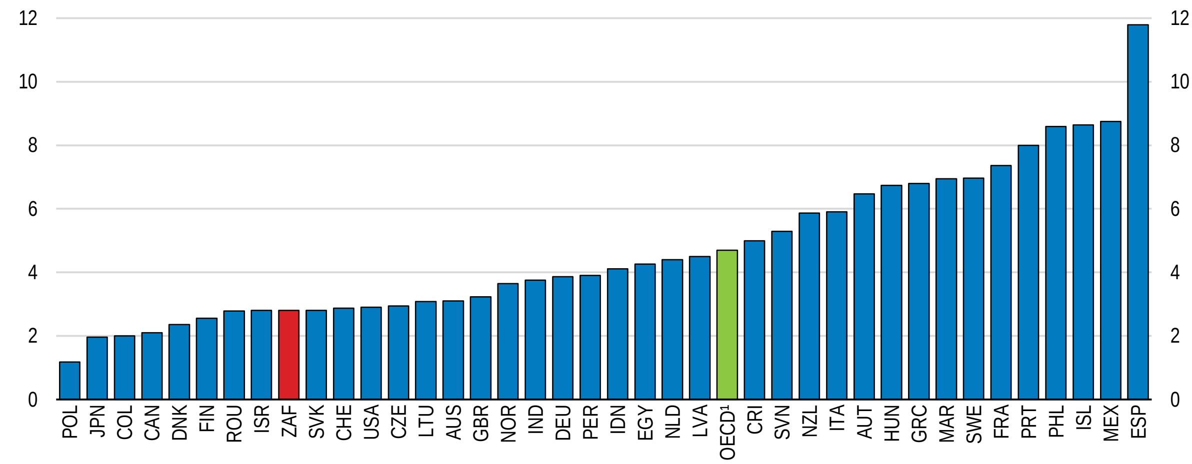
This chapter looks at the potential of tourism to support sustainable and inclusive growth in South Africa. How much the domestic economy and ultimately the local population benefits from tourism depends on a variety of factors such as the economic integration of the tourism industry into local value chains. As a labour-intensive sector, tourism provides opportunities for different skills and experience levels allowing for greater social integration. However, if not well planned and managed, tourism growth can increase the pressure on environmental resources, on housing markets and increase inequality through unbalanced demand. Not only do these aspects of tourism have to be taken into account to achieve inclusive and sustainable growth, but the benefits of tourism must also spread geographically - beyond mature destinations - to create economic opportunities in less travelled and less prosperous regions. This is especially important in a country that is as spatially segregated and unequal as South Africa.

Tourism and the economy

Tourism has gained importance in the South African economy in recent decades. Since the end of apartheid, tourism in terms of its direct contribution to overall GDP has increased from 1.8% in 1995 to 2.8% in 2017 (Statistics South Africa, 2018b; 2018a) – around 9% when taking into account estimated indirect impacts (World Travel and Tourism Council, 2018). The contribution of tourism to South Africa's economy is comparable to countries such as Sweden, the Czech Republic and Colombia, but below the OECD average (4.7%). Compared to other emerging countries such as India, Indonesia or global tourism competitors such as Mexico and the Philippines, the contribution of the tourism sector to the economy is relatively small indicating the potential for a greater role (Figure 3.2).

Figure 3.2. Direct contribution of the tourism industry to the economy is moderate

In per cent of total GDP, 2018 or latest available year



1. Unweighted average of available countries.
Note: GDP data for France refer to internal tourism consumption. GVA data are used if GDP data are not available. GDP for Greece refer to tourism GVA of industries 55-56 of NACE Rev. 2. GDP data for Spain includes indirect effects.
Source: OECD, Tourism Database.

StatLink http://dx.doi.org/10.1787/888934006385

International tourist arrivals increased from 4.5 to 10.3 million between 1995 and 2017, accompanied by a rise of tourism expenditure of non-resident visitors from 2.6% to 3.7% of GDP over the same period (World Tourism Organization, 2018). By 2017, inbound tourism expenditure has been the dominant category of exports in services at 61.5% and representing 9.3% in total export of goods and services (World Tourism Organization, 2018). Thus, tourism provides an opportunity to expand exports to foreign currency earnings. While the economy and especially the tourism sector has been heavily hit by the recent COVID-19 pandemic (OECD 2020b), these numbers highlight the potential the tourism sector can play in the post-COVID-19 recovery phase.

Integration of tourism in global and local value chains

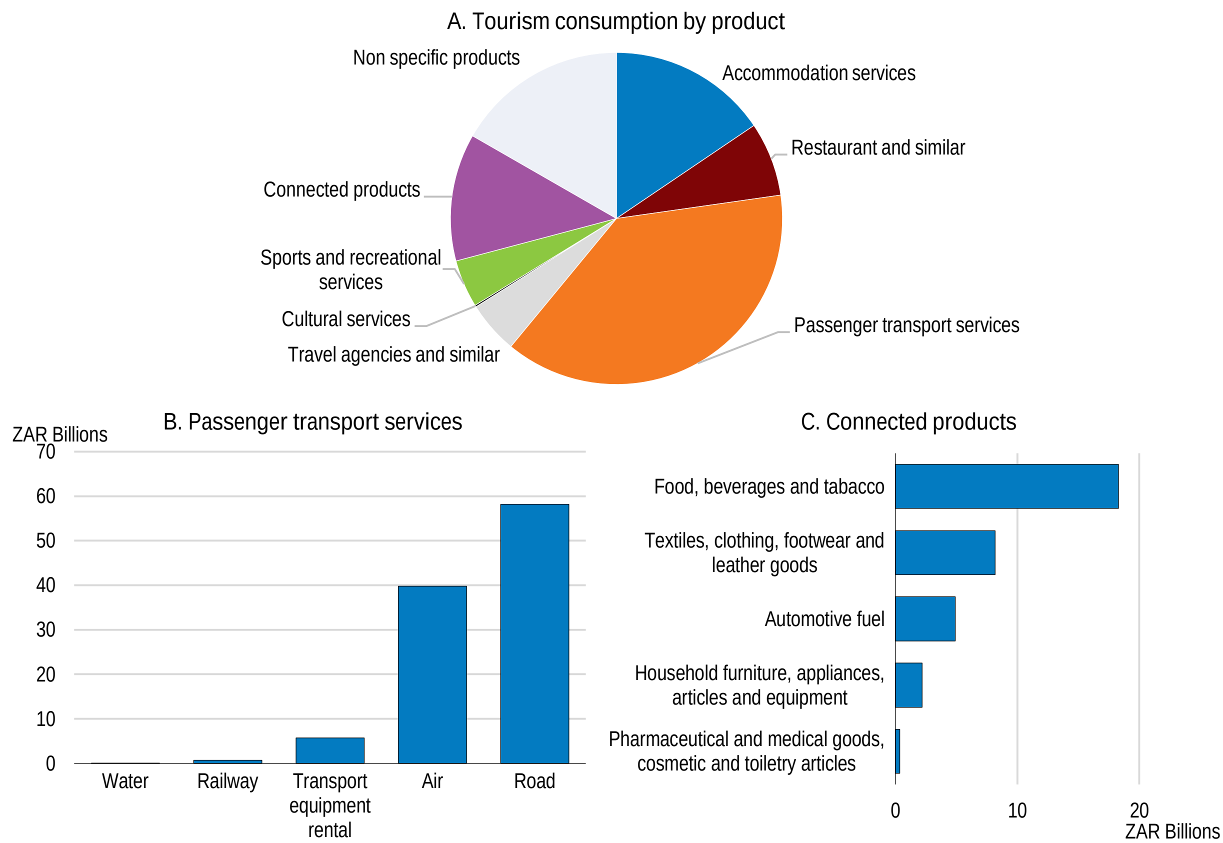
The impact of tourism on the economy depends on the strength of inter-sectoral linkages and ownership patterns. The economy can benefit directly from tourist consumption (forward linkages), but also indirectly through increased demand in sectors that support the tourism industry (backward linkages) (Cornelissen, 2005; Sinclair, 1998). However, ownership patterns of tourism producer and supplier companies influence how much of the value added stays within the domestic economy. Owing to the complex and cross-cutting nature of tourism, understanding its role in the economy is not straight forward. Statistics South Africa produces a Tourism Satellite Account (TSA), which measures the general weight and direct impact of tourism from a macro-economic perspective (Box 3.1).

Tourism consumption in South Africa extends beyond the typical tourist products related to accommodation and food services. The Tourism Satellite Account provides information on consumption items by domestic and international tourists and therefore allows the analysis of forward linkages in the tourism sector. In 2018, the main tourism consumption items were passenger transport (38%) and accommodation services (16%). Consumption of connected goods, such as food, beverages, tobacco, clothing, leather goods, furniture or automotive fuel, amongst others, accumulated to about ZAR 33.9 billion, comprising the third-largest tourism consumption group (12%) (Figure 3.3, Panel B).

Connected goods and non-specific products amounted together to almost a third of internal tourism consumption, highlighting the potential of direct spillover effects of tourism to other economic sectors. Unfortunately, the TSA does not allow a further disaggregation to analyse the forward linkages to specific products nor the extent to which tourism expenditure remains within the local economy. Making informed policy decisions to support the tourism business environment requires more detailed data to better understand the strength of inter-sectoral linkages in the tourism value chain. Thus, the TSA data should be extended to trade in value added (Box 3.1).

Figure 3.3. Internal tourism consumption stretches beyond traditional tourism products

By type product, 2018



Note: Preliminary data.
Source: Statistics South Africa (2019), Tourism Satellite Account for South Africa, final 2016 and provisional 2017 and 2018.

StatLink http://dx.doi.org/10.1787/888934006404

Box 3.1. Informing policy through tourism account data provision and analysis of tourism trade in value added

The Tourism Satellite Account (TSA) is a conceptual framework aimed at measuring the weight of tourism from a macro-economic perspective. It focuses on the description and measurement of tourism in its different components (domestic, inbound and outbound). It also highlights the relationship between consumption by visitors and the supply of goods and services in the economy, principally those from tourism industries. With this instrument, it is possible to estimate tourism GDP, establish the direct contribution of tourism to the economy and develop further analyses using the links between the TSA, the System of National Accounts and the Balance of Payments.

In addition to the TSA, analysing tourism from a trade in value added (TiVA) perspective can provide new and useful insights to support policy making and action. This approach allows for a better understanding of the direct and indirect impacts of tourism, tourism expenditures, the breadth and depth of linkages between tourism and other sectors, the relative importance of tourism in supporting export-led growth compared to other sectors, and the tourism source markets that generate the most value during their visit. It is also possible to do more in-depth analysis focusing on specific branches of the tourism sector (e.g. accommodation and food service, passenger transport). As new data become available, new possibilities are opening up to analyse the impact of tourism on jobs and wages, the role of SMEs and large foreign operators in tourism GVCs, and the impact of tourism on sustainability (CO_2 emissions). Making progress on these issues will require statistical and policy engagement at national and international level, and prioritisation of the actions needed to advance.

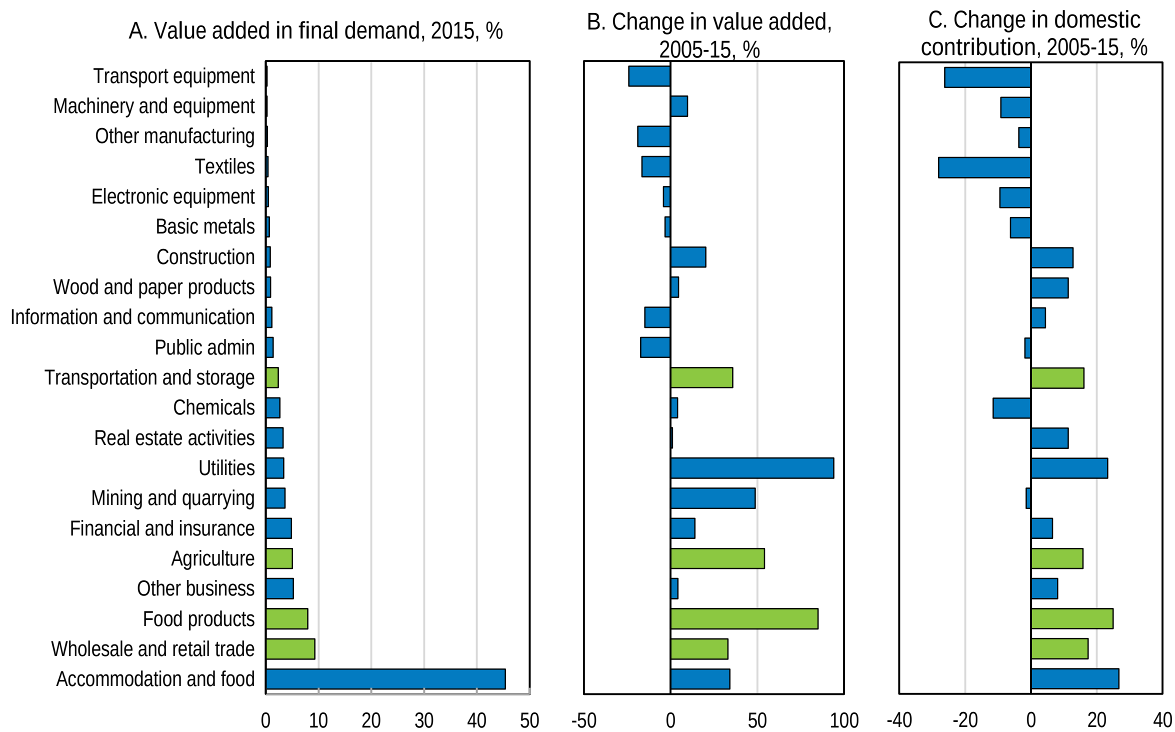
Source: OECD (2019), "*Providing New Evidence on Tourism Trade in Value Added*", OECD Tourism Papers, No. 2019/01, OECD Publishing, Paris, https://doi.org/10.1787/d6072d28-en.

Owing to the complex nature of tourism, its economic effect spreads beyond direct effects of consumption. Using value added in final demand by the accommodation and food sector as proxy for the tourism sector indicates that growth in tourism resulted in better integration of some sectors into the tourism value chain (Figure 3.4). With regard to agriculture, food products, trade and transport services, higher levels of final demand by accommodation and food services are combined with growing participation by domestic suppliers and producers and with a slight increase in the relative weight of the industry in final demand. These backward linkages of the accommodation and food service sector, while only showing a partial image of the tourism value chain, highlight the potential of inter-sectoral linkages with the rest of the economy. Further expanding these linkages is important and should be supported by policies that provide the right framework to facilitate the creation of linkages by bringing together different actors and by stimulating a dynamic business environment.

To increase the impact on the local economy, it is important to strengthen local linkages to create business opportunities for local suppliers. These linkages can in turn contribute to a more dynamic business environment in general (see below). As recommended in the last economic survey of South Africa (OECD, 2017e), increasing access, information and training on public procurement can support the growth of small businesses. With respect to tourism, the National Responsible Tourism Development Guidelines issued in 2002 encourages the integration in local value chains through procurement of local goods and services from locally owned enterprises that meet quality, quantity and consistency standards (UNCTAD, 2017). Still, many national parks and safari lodges use intermediary suppliers that source the bulk of their fresh fruit and vegetable produce from distant urban wholesale markets (Rogerson, 2015). Better information regarding procurement, product safety and standards requirements should be provided to local enterprises to facilitate their integration into local supply chains. For example, capacity-building workshops could be undertaken in partnership with hotels aiming to improve the knowledge of local small and medium-sized enterprises. In addition, buyer agreements of hotels with local suppliers that have undergone training could increase local sourcing (see e.g. UNCTAD, 2017).

Figure 3.4. Composition of value added in final demand by accommodation and food services

Value added in final demand by accommodation and food services, by source industry



Note: Sectors mentioned in the text are highlighted in green.
Source: WTO/OECD (2019), "Trade in value added", OECD-WTO: Statistics on Trade in Value Added (database), https://doi.org/10.1787/data-00648-en (accessed on 17 January 2019).

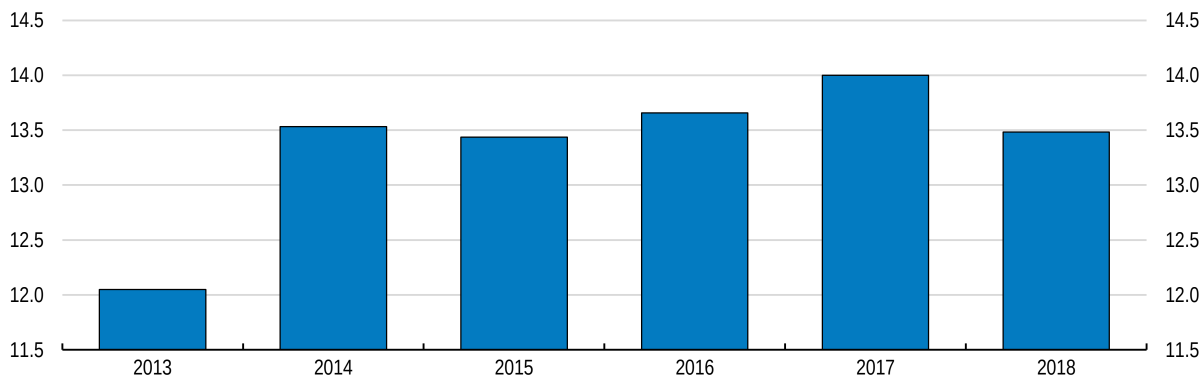
StatLink http://dx.doi.org/10.1787/888934006423

Business sector dynamics

Supporting local integration of the tourism sector requires a dynamic business environment that facilitates the creation of inter-sectoral linkages and local spillovers. Small businesses and entrepreneurs are crucial for creating such an environment. Between 2013 and 2018, the total number of enterprises in the economy slightly increase from 335 000 to 345 000, with most of the change incurring between 2017 and 2018. The number of tourism establishments, however, increased by 6 200 – an increase of 15% (Figure 3.5). About one quarter of these new tourism establishments related to food and beverage serving activities and the great majority to other tourism activities (World Tourism Organization, 2020).

Figure 3.5. Enterprises are increasingly concentrated in the tourism sector

Number of tourism establishments as a percentage of total establishments, 2013-2018



Note: Tourism establishments include accommodation for visitors, food and beverage serving activities, passenger transportation, travel agencies and other reservation services and other tourism characteristics industries.
Source: World Tourism Organisation (2018, 2019), Compendium of Tourism Statistics dataset [Electronic], UNWTO, Madrid, data updated on 07/11/2019; Statistics South Africa (2019), Annual Financial Statistics, various years.

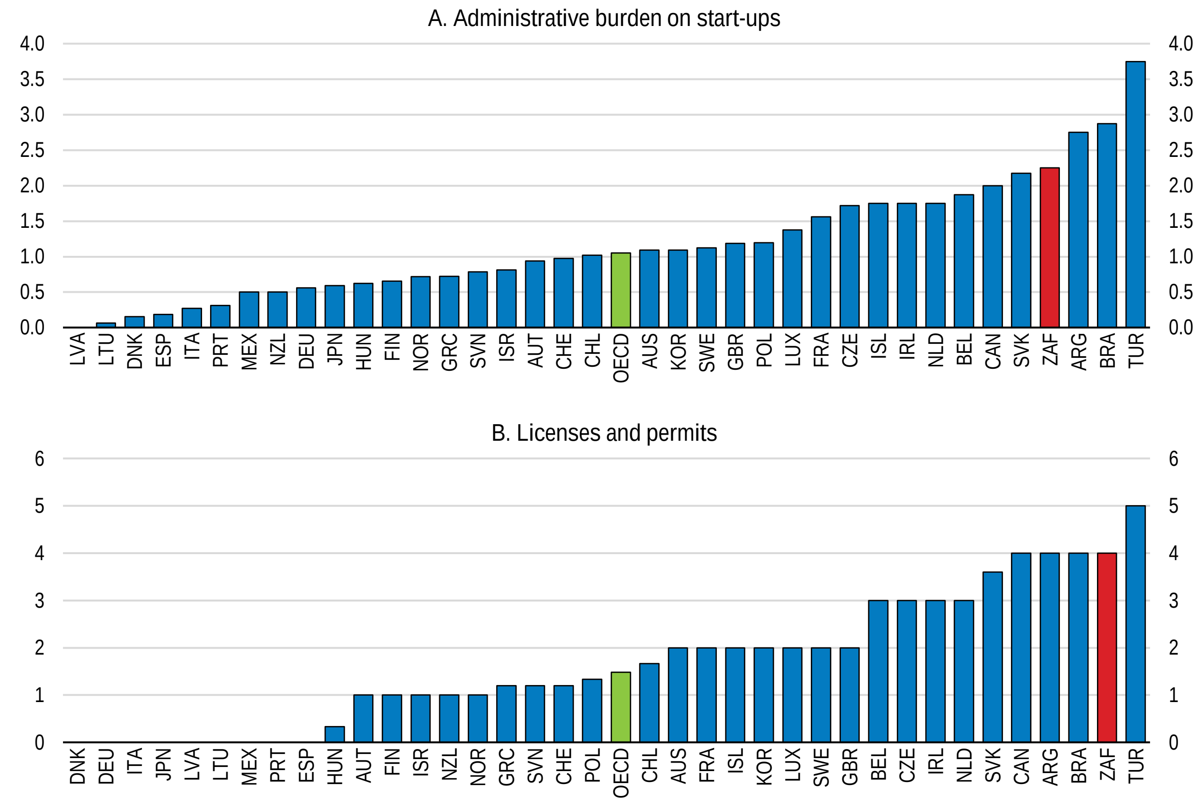
StatLink http://dx.doi.org/10.1787/888934006442

Underlying conditions for small businesses and entrepreneurs need to be eased in order for the tourism sector to thrive. As highlighted in the last economic survey for South Africa (OECD, 2017e), red tape and licensing create large burdens for entrepreneurs and small firms, and the tourism sector is not immune. Relative to OECD member countries, South Africa has one of the highest barriers in the form of administrative burden on start-ups and the second highest barriers in the form of licences and permits (Figure 3.6). This affects entrepreneurs in the tourism sector and beyond, resulting in long times to start a business (World Economic Forum, 2017). It is important to systematically review and reduce where practicable the stock of red tape and licensing requirements that directly affect the tourism sector such as transport vehicle licensing, but also indirectly such as licensing for the sale of alcoholic beverages in the food and beverage industry. In addition the efficiency of licensing processes, especially for annually renewable licenses, such as the licensing for the sale of alcoholic beverages, has to be improved to avoid lengthy waiting times and to keep businesses running. Improving the regulatory environment and creating a supportive business environment in general would not only benefit businesses in the tourism sector but other sectors as well.

Policies to improve the competitiveness of tourism need to give significant attention to the performance and quality of tourism businesses and the level of investment in the sector. This is partly about improving the overall business environment, but also includes actions to identify and promote quality and to provide various forms of incentive and support (OECD, 2018b). In South Africa, examples include a tourism incentive programme developed to support participation of small tourism businesses in the national quality grading system in order to compete efficiently in the market. As part of another, expenditure for exposure at international marketing platforms may be partially covered if in line with the marketing priorities of South African Tourism (see Table 3.1 below). In addition, a reimbursable cash grant programme was designed to support the establishment of tourism-related businesses (Tourism Support Programme, TSP) under the Department of Industry and Trade and has since been transferred to the Department of Tourism. Running from 2008/09 to 2014/15, a total of 545 applications were approved with an incentive value of ZAR 1.1 billion.

Figure 3.6. Red tape and licensing create large burden for entrepreneurs and SMEs

Index scale of 0-6 from least to most restrictive, 2018



Source: OECD 2018 PMR database.

StatLink http://dx.doi.org/10.1787/888934006461

South Africa needs to strengthen the non-financial support to new entrepreneurs in the form of entrepreneurial education. It is widely understood that knowledge and skill-gaps relevant for business creation can hinder the capacity to start and operate businesses (OECD, 2017e). Thus, measures to support entrepreneurship and SMEs across the OECD focus not only on access to finance but also on skills development with an emphasis on business management and financing (see Box 3.2). Increasing skills related to business management, such as marketing, human resources and financial management, can support the creation of profitable enterprises. In addition, training opportunities in tourism management aimed at formal enterprises, such as small-scale tour operators and accommodation facilities, and technical training for local suppliers, can help enhance the capacity of enterprises to operate viable tourism establishments (UNCTAD, 2017). Developing successful small and medium-sized tourism companies will also contribute to the creation of jobs in the sector. As small businesses were particularly hit by the recent COVID-19 pandemic, the South African government introduced the “Tourism Relief Fund”. Available since April 7th 2020, this fund provides once-off capped grant assistance to Small Micro and Medium Sized Enterprises in the tourism value chain to ensure their sustainability during and post the implementation of government measures to curb the spread of Covid-19 in South Africa. The grant funding, capped at ZAR 50 000 per entity, can be used to subsidise expenses towards fixed costs, operational costs, supplies and other pressure cost items. Categories eligible to apply for the Tourism Relief Fund include accommodation establishments, hospitality and related services, travel and related services (OECD, 2020b). To support the recovery of the tourism sector, the Tourism Relief Fund should be increased and extended up to mid-2021, particularly if there is a renewed virus outbreak later in the year.

Box 3.2. Programmes to support tourism entrepreneurship

Welcome City Lab, Paris

Launched in 2013, Welcome City Lab is a Paris-based SME aimed at fostering innovative entrepreneurship in tourism related activities. The publicly supported private incubator is offering individual coaching and collective training workshops, along with a network of funders and mentor entrepreneurs. The main features of the Welcome City Lab approach are:

- Incubator for tourism firms – support innovative start-ups in tourism-related activities.
- Training – help start-ups become familiar with and gain an understanding of the tourism sector.
- Experimentation – help start-ups to keep up with market demands.
- Economic intelligence – identify trends in tourism innovation.

Every year, a committee decides on the themes for the annual call for projects, under which potential start-ups are chosen. The criteria to select projects focus on the capacity to undertake the innovation, the potential for job creation, the contribution to growing the tourism offer in Paris, the human capital skills of the team, and the viability of the business plan.

INADEM, Mexico

Established in 2012, the National Institute for Entrepreneurship (INADEM) is mandated to support and facilitate the development of SMEs, including micro-enterprises. Although INADEM does not target tourism SMEs specifically, the aim of the institution is to boost productivity and entrepreneurship across all strategic sectors, including tourism-related activities if the project involves entrepreneurial skills, incorporation into value chains, or is productivity enhancing. It does this by raising awareness, linking firms to finance opportunities in the banking system and channelling federal funds through a broad range of finance instruments, including subsidies, debt, credit guarantees, and equity.

Source: OECD (2018), *OECD Tourism Trends and Policies 2018*, OECD Publishing, Paris, https://doi.org/10.1787/tour-2018-en.; OECD (OECD, 2017f), Tourism Policy Review of Mexico, OECD Publishing Paris; OECD (OECD, 2017d), OECD Economic Surveys: Mexico 2017, OECD Publishing, Paris.

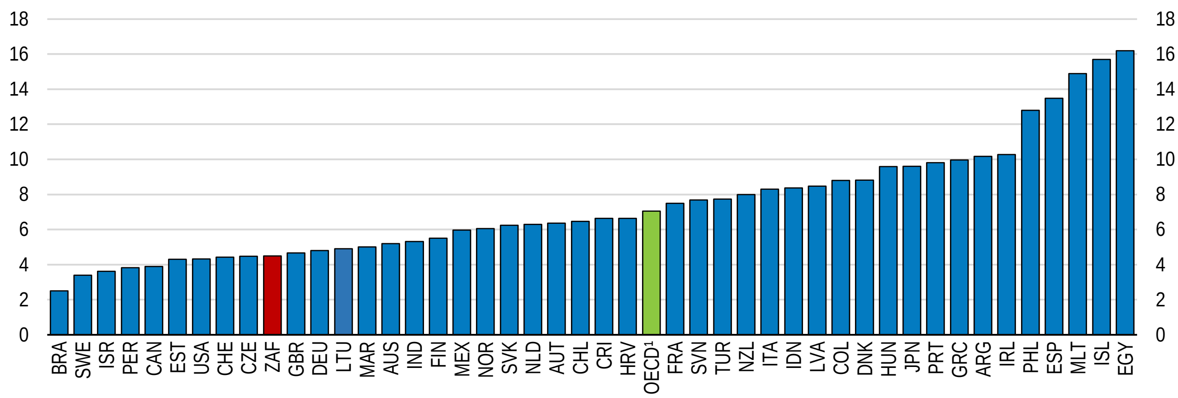
Tourism development to support employment growth

A main motive for South Africa's prioritisation of tourism as a strategy for development relates to the sector's ability to generate employment. From 1995 to 2017, direct employment in the tourism industry more than tripled from just above 200 000 to around 722 000. This increase by over three and a half times in the number of jobs demonstrates the labour intensity of the sector and its potential to respond to the country's employment challenge. Over the last five years alone, the tourism sector created 64 313 jobs, more than the mining and manufacturing sectors combined (Statistics South Africa, 2018b; 2017). About 4.5% of total employment in South Africa is directly linked to tourism, which is in line with similar sized tourism economies but below the OECD average of 6.9% (OECD, 2018e).

South Africa suffers from a stubbornly high unemployment rate, particularly among young people and women (see KPI). The tourism sector offers job opportunities for people of different ages and skill levels, and provides important employment opportunities for women (OECD, 2018e). Indeed, about 40% of employment in tourism industries consists of women. The share increases to more than 55% when disregarding the passenger transport sector where female employment is rather low (15%). However, women made up 63% of employment within food and beverage serving activities (Statistics South Africa, 2019). In addition, women constitute about 60% of employees in accommodation for tourist activities and more than 50% in retail trade. (Figure 3.8). Therefore, even with fixed shares by sector, job growth in the tourism sector can support a better gender balanced and a more inclusive South African workforce.

Figure 3.7. Tourism employment is below the OECD average

As per cent of total employment, 2018 or latest year available

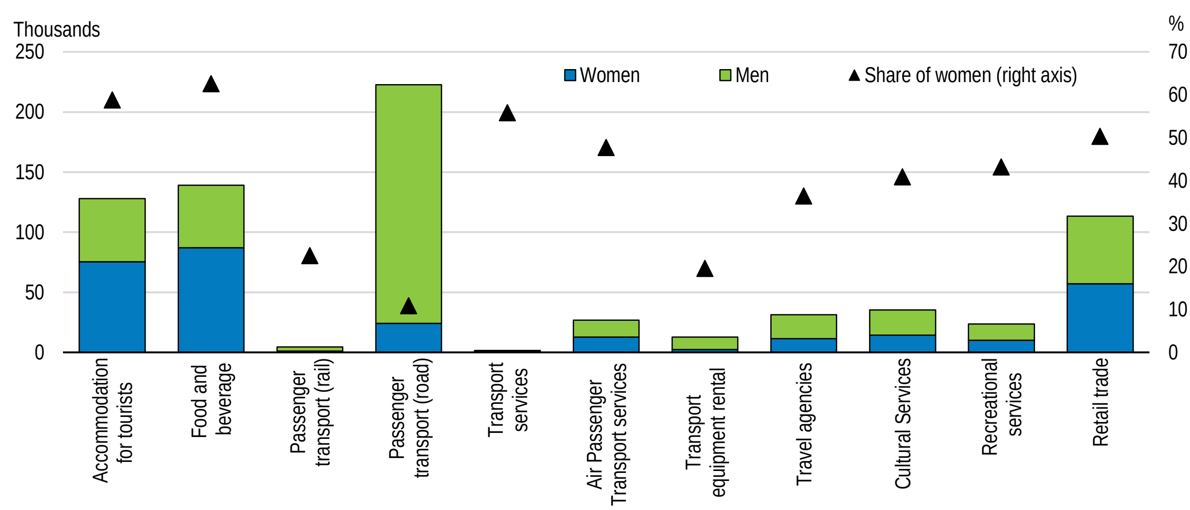


1. Unweighted average of available countries.
Note: 2017 data for Australia, Austria, Chile, Czech Republic, Germany, Denmark, Finland, Hungary, Ireland, Japan, Lithuania, Norway, United States and South Africa; 2016 data for United Kingdom, Philippines, Portugal and Slovak Republic; 2015 data for Egypt, Italy Peru; 2012 data for Argentina, India and Indonesia.
Source: OECD, Tourism Database.

StatLink http://dx.doi.org/10.1787/888934006480

Figure 3.8. Tourism provides important employment opportunities for women

Direct tourism employment, 2018



Note: preliminary 2018 TSA data.
Source: TSA 2018 (Statistics South Africa, 2019).

StatLink http://dx.doi.org/10.1787/888934006499

For tourism to provide increased opportunities for job security and upwards social mobility, the industry must foster career and skill development opportunities. Experiences in South Africa have shown that employees who started with low skill levels were able to progress in their career and increase their quality of life when provided with the opportunity to gain experience and develop transferable skills (Butler and Rogerson, 2016). To support the acquisition of skills and lifelong learning, tourism firms should invest significantly in employee training. Investment in skills development will not only provide an opportunity to improve productivity and enhance customer experience, but also allow an upward movement of employees on the social ladder. In addition, ensuring that individuals have a variety of transferable skills provides further career prospects by allowing them to take advantage of opportunities in different sectors and overcome the vulnerability in tourism associated with seasonal employment (Stacey, 2015).

Although the tourism sector is characterised by a range of low-skilled tasks, a low quality workforce can affect visitor's experience. As highlighted in previous surveys, raising the quality of basic education is needed to improve the quality of the general workforce (OECD, 2017e; 2013). Underlying skill-shortages are increasingly affecting the tourism sector (Department of Tourism, 2017). A tighter relationship between firms and the education system can address emerging skills shortages. For example, in Brazil the *Pronatec* is a publicly-funded programme that supports private and public vocational training courses with the aim of linking training places in each region with the skills needed using explicit requests from individual businesses (O'connell et al., 2017). Thus, vocational skills development can play a role in bridging the skills gap by ensuring the availability of well-trained personnel to meet the demand of the tourism sector and productive sectors in the tourism value chain. The authorities should implement the steps identified in the National Tourism Sector Strategy and provide quality career guidance and greater integration of workplace oriented learning to improve the school-to-work transition (Department of Tourism, 2017). Further, on-the-job training programmes that cater to the ever-changing tourism environment should be developed. Not only will training improve employees' career prospects, but also counter the effect of seasonality on working conditions if training modules are held during off-peak periods.

Increasing local participation in tourism through digitalisation

Increased digitalisation has affected the tourism sector in many ways – especially with respect to employment opportunities. While travel planning, booking of travel itineraries and accommodation has shifted from tourism offices to the individual via booking platforms, the sharing economy provides easy access for stakeholders to participate in the tourism economy. For example, since 2008 about 2 million visitors to South Africa have booked accommodation through the peer-to-peer platform AirBnB (AirBnb, 2018). According to AirBnB, most hosts in South Africa are using their extra income from hosting to make ends meet and otherwise afford to stay in their homes. Spillovers to the local community are further created through new ways for tourists to experience the destination, for example through people-to-person experiences guided by locals as well as through facilitated travel mobility through car sharing such as Uber and Mytaxi (OECD, 2018e).

The rapid growth of the sharing economy not only provides opportunities, but also creates challenges for established operators. It further raises broader questions of consumer protection, taxation and regulation. Accommodation sharing services in particular may affect neighbours and local residents, due to noise and other disturbances, and by contributing to pressure on the local housing market. In Iceland, for example, the under-supply of housing and the growth of short-term rental market to tourists have made housing less affordable (OECD, 2017c). In a worst-case scenario, poorly managed growth of these services may also have a detrimental impact on the historical fabric of destinations and reduce the appeal of areas as places to live and visit (OECD, 2018e). Carefully thought through policy responses are therefore needed to balance the benefits of accommodation-sharing services, such as extra capacity in peak periods and encouraging tourists to disperse to less well-known destinations and the potential negative externalities created in local neighbourhoods. It is also important that basic safety and quality standards for accommodations are adhered to. For example, authorities may impose similar standards for owners who make extensive use of accommodation rentals as for the formal sector. This may require them to change the use into commercial property and adhere to the respective regulation.

Fiscal impact of tourism

A growing tourism sector is associated with higher fiscal revenues, although the exact extent of the contribution is difficult to assess. According to the Tourism Satellite Account, the tourism share in taxes net subsidies on production are estimated at about ZAR 2.2 billion for 2017. The majority of the revenues stem from the accommodation services and restaurant sector, followed by non-tourism specific industries (Statistics South Africa, 2018b). Fiscal expenses on tourism takes the form of direct budget transfers to the Department of Tourism mirroring the estimated tourism share in taxes on production for the fiscal period 2017-18 with ZAR 2.1 billion. For the fiscal year of 2018-19, the Department's budget slightly increased to ZAR 2.3 billion, of which about 53% is allocated to South African Tourism, mainly for marketing purposes. The remaining ZAR 1 billion is distributed amongst tourism incentives, an expanded public works programme (including skills development), destination development, enterprise development and visitor support services (Department of Tourism, 2018a).

Financing of tourism development is difficult at the provincial and the local level, as their revenue sources are often not sufficient to meet the spending requirements. Especially more disadvantaged provinces and municipalities that aim to leverage tourism for their economic development often rely on transfers. While tourism is a priority area at the national level, budget allocation for tourism at the provincial and local level are often insufficient as the sector is competing with policy fields that are of higher importance to the local population, such as education and health. Thus, tourism at the local level is often referred to as an unfunded mandate and receives low priority. To ensure that tourism receives a higher priority at the subnational level, the government could develop a tourism funding model for provincial and local governments. By developing budget allocation mechanisms and instruments that guarantee a reasonable budget for tourism and secure its spending on tourism development. Tourism authorities could also advocate for frameworks governing infrastructure and other conditional grants, such as the Municipal Infrastructure Grant Framework and the Public Transport Network Grant Framework, to more explicitly provide for tourism catalytic infrastructure to be eligible for funding. Alternatively, local governments could be allowed to collect a tourism charge to broaden their revenues. Tourism charge has been an instrument introduced in several OECD countries (OECD, 2018c; OECD, 2018e) to provide additional revenues to local budgets and provide a dedicated financial source for local tourism development, marketing and maintaining natural and cultural tourism resources.

Recent tourism developments and tourism prospects in South Africa

To support tourism development, the Ministry of Tourism developed a National Tourism Sector Strategy (NTSS) in 2010. The strategy highlights a number of initiatives, policies and projects to support the country's emergence as a destination of international significance and to stimulate domestic tourism (Box 3.3). Updated in 2016, the aim of the strategy is to respond to key challenges and opportunities facing the sector in South Africa through 'Effective Marketing', 'Destination Development', Visitor Experience initiatives' and 'Facilitating Ease of Access'. At the same time, the national destination marketing agency South African Tourism (SAT) is implementing a strategy necessary to increase international tourist arrivals by 4 million and domestic holiday trips by 1 million over the course of five years.

Within the first two years of the "5 million in 5 years" strategy, objectives were only reached with respect to domestic holiday trips in the first year (South African Tourism, 2018a). Developments in domestic tourism are closely linked to conditions in the local economy. Although domestic tourism trips overall (including holiday, business and visiting friends and relatives) declined by almost 30% between 2016 and 2017, the first-year target to reach more than 2.9 million domestic holiday trips was fulfilled (Figure 3.9, Panel B). However, in 2018, domestic holiday trips declined falling short of the targeted objective.

Similarly, the goal to increase international tourist arrivals to 10.899 million in 2017 and 11.899 million in 2018 was missed, falling short by about 600 000 tourist arrivals in 2017 and 1.4 million tourist arrivals in 2018 (Figure 3.9, Panel A). While it is important to monitor tourism indicators, the cyclic nature of tourism flows should be differentiated from transformative issues. Thus, trends that emerge more slowly, such as demographic change in the core markets or increasing digitalisation may require an adjustment of tourism strategies. Authorities should therefore regularly evaluate and if necessary adapt the monitoring framework to include new indicators that capture new trends such as digitalisation.

Box 3.3. Policy framework and National Tourism Sector Strategy in South Africa

In 2010, the government selected tourism as one of five priority sectors in its 20-year growth plan. In the following year, the key framework document guiding both public and private sector action was published, with quantitative targets from 2010 to 2020. The Tourism Act of 2014 provides the overarching legislative context within which tourism development and growth is pursued. In 2016, the National Tourism Sector Strategy (NTSS) of 2010 was updated to respond to global trends including changes in tourist demographics and associated consumer needs.

The revised NTSS envisions a rapidly growing tourism economy that leverages the country's competitive advantages in nature, culture and heritage supported by innovative products and service excellence. Initiatives include the provision of infrastructure development, maintenance, and enhancement, and the diversification of tourism products, experiences and routes. Complementing the NTSS, the goal "5 million in 5 years" pursued by South African Tourism is to increase international tourist arrivals by 4 million and domestic tourism trips for holiday, leisure and recreation by one million from 2017-21.

To increase the direct contribution of the tourism sector to the economy, five strategic pillars were identified:

- Effective marketing: A coherent approach to promote South Africa to become a top of mind destination and improve the conversion rate.
- Facilitating ease of access: Seamless travel facilitation and access to participate in tourism.
- Enhancing the visitor experience: Provide quality visitor experiences for tourists to achieve customer satisfaction and inspire repeat visitation.
- Improving destination management practices: To provide for sustainable development and management of the tourism sector.
- Ensuring inclusivity in all tourism endeavours: Promote the empowerment of previously marginalised enterprises and rural communities to ensure inclusive growth of the sector.

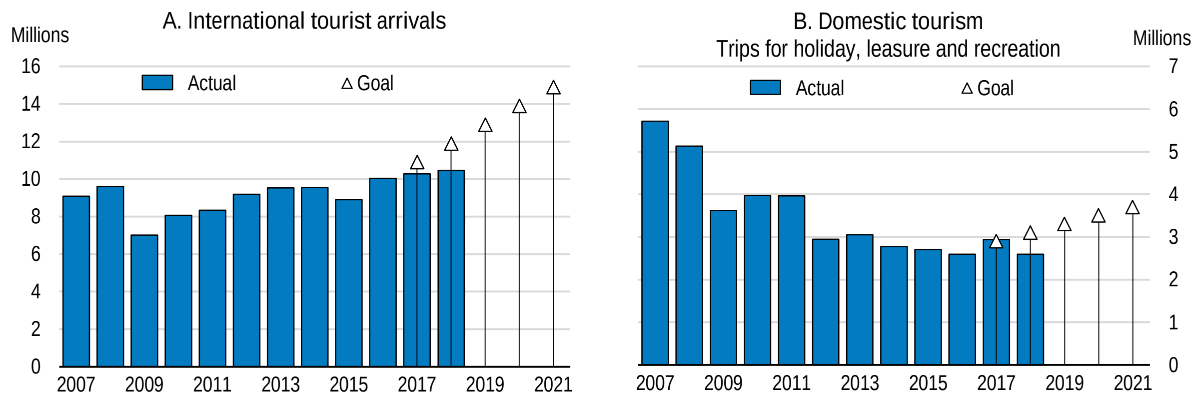
Investment in the development of tourism products is critical to improve destination competitiveness and to meet the needs of both domestic and international visitors. As such, 53% of the Department of Tourism's budget for the fiscal period 2018-19 is allocated to South African Tourism (SAT). In addition, tourism services can voluntarily charge consumers a tourism levy of 1% levy, which has the objective to provide additional funds to South African Tourism.

Source: OECD (2018e), OECD Tourism Trends and Policies 2018. National Tourism Sector Strategy, 2017.

By following a tourism strategy that seeks a balanced development between the international and domestic segment, South Africa aims to strengthen the sector's resilience. Performing well in attracting international tourists can provide external stimulus to a weak economy and counter weak performance in the domestic segment. A robust domestic tourism market in turn increases the resilience against fluctuations and external shocks in core market economies. In 2018, the domestic tourism segment in South Africa constituted about 56% of internal tourism expenditure (Statistics South Africa, 2019). In the context of a struggling domestic economy, current efforts are predominantly focussed on attracting more international tourists and expanding core markets.

Figure 3.9. Development and future goals of tourist numbers

2007-2021



Source: World Tourism Organization, 2019; South African Tourism, 2018a.

StatLink http://dx.doi.org/10.1787/888934006518

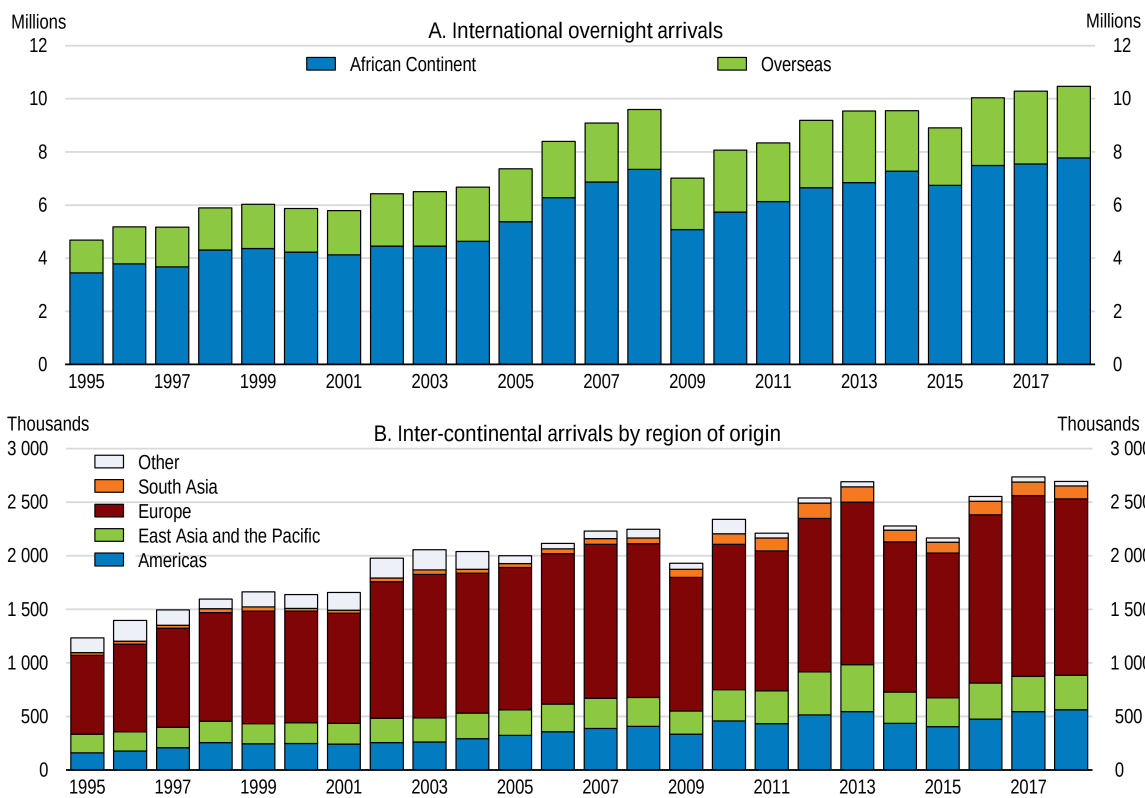
International tourism

Developments in South Africa's international tourism segment highlight both, the potential volatility of the sector and the difficulties to increase international tourist arrivals. Despite demonstrating remarkable resilience in recent years, global tourism remains sensitive to the challenges posed by global economic conditions, geopolitical turmoil, terrorism, and natural disasters (OECD, 2018e). Most recently, the COVID-19 pandemic triggered an unprecedented crisis in the tourism economy. OECD estimates on the COVID-19 impact point to 60% decline in international tourism in 2020, which could even rise to 80% if recovery is delayed until December (OECD, 2020b). As previous crises have shown, it will be crucial to restore traveller confidence and to stimulate demand. For example, following the global financial crisis, international tourist arrivals to South Africa dropped by almost 30% in 2009 (Figure 3.10). In addition, media coverage can significantly affect perceptions of safety and security following natural disasters, pandemics, terrorist attacks and the like. After the 2014 outbreak of Ebola in West Africa, inbound travel from the African continent declined in addition to overseas tourists who avoided the entire African continent. Subsequently – and despite being several thousands of kilometres away from the outbreak - arrivals to South Africa dropped by 645 000 visitors (World Tourism Organization, 2018). A coherent communication strategy in events of potential and occurring crises that focuses on a credible risk assessment is important (Haxton, 2015). By providing up-to-date information through an authorised channel, potential tourists can be supported in making informed travel choices.

High crime rates in South Africa also influence the perceptions of safety, which has a significant influence when potential tourists make their travel choice. The Travel and Tourism Competitiveness Index has continuously ranked the country within the lowest performing quintile of countries with respect to safety and security over the last decade (World Economic Forum, 2019; 2017; 2015; 2013). The low ranking primarily results from a high homicide rate and high costs for businesses due to crime and violence, indicators that do not directly capture crime or violence against tourists. Nevertheless, they affect perceptions of security within the destination. Collecting and disseminating information of crime against tourists could help to alter perceptions of personal safety in South Africa. According to the departure survey conducted by South African Tourism, around 80% of respondents over the course of 2017 had no negative experience in any form whilst in South Africa as tourists. However, about 6% stated safety and security, and about 5.5% personal safety as the most negative experience during their stay (South African Tourism, 2017f; 2017c; 2017e; 2018c). Credible and up-to-date information on safe areas that are easily accessible for domestic and international tourists alike should be provided. Such information could be complemented by greater visibility of safety and police personnel in main tourist areas as proposed in the recently finalised safety monitor programme. This is a welcomed step as it could reduce crime against tourists, make them feel safer and portray a more positive outlook to potential tourists. A general reduction in crime will also improve the well-being of the local population.

Figure 3.10. International tourist arrivals are back to pre-crisis levels

1995-2018



Note: Panel B: Other refers to non-classified arrivals.
Source: World Tourism Organization (2019), Yearbook of Tourism Statistics dataset.

StatLink http://dx.doi.org/10.1787/888934006537

Increasing international tourist arrivals not only requires improving safety and security issues, but also strategic marketing efforts in key emerging markets. Since 1995, Europe has been a core origin market for overseas tourist arrival (Figure 3.10, Panel B). In recent years, South Africa has expanded its tourism marketing efforts to new markets arising from a growing middle class in emerging economies (Table 3.1). The number of tourist arrivals from regions with an increasing middle class such as South Asia (driven by India) more than doubled over the last 10 years - yet this remains a market with significant untapped potential due to burdensome visa regulation (see below). The largest share of international tourist arrivals, however, originates from the African continent - especially visitors from countries that do not have to overcome a great distance and long travel times. Thus, the neighbouring countries Zimbabwe, Lesotho, and Mozambique accounted for over half of total overnight international arrivals (50.7%) in 2018 (South African Tourism, 2019).

Table 3.1. South African Tourism's leisure market portfolio

2017

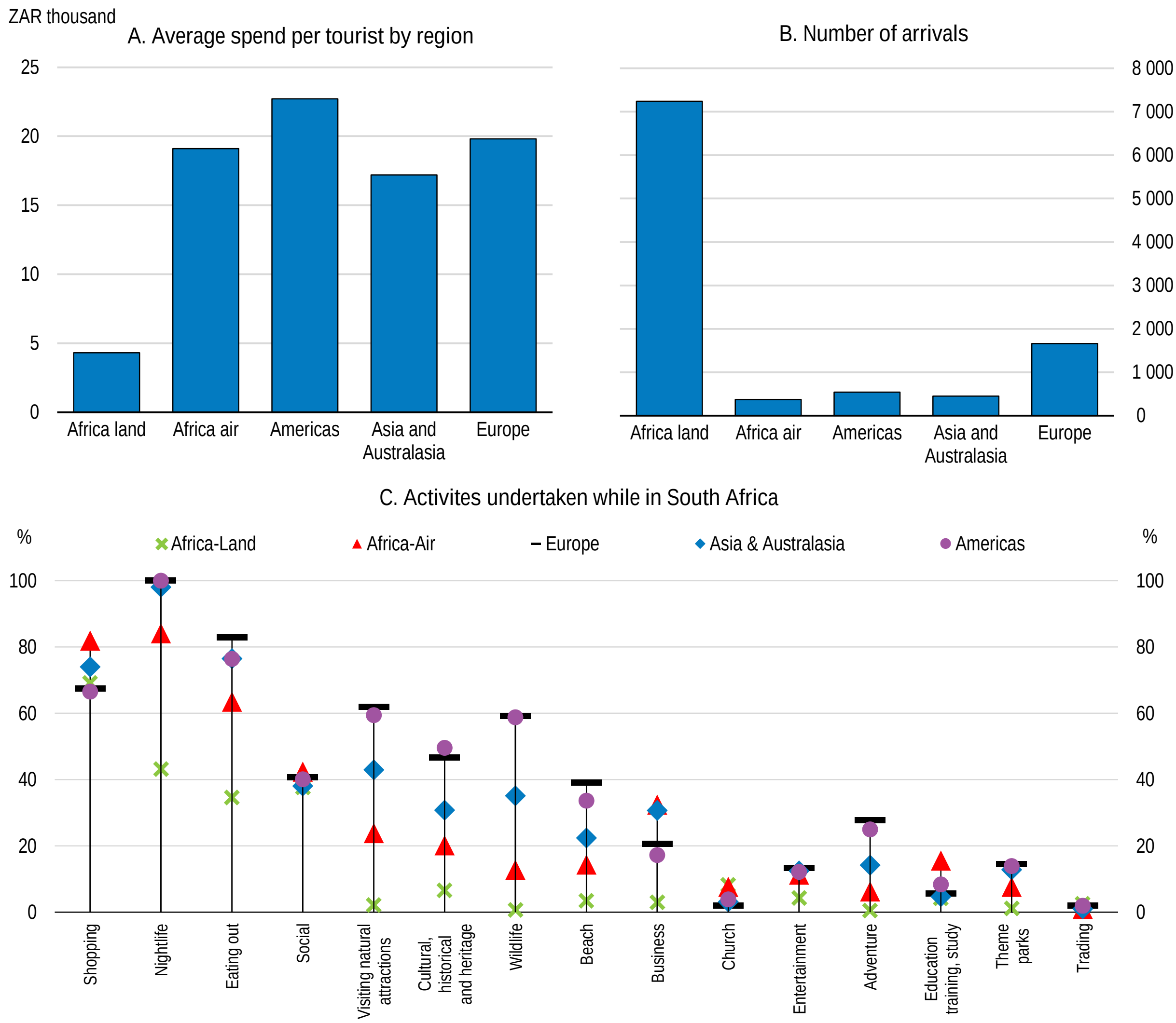
	Africa & Middle East	America	Asia & Australia	Europe
Core markets (about 60% of efforts are deployed in these markets)	Angola Domestic Kenya Mozambique Nigeria Tanzania	Brazil USA	Australia China India	France Germany Netherlands UK
Investment markets (about 20% of efforts are deployed in these markets)	Botswana DRC Ghana Lesotho Uganda Zimbabwe	Canada	Japan South Korea	Italy Russia
Tactical markets (about 15% of efforts are deployed in these markets)	Namibia UAE Zambia	-	Singapore	Switzerland
Watch list markets (about 5% of efforts are deployed in these markets)	Ethiopia Malawi Swaziland	Argentina	New Zealand	Austria, Belgium, Denmark, Finland, Norway, Spain, Sweden, Turkey
Strategic importance	Egypt Israel Morocco Saudi Arabia Tunisia	-	Malaysia	-

Note: Bolded countries have a reciprocal visa-waiver agreement with South Africa. Cursive countries are visa exempt without reciprocal arrangements.
Source: South African Tourism (2017b), South African Tourism Annual Report 2016/2017.

As for many destinations, the purpose of trip for international visitors to South Africa varies, as does, subsequently, their participation in activities and tourism-related spending. Market research indicates that most tourists from overseas markets are coming to South Africa for leisure purposes, whereas tourists from the African continent are more likely to visit friends and relatives, or travel for business or medical reasons (South African Tourism, 2018a). Visitors arriving from long-haul markets tend to participate in a wide variety of leisure-based activities, whereas those arriving by land from neighbouring countries are more likely to engage in social activities, as well as shopping, nightlife and eating out (Figure 3.11). Overseas visitors, as well as those arriving from continental Africa by air spend significantly more on average and are more likely to participate in activities related to natural attractions, cultural heritage and wildlife. Marketing strategies in these high spending origin markets should therefore focus on these core competitive assets.

Figure 3.11. Tourist numbers, spending behaviour and activities undertaken while in South Africa

2017



Note: Africa land refers to Botswana, Lesotho, Malawi, Mozambique, Namibia, Swaziland, Zambia, and Zimbabwe. Africa air refers to African countries not included in Africa land.
Source: South Africa Tourism Annual Report, 2017.

StatLink http://dx.doi.org/10.1787/888934006556

Facilitating travel to South Africa is key to increasing inbound tourism

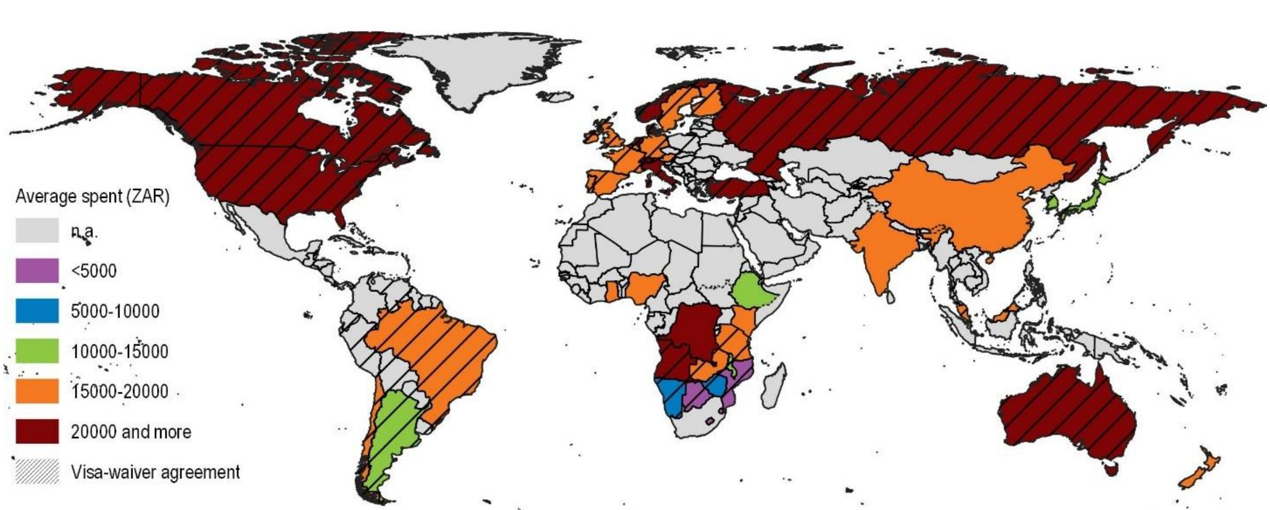
To attract international visitors to South Africa, the ability to travel freely from source markets to ports of entry and then on to the final destination, including crossing borders, is a key aspect (OECD, 2014). South Africa is challenged by its remote geographic location relative to non-African core markets, which translates into long travel times for many potential tourists. Tourism strategies to attract international visitors therefore not only have to improve accessibility and connections to existing and potential source markets, but also have to reduce the administrative barriers and uncertainty related to visa requirements to remain globally competitive.

Airport connections are fairly well developed. Within sub-Saharan Africa, South Africa has the most developed air transport infrastructure and ranks well with respect to the quality and the number of operating airlines (World Economic Forum, 2019). The Yamoussoukro decision on liberalising air transport across Africa, implemented in 2018 to stimulate the development of inter-African air transport and improve the quality of service to the consumers, has already had positive impacts on air access and tourism to South Africa. Through its air connectivity project, Cape Town Air Access, Cape Town has seen an estimated increase of ZAR 4.8 billion in tourism spend, due to the launch of 13 new routes and the expansion of 14 existing ones within Africa (Tourism Business Council of South Africa, 2018). The project is a collaboration of public and private sector partners. According to estimates by the Tourism Business Council, the airport capacity is sufficient to accommodate rising visitor numbers in the short to medium term. Authorities should however ensure that the long-term needs of the tourism industry are considered as part of the transport access and infrastructure planning process.

The current visa policy of South Africa is acting as a brake on growth in international tourist arrivals. Across countries, complex visa and entry procedures are well proven inhibitors of travel (OECD, 2018e). In response, countries aiming to increase international tourism take steps to better facilitate entry into the respective country. For example, the Indonesian government successfully attracted more foreign tourists by changing their visa policy in 2015 to allow citizens from 169 countries to enter the country without a visa (OECD, 2018d). As of 2019, South Africa currently had visa-waiver agreements with 76 countries in total (Figure 3.12). International tourist arrivals from countries with recently signed visa waivers have seen strong growth. For example, following the establishment of a reciprocal visa waiver with Russia in March 2017, international tourist arrivals increased by 51% compared to arrivals in 2016. By contrast, the cancellation of visa waiver arrangements with New Zealand in January 2017, led to a 23% decline in international tourists arrivals (World Tourism Organization, 2018). To increase the arrival of foreign tourists, South Africa could take steps to expand the number of countries covered by visa waiver agreements. Not only does the elimination of the administrative burden support the attractiveness of the country as a destination, but spending by foreign visitors also has a more important impact on the domestic economy that outweighs the forgone earnings from visa fees (OECD, 2018d; OECD, 2018e).

Figure 3.12. Not all sending countries with high average spend by tourists have a visa-waiver agreement

2017



Source: Based on data from South African Tourism (2018) and UNWTO.

For those countries that do not fall under visa-waiver agreements, visa-issuing procedures must be simplified. In emerging target markets that are characterised by high average tourist spending, such as China and India, no visa-waiver agreements exist (Figure 3.12). Moreover, a lack of sufficient visa issuing offices, especially in these same markets, increases the administrative and monetary burden for potential tourists. Not only does the lack of visa issuing offices increase processing times, current processes require the tourist to send in their passport. In addition, applying for a visa may also require the advance purchase of a flight ticket – without certainty of being granted the visa. As such, for many, applying for a visa to South Africa is costly both in terms of time and money. An electronic visa programme is currently piloted for citizens from New Zealand travelling to South Africa in place of the visa-waiver agreement cancelled in 2017. While the expansion of a free visa policy in core markets should be targeted, it might not be immediately feasible due to security concerns. An alternative solution would be the large-scale implementation of electronic visa programmes and the issuing of multi-year multi-entry visas to reduce the administrative burden for potential and repeating tourists by saving visitor's time and money. These steps are currently discussed by the respective authorities and would significantly improve administrative procedures, and thus turn South Africa into a more competitive and attractive destination for tourists.

Facilitating and clarifying current rules for entering South Africa could reduce unnecessary burden for travellers. In 2015, the Department of Home Affairs introduced a visa regime that required minor travellers wishing to enter or leave the country to produce an unabridged birth certificate, regardless of whether the country falls under a visa-waiver scheme or not. In addition, written permission from both parents or legal guardians to enter or leave the country might be requested in some cases. Although an amendment in 2018 resulted in a slight change of wording, uncertainties remain as minor travellers who are foreign nationals and who are visa exempt are still advised to carry the unabridged birth certificate. While it is no longer a legal requirement, entry might be prohibited if relevant documentation for minors cannot be produced when requested. Rules regarding travelling minors should be clarified, communicated effectively, and where feasible removed to facilitate travel.

Regional visa agreements could increase travel mobility within wider Southern Africa while supporting regional integration. The last economic survey highlighted the need to strengthen regional integration in the South African Development Community (SADC) to broaden economic opportunities (OECD, 2017e). Regional visa agreements could increase overall attractiveness for overseas tourists travelling to the region. Instead of going through visa processing procedures for each individual country, a regional visa agreement would facilitate travel mobility and flow of visitors between participating countries (OECD, 2018a). Already, several regional economic communities offer multi-destination visas such as the East Africa Tourist Visa as well as visa-free travel such as in the Economic Community of West African States to boost regional tourism. Although the KAZA Univisa has been introduced in the SADC region, this regional visa currently only covers Zambia, Zimbabwe, and park visits in Botswana allowing holders to travel between these areas. Broadening the scope of KAZA Univisa schemes should be advanced. The more countries able to join whilst maintaining border security, the better it will be for the attractiveness of participating destinations. It also allows the participating governments to share the burden of processing, security screening and administration (OECD, 2018a).

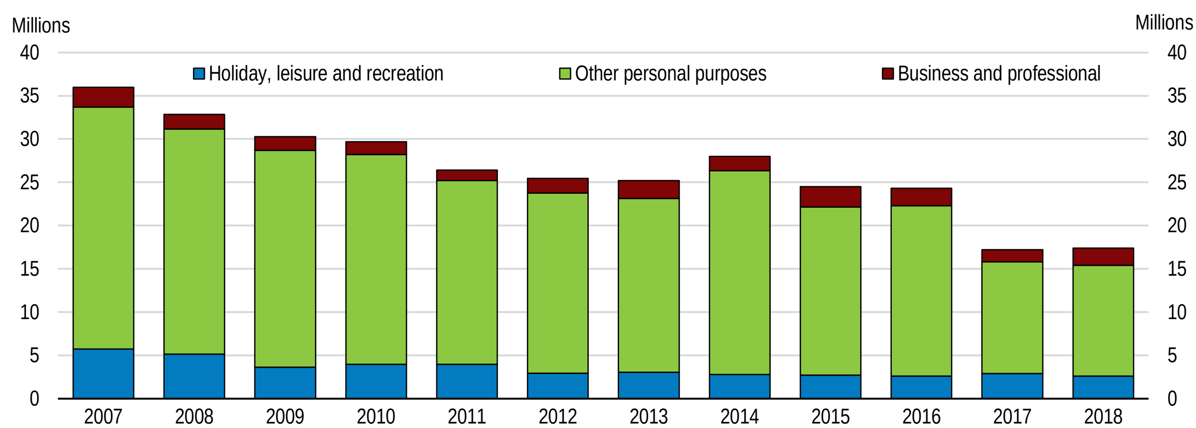
Domestic tourism

Domestic tourism has the potential to reduce exposure to seasonality of inbound tourism, promote economic development in rural and regional areas and improve the local tourism culture. In the context of the COVID-19 pandemic, reduced international flights and many travel restrictions imposed by countries in place, domestic tourism has the potential to be the main driver to recover the tourism sector (OECD, 2020b). A main challenge facing the South African tourism sector is how to grow domestic tourism on the back of tough economic conditions in the country. Weak economic growth and high unemployment have put household disposable income under pressure (see KPI). Thus, over the last decade, total domestic tourism trips have declined (Figure 3.13).

Domestic tourists in South Africa are mainly visiting family and friends. Trips for the reason of holiday, leisure and recreation, which tend to create more tourism revenues, constitute only 15% of all domestic tourist trips. The biggest inhibiting factors according to respondents from the domestic tourism survey are related to affordability (40%) and that they have no reason to take a trip (23%) (South African Tourism, 2019). The lack of a tourism culture has been shaped by the legacy of apartheid, and although the composition and nature of domestic tourism has been changing since then, domestic tourism remains below its expected potential (Kruger and Douglas, 2015).

Figure 3.13. Domestic tourism trips are trending downwards

By purpose, 2007-2018



Note: Other personal purposes refer to visiting friends and family.
Source: World Tourism Organization (2019).

StatLink http://dx.doi.org/10.1787/888934006575

To create a tourism sector where domestic tourism can balance seasonality of international arrivals, the industry has responded by developing products that appeal to members across all market segments. The government developed a domestic tourism strategy focussing on creating a culture of travel for holiday leisure. Strategic actions to increase tourism volume include creating a domestic travel card similar to SANParks' Wild Card and packaging linked experiences across the country, for example National Parks Footprint, in partnership with the industry (Department of Tourism, 2012). However, domestic tourism in South Africa is facing a lack of diversity and inclusive pricing strategies (Department of Tourism, 2018b). The domestic tourism strategy should not only focus on differentiated marketing, but also on differentiated pricing mechanisms for domestic tourists to increase accessibility to different social classes and counter seasonality. Thus, reduced entrance fees to tourism sights and attractions for local residents, low income groups and during off-season could stabilise visitor numbers. For example, several European countries have active policies combatting seasonality and promoting "Tourism for all" (e.g., Czech Republic, France, Greece, Hungary), which are primarily targeting the domestic market. Further, a number of countries (e.g., Belgium, France, Hungary, Italy) also implement programmes to reduce inequalities and support people with limited access to holidays and tourism opportunities through the implementation of holiday funding schemes or targeted actions for persons with reduced mobility (OECD, 2016b).

Ensuring tourism development translates into sustainable and inclusive growth

Tourism development does not automatically translate into inclusive growth. While the sector has the potential to create job opportunities (as described above), the benefits of tourism also have to spread into regions currently lagging behind. This is especially important in South Africa, where spatial inequalities are a legacy from the apartheid regime. However, there are risks associated with unchecked tourism growth that have to be considered, such as loss of cultural heritage and the depletion of environmental assets. Tourism policies therefore need to be planned carefully and in a holistic way taking into account the interdependencies across different sectors and allowing for input from different levels of government.

Supporting regional development through tourism

South Africa is one of the most spatially segregated and unequal countries owing to the legacy of Apartheid. Thus, provinces such as Eastern Cape, KwaZulu-Natal, and Limpopo that used to have a high concentration of "homelands" during apartheid still exhibit high poverty levels (World Bank, 2018). To address the inherited geographic inequalities, South Africa's National Development Plan aims to leverage tourism to support regional development and reduce spatial inequalities (Rogerson, 2015). To achieve the National Development Plan's objectives, strategies must focus on spreading tourism to lagging regions to increase its economic impact (Pearce, 1995). It is important that strategies to boost the geographic spread of tourism are co-ordinated across different levels of government and that policy objectives between policy sectors are well aligned.

South Africa boasts a number of landmarks that are attractive to tourists but are located in distressed areas. For example, South Africa hosts 19 national parks spread across four provinces. Among them are Limpopo, Northern Cape and Mpumalanga, which are also characterised by high poverty rates. Despite the natural assets in these provinces, visitors tend to stay for a shorter period and thus average spending per foreign tourist is significantly lower than in Gauteng and Western Cape who exhibit lower poverty rates and attract more visitors and total foreign tourist spending (Figure 3.14, Table 3.2). Visitor numbers for the National parks further indicate low geographical spread of tourists into existing national parks and limited spread of benefits to other parks (South African National Parks, 2018). To spread the economic benefits of tourism more widely, the government is currently identifying priority destinations for tourism that have the potential to create spillover effects to the surrounding region. However, there is a lack of data with respect to local tourism and tourism benefits. In the context of South Africa, where tourism was historically targeted to only the white minority population, an understanding for the benefits of tourism for the local economy is missing. Providing information about the local benefit of tourism is crucial to complement targeted investment and programmes to support the development of local supply chains and create buy-in of local communities and stakeholders.

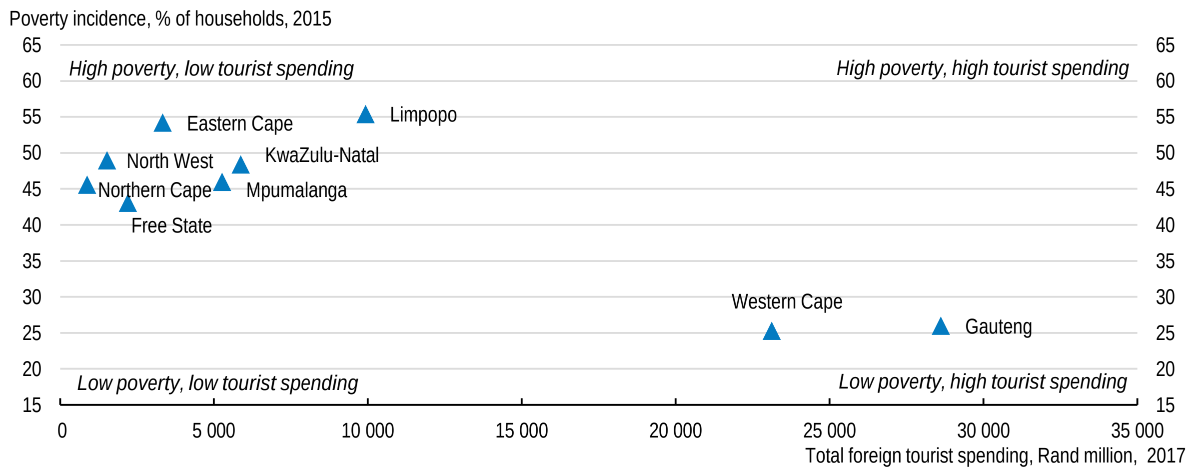
Table 3.2. International tourism indicators by province

2017

	Arrivals	Spend (ZAR million)	Average Spend	Total Bednights (thousands)	Average length of stay (days)
Gauteng	4 052 368	28 618	7 500	44 468	11.4
Western Cape	1 727 913	23 118	14 400	23 300	14.1
Eastern Cape	411 408	3 331	8 700	4 378	11.2
Kwazulu Natal	812 531	5 867	7 700	7 868	10.1
Mpumalanga	1 573 635	5 260	3 500	12 759	8.5
Limpopo	1 882 191	9 929	5 600	7 864	4.4
North West	771 390	1 523	2 100	4 643	6.3
Northern Cape	113 137	874	8 400	1 325	12.6
Free State	1 193 083	2 205	2 100	13 956	12.2

Source: South African Tourism, 2018a; https://live.southafrica.net/media/229028/sat-annual-report-2017_v25_13072018.pdf.

Figure 3.14. Provinces with low poverty attract more foreign tourist spending



Source: South Africa Tourism Annual Report, 2017; Statistics South Africa.

StatLink http://dx.doi.org/10.1787/888934006594

Local destination management is key in increasing the economic impact of tourism

Tourism plays a crucial role in many secondary and small towns in South Africa. In a recent study, McKelly et al. (2017) show that for several municipalities the role of tourism in the economy increased significantly between 2001 and 2010. Moreover, several of these areas fall within the 27 Priority Rural Districts identified by the Department of Rural Development and Land Reform, incorporating several former Homeland areas. This highlights the potential of tourism to support local economies in distressed areas. However, many of the remote small towns that turn toward tourism as a vehicle for growth are located in poorer and distressed areas, and as such their local governments are likely underfunded (Rogerson, 2016). Thus, despite their legislative mandate to plan for and drive tourism development (Box 3.4), planning for tourism by local governments risks falling short of achieving its full potential due to the sheer volume of responsibilities in service delivery and financial constraints (Rogerson, 2016).

Local governments need sufficient capacity to plan for sustainable tourism development. Thus, local bodies that are able to plan and take action within destinations, as well as developing strong partnership bringing together local government and private sector businesses are crucial for effective destination management. The Ministry of Tourism has developed a Tourism Planning Toolkit for local governments to provide guidance on how to develop a basic tourism plan. Further, over 300 local government policy makers and practitioners were trained on tourism planning and implementation, in collaboration with the University of Pretoria. However, to ensure that municipalities can follow through with the tourism strategies developed at the national level, capacity at the local level has to be strengthened. For example, in Chile, experienced destination managers were assigned to local destinations to co-ordinate tourism policies, connect private and public actors, and design and implement site-specific promotion strategies (OECD, 2017a).

Box 3.4. Governance of tourism in South Africa

Tourism policies in South Africa fall under the responsibility of national, provincial and local governments.

- At the **national level**, the Ministry of Tourism has the oversight of the tourism portfolio and is involved in crafting policies and sector strategies. The Ministry works closely with public and private stakeholders. It also oversees South African Tourism (SAT), the public entity responsible for the country's destination marketing.
- At the **provincial level**, a Member of the Executive Council in each of South Africa's nine provinces is charged with responsibility for tourism. Each province also has a provincial tourism marketing organisation, complementing the activities of SAT.
- The **local level** (districts and municipalities) is responsible for implementation, and therefore a key partner in expanding the tourism sector through its role in initiating, facilitating and supporting the development and promotion of local tourism. Apart from planning and developing infrastructure, local government has the primary role of ensuring that the environment that both the locals and visitors encounter is clean, safe, healthy, accessible and stimulating. It is also responsible for business licensing and can therefore affect the tourism business environment.

Given the cross-cutting nature of tourism, the sector's policies are also affected by other sectors. For example, the Department of Home Affairs is responsible for immigration and visa regulation significantly affecting tourism policies. To accommodate the complex nature of tourism, horizontal co-ordination is undertaken at the national level through the National Tourism Stakeholder Forum of the Department of Tourism. It consists of representatives of key ministries and institutions with an impact on tourism, such as Statistics South Africa, the Airline Association of Southern Africa and the Tourism Business Council of South Africa. Further, bilateral agreements between the Ministry of Tourism and other ministries allow tourism officials to work in key policy forums to ensure consideration of policy impacts on tourism.

Source: OECD (2018e).

Developing infrastructure to support regional development

To support the geographic spread of tourists into lagging regions, relevant infrastructure has to be developed. Areas that are not accessible because of lacking or bad transport infrastructure will not develop into flourishing tourism destinations. Similarly, local destinations that cannot provide supportive tourism infrastructure (e.g. accommodation) and basic services (sanitation, water, electricity) will have difficulties attracting tourists.

Transport infrastructure within and between places in South Africa is dominated by road transport. Once visitors have arrived in South Africa (either by car from neighbouring countries (70%) or by air (30%) private cars, taxis and minibuses are the most used mode of transport among international and domestic tourists alike (South African Tourism, 2017a). While this form of transport allows for the highest flexibility, it adds to the already existing pressure on traffic and road infrastructure. As tourism strategies aim for increasing tourist numbers over the coming years, more sustainable and environmentally friendly alternatives should be considered. Across OECD, convenient multimodal transport options to access destinations, efficient connections between interregional and local modes, integrated ticketing, multilingual user information and wayfinding, as well as ease of access for travellers with limited mobility have been shown to increase the geographic spread of tourists in a more environmentally friendly and less car-dependent way (OECD, 2016b). This also include the more efficient use of existing infrastructure when defining priority areas and developing tourism strategies. It is therefore crucial that transport policies are well aligned and co-ordinated with tourism policies to improve visitor mobility to and within destinations, enhance visitor satisfaction, and help to secure the economic viability of local transport systems by servicing both residents and tourists (OECD, 2016c).

Infrastructure projects that aim to increase the number of visitors cannot be developed in isolation. Besides developing infrastructure that increases visitor's mobility, the competitiveness to attract tourists into the regions also depends on the availability of supportive infrastructure and basic services, such as sanitation, water and electricity (UNCTAD, 2017). In South Africa, there is a great variation in the capacity of local government, in terms of revenue collection, financial operations and service delivery (OECD, 2015; Statistics South Africa, 2016). Thus, especially struggling municipalities that turn towards tourism to support local growth might not be able to ensure proper service delivery. To promote the geographic spread of tourists into more remote and distressed areas requires sufficient capacity at the local level to ensure basic service delivery to support new and emerging attractions and destinations (Rogerson and Nel, 2016). Municipalities have to be supported to provide supportive infrastructure for basic services and tourism related activities. Better service delivery will create a more enjoyable visitor experience, while also contributing to better living conditions for residents in the local tourist destination.

Tourist routes are an increasingly popular initiative implemented by countries to support the geographical spread of visitors (OECD, 2016a). Rather than heavily relying on tour operators, as is still the case in many provinces in South Africa, well-marketed tourist routes can tap into the segment of tourists that prefer to plan their route individually. Digital platforms can provide information on local sights outside of main tourist hotspots complementing signage on the ground. A positive example is the well-established and well-travelled Garden Route, which stretches about 300 km along the coast from the Western to the Eastern Cape. A further tourist route is currently planned from Cape Town to Port Elizabeth, which has the potential to create spillovers to many local economies along the route. There are also 21 well-organised wine route associations in South Africa, which enjoy an increasing number of visitors (South African Tourism, 2018). The wine routes offer experiences relating to history, culture, nature and cuisine in addition to the complete wine experience (A Ferreira and Hunter, 2017). With most wine routes located outside metropolitan areas, wine tours are one example for successful rural tourism development. It is also an example how branding can be used to develop tourism. Not only have the wine tours supported tourism development in rural areas, but have also raised the profile and profitability of South African wine in general.

Specialising on events to combine infrastructure development and local destination management

Events are a dynamic and fast-growing segment that links tourism and infrastructure development. To be competitive in the bidding process and to attract business events and tourism, infrastructure in the form of hotels, convention centres and transportation systems is needed. South Africa is not only establishing itself as a business event destination, but has also hosted several large-scale events that have boosted infrastructure development and visitor numbers. Events included the Rugby World Cup (1995), the Cricket World Cup (2003) and most recently the FIFA World Cup (2010), the latter attracting almost 310 000 foreign visitors in June and July 2010 whose primary purpose was attending the World Cup (Sports and Recreation South Africa, 2012). In addition to expanding visitor numbers, major events are often a vehicle for infrastructure development. For the 2010 FIFA World Cup, South Africa invested about ZAR 11 billion (about USD 1.3 billion) into transport infrastructure – such as the upgrading of roads and the building of the Gautrain (Sports and Recreation South Africa, 2012).

Many cities, regions and countries across the OECD are devoting considerable resources to developing, attracting and supporting major events as part of a wider strategy to increase visitor numbers and expenditure. One of the fastest growing event segments is that of Meetings, Incentives, Conventions and Exhibitions (MICE). Across the African continent, South Africa is leading in the number of hosting business events (UNCTAD, 2017). About a third of international business travellers are visiting South Africa because of MICE (South African Tourism, 2018a). To boost South Africa's strategy to attract five million additional travellers, which encompass business travellers, the National Treasury approved in 2017 a Bidding Fund to help attract more business events to South Africa. Funded with ZAR 20 million for 2017/18 and ZAR 90 million for the following three years, the Department of Tourism will be able to bid aggressively for international association conferences, meetings, incentives and exhibitions. Aligning the event strategy within the tourism strategy can support the geographic spread of tourism through the development of relevant infrastructure and counter seasonality of the holiday tourism segment (Box 3.5).

Box 3.5. Major events as a catalyst for tourism development – The example of New Zealand

To ensure that events are efficiently managed and well delivered, the New Zealand Government, through New Zealand Major Events, works in partnership with the events sector. New Zealand Major Events act as an advisor to government Ministers on the value that the events industry brings to the national economy. It acts as a partner with the events sector to attract major events, boost sector capability and leverage benefits arising from events. It plays the role of investor to ensure valuable legacy outcomes that align with the Government's Major Events Strategy are delivered. Finally, it is a one-stop-shop for event organisers to help them navigate their involvement with government (www.majorevents.govt.nz).

The Major Events Strategy highlights that from the government's perspective, major events are considered those which i) generate significant economic, social, and cultural benefits; ii) attract significant numbers of international participants and spectators; iii) have a national profile outside the region in which they are being held; and iv) generate significant international media coverage in key markets. Potential impacts of major events include i) increased tourism revenue; ii) increased opportunities for NZ brand promotion; iii) the creation of new business and trade opportunities; iv) increased employment opportunities; and v) enhanced events sector capabilities – supported through the Major Events Resource Bank. The expected long-term outcomes of the strategy are a significant contribution to a high value economy, vibrant communities and culture, and a flourishing events sector.

In order to achieve the aims of the Strategy and maximise the potential economic benefits for New Zealand, a Major Events Development Fund was established to prioritise investment in those events with the most potential for economic return. The governance structure for the fund includes the establishment of both an Investment Panel, to provide private sector and senior public sector input into investment decisions, and a Major Events Minister's Group, bringing together five Ministerial portfolios with event investment and leveraging interests (Economic Development; Tourism; Arts, Culture and Heritage; Foreign Affairs; Sport and Recreation). The Investment Panel will consider major event applications and make recommendations to the Ministers Group on event investment, leverage, legacy and prospecting. It is then the role of the Major Events Minister's Group to approve or decline any recommendations made by the Major Events Investment Panel.

Source: OECD (2017b), Major events as catalysts for tourism.

Ensuring that tourism development is environmentally sustainable

Tourism in South Africa depends on its natural resources, while at the same time increasing visitor numbers can contribute to the depletion of these very same resources. Thus, in mature tourism economies, the sector plays a significant role in the consumption of energy and the generation of emissions of greenhouse gases, and contributes to fresh water and land use, biodiversity loss, and unsustainable food consumption (Haxton, 2015). As South Africa aims to become a tourism destination of global significance, it needs to address the environmental challenges that accompany increasing tourist numbers. When built upon broad stakeholder engagement and sustainable development principles, tourism has demonstrated the ability to raise awareness of cultural and environmental values, and help finance the protection and management of protected areas, and the preservation of biological diversity (OECD, 2018e).

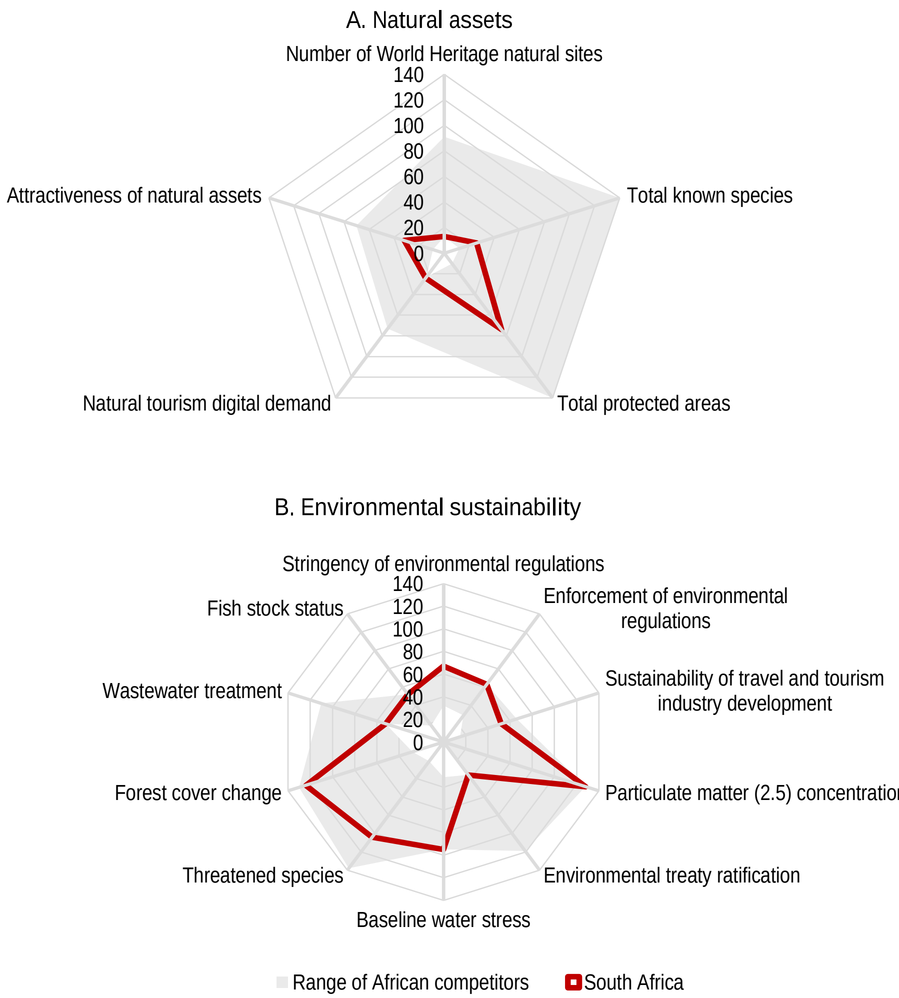
The biodiversity and attractiveness of natural assets is a key competitive advantage (Figure 3.15, Panel A). South Africa has a large and diverse geographical area, although the ratio of protected areas to total area is relatively low compared to many other countries. Despite this, about 40 000 km^2 of national parks – comparable to the size of the Netherlands – is protected. Environmental sustainability has, however, deteriorated due to deforestation and loss of habitat since 2000 (Figure 3.15, Panel A) (World Economic Forum, 2017). In addition, South Africa is one of the most vulnerable countries in the world with respect to projected climate change. Projections indicate overall drying, increased rainfall variability, a shorter rainy season and an increased incidence and/or severity of extreme weather events (Department of Environmental Affairs, 2017). Potential threats of climate change affecting South Africa's competitiveness as an international tourist destination not only include the degradation of environmental resources such as wildlife, beaches, and heritage sites, but also biodiversity loss, increased natural hazards and shifts of water availability among others (Rogerson, 2016; Ziervogel et al., 2014).

Already, South Africa has experienced the consequences of environmental hazards on tourism. Being an arid country, baseline water stress has been an increasing factor impeding tourism development (Figure 3.15, Panel B). For example, three years of drought combined with water mismanagement led to a water crisis in Cape Town at the beginning of 2018. Confronted with a potential fresh water cut-off, water restrictions were imposed on residents and tourist accommodations alike, affecting Cape Town's attractiveness as a destination. Despite the negative impacts of the water crisis, it did result in some positive outcomes such as investment in water-saving infrastructure and increasing awareness of the vulnerability of environmental resources. However, the Cape Town experience highlights the need to anticipate and adapt to environmental challenges in the future to avoid costly ad-hoc investments and regulations caused by an imminent crisis.

In the context of climate change, government and the tourism industry have to find sustainable strategies to accommodate growing tourist numbers. The country's concern about the effect of climate change on tourism is highlighted in the National Tourism Sector Strategy that promotes responsible and environmentally sustainable tourism (Department of Tourism, 2017). While the need to mainstream climate change issues into tourism policies and development is well recognised at the national level, implementation is hampered by weak climate change measures at the municipal level. Thus, financial allocations for climate change issues are often insufficient as they are an unfunded mandate of local governments (Ziervogel et al., 2014). To ensure that South Africa continues to benefit from its natural assets as major tourist attractions, destinations have to develop adaptation strategies to respond to the potential effects of climate change in their planning and create environmentally friendly strategies to accommodate growing tourist numbers. This is especially important for key tourist destinations, such as Cape Town, where high tourist numbers already add to the pressure on natural resources. It is therefore necessary that the role for sustainable tourism planning is clearly defined and that respective government levels are supported in terms of capacity and financial resources to achieve effective policy design and implementation.

Figure 3.15. South Africa has competitive natural assets and ranks well along several environmental dimensions

Rank from 1 (best) to 140 (worst), 2019



Note: Range of selected competitors include Botswana, Namibia, Mauritius, Kenya and Tanzania.
Source: *World Economic Forum (2019), Travel and Tourism Competitiveness Index,* http://www3.weforum.org/docs/WEF_TTCR19_data_for_download.xlsx.

StatLink http://dx.doi.org/10.1787/888934006613

Main finding	Recommendations
Key Recommendations	
Access to visa is difficult from several sending countries.	Implement electronic visa programmes on a large scale for emerging target markets.
Tourism in South Africa is concentrated in few regions and does not spread into remoter areas.	Investments in transport and tourism infrastructure have to be aligned to connect tourists to places.
There are multiple licences required in different administrations to open a small tourism unit.	Reduce red tape and regulatory burden for entrepreneurs and small enterprises.
Increasing the attractiveness as tourism destination	
High crime rates could deter potential tourists from selecting South Africa as destination.	Seek to improve perceptions of safety through higher visibility of safety personnel in prime tourist spots and by collecting and disseminating indicators of crimes related to tourists.
South Africa ranks low in international openness	Increase the number of countries falling under the visa-waiver agreement.
Visa regulation for minors are not clearly communicated and create administrative burden for potential tourists even from visa exempt sending countries.	Clarify and simplify rules regarding visa regulations with respect to documents required by minors.
Travel mobility and flow of visitors between South Africa and other SADC countries is hampered due to visa processing procedures.	Join regional visa agreement in the SADC region to support regional integration and attractiveness for overseas tourists travelling to the region.
Overseas visitors spend on average more and are more likely to participate in activities related to natural attractions, cultural heritage and wildlife.	Continue focusing marketing efforts on core competitive assets and key source markets with high growth potential.
Domestic tourism remains below its expected potential on the back of a lacking tourism culture shaped by the legacy of apartheid and affordability due to subdued economy.	Support domestic tourism development to counter seasonality by diversifying products and pricing mechanisms.
Ensure effective governance of tourism	
Budget allocation for tourism at the provincial and local level are often insufficient as the sector is competing with policy fields that are of higher importance to the local population.	Create frameworks governing infrastructure and other conditional grants to provide additional revenues to subnational budgets and provide a dedicated financial source for local tourism development, marketing and maintaining natural and cultural tourism resources.
Despite their legislative mandate to plan for and drive tourism development, planning for tourism by local governments risks falling short of achieving its full potential due to the sheer volume of responsibilities in service delivery – especially in distressed regions.	Ensure that local level governments have sufficient capacity to support planning for sustainable tourism and to adapt to challenges imposed by climate change by sending experienced destination managers to struggling municipalities. Provide capacity building programmes and additional training where needed.
Policy strategies are often developed in silos, not taking into account the interconnectedness with other policy sectors.	Put in place co-ordination mechanism across policy sectors to align strategies and that serve a common overarching goal for development including sustainable tourism growth. Such a coordination mechanism could be put in place at the presidency office to ensure a whole of government approach, particularly for ministries with mandates heavily impacting tourism. Ensure that the needs of the tourism industry are considered as part of the transport access and infrastructure planning.
Other	
Many accommodation services use intermediary suppliers that source the bulk of their fresh fruit and vegetable produce from distant urban wholesale markets	Capacity building workshops by accommodation services could provide better information to local enterprises regarding procurement, product safety and standards requirements and create links between accommodation services and local suppliers to facilitate their integration into local supply chains.
There is a lack of data to create an understanding of local value chains and the general benefits of tourism for the local economy.	Improve the economic analysis of tourism activity with better data and research, also for the regional level.
Tourism provides a range of low-skilled tasks, but a low quality workforce can affect visitor experience.	Use vocational and on-the-job training programmes to support skills development in the tourism workforce.
The sustainability of small micro and medium sized enterprises in the tourism value chain is particularly affected during and post the implementation of government measures to curb the spread of Covid-19.	Increase and extend the relief support in sectors hard hit by the crisis, in particular for tourism sector, up to mid-2021, particularly if there is a renewed virus outbreak later in the year.

References

A Ferreira, S. and C. Hunter (2017), “Wine tourism development in South Africa: a geographical analysis”, *Tourism Geographies*, Vol. 19/5, pp. 676-698, http://dx.doi.org/10.1080/14616688.2017.1298152.

AirBnb (2018), *Airbnb in South Africa: The Positive Impact of Healthy Tourism*, https://2sqy5r1jf93u30kwzc1smfqt-wpengine.netdna-ssl.com/wp-content/uploads/2018/09/Airbnb_SouthAfricaEconomicImpactStudy_180831.pdf

Butler, G. and C. Rogerson (2016), “Inclusive local tourism development in South Africa: Evidence from Dullstroom”, *Local Economy*, Vol. 31/1-2, pp. 264-281, http://dx.doi.org/10.1177/0269094215623732.

Cornelissen, S. (2005), *The Global Tourism System*, Routledge, London.

Department of Environmental Affairs (2017), *South Africa’s 2nd Annual Climate Change Report 2016*, https://www.environment.gov.za/sites/default/files/reports/southafrica_secondnational_climatechnage_report2017.pdf (accessed on 23 January 2019).

Department of Tourism (2018a), *Annual Performance Plan 2018/19 to 2020/21*, https://www.tourism.gov.za/AboutNDT/Publications/Department%20of%20Tourism%20Annual%20Performance%20Plan%202018-19_2020-21.pdf (accessed on 9 January 2019).

Department of Tourism (2018b), *Domestic Tourism Strategy Review - Theory of Change Approach*, https://tbcsa.travel/wp-content/uploads/2018/03/Domestic-Tourism-startegy-Feb2018.pdf

Department of Tourism (2017), National Tourism Sector Strategy 2016-2026.

Department of Tourism (2012), *Domestic Tourism Growth Strategy 2012-2020*, Department of Tourism, Pretoria, https://www.tourism.gov.za/AboutNDT/Branches1/domestic/Documents/Domestic%20Tourism%20Growth%20Strategy%202012-%202020.pdf

Haxton, P. (2015), “A Review of Effective Policies for Tourism Growth”, *OECD Tourism Papers*, No. 2015/1, OECD Publishing, Paris, https://dx.doi.org/10.1787/5js4vmp5n5r8-en.

Kruger, E. and A. Douglas (2015), “Constraints to consumption of South Africa’s national parks among the emerging domestic tourism market”, *Development Southern Africa*, Vol. 32/3, pp. 303-319, http://dx.doi.org/10.1080/0376835X.2015.1010712.

Mckelly, D. et al. (2017), “Spatial trends in tourism within South Africa: The expected and the surprising”, *South African Journal of Geomatics*, Vol. 6/2, http://dx.doi.org/10.4314/sajg.v6i2.7.

O’connell, S. et al. (2017), “Can Business Input Improve the Effectiveness of Worker Training? Evidence from Brazil’s Pronatec-MDIC”, *Policy Research Working Paper*, No. 8155, World Bank, http://econ.worldbank.org. (accessed on 14 March 2019).

OECD (2020a), *OECD Tourism Trends and Policies 2020*, OECD Publishing, Paris, https://doi.org/10.1787/6b47b985-en

OECD (2020b), “Tourism Policy Responses to the coronavirus (COVID-19)”, *Policy Brief*, OECD Publishing, Paris.

OECD (2019), “Providing new OECD evidence on tourism trade in value added”, *OECD Tourism Papers*, No. 2019/01, OECD Publishing, Paris, https://doi.org/10.1787/d6072d28-en.

OECD (2018a), “Analysing megatrends to better shape the future of tourism”, *OECD Tourism Papers*, No. 2018/02, OECD Publishing, Paris, https://dx.doi.org/10.1787/d465eb68-en.

OECD (2018b), “Effective policy approaches for quality investment in tourism”, *OECD Tourism Papers*, No. 2018/03, OECD Publishing, Paris, https://dx.doi.org/10.1787/88ea780c-en.

OECD (2018d), “Making the most of tourism to promote sustainable regional development”, OECD Publishing, Paris, https://dx.doi.org/10.1787/eco_surveys-idn-2018-6-en.

OECD (2018e), *OECD Tourism Trends and Policies 2018*, OECD Publishing, Paris, https://dx.doi.org/10.1787/tour-2018-en.

OECD (2017a), "Financing approaches for tourism SMEs and entrepreneurs", *OECD Tourism Papers*, No. 2017/3, OECD Publishing, Paris, https://dx.doi.org/10.1787/8d06572a-en.

OECD (2017b), "Major events as catalysts for tourism", *OECD Tourism Papers*, No. 2017/2, OECD Publishing, Paris, https://dx.doi.org/10.1787/a0e8a96f-en.

OECD (2017c), *OECD Economic Surveys: Iceland 2017*, OECD Publishing, Paris, https://dx.doi.org/10.1787/eco_surveys-isl-2017-en.

OECD (2017d), *OECD Economic Surveys: Mexico 2017*, OECD Publishing, Paris, https://dx.doi.org/10.1787/eco_surveys-mex-2017-en.

OECD (2017e), *OECD Economic Surveys: South Africa 2017*, OECD Publishing, Paris, https://dx.doi.org/10.1787/eco_surveys-zaf-2017-en.

OECD (2017f), *Tourism Policy Review of Mexico*, OECD Studies on Tourism, OECD Publishing, Paris, https://dx.doi.org/10.1787/9789264266575-en.

OECD (2016a), *Intermodal connectivity for destinations*, https://www.oecd.org/industry/tourism/2016%20-%20Policy%20paper%20on%20Intermodal%20Connectivity%20for%20Destinations.pdf

OECD (2016b), *OECD Tourism Trends and Policies 2016*, OECD Publishing, Paris, https://dx.doi.org/10.1787/tour-2016-en.

OECD (2016c), "Seamless transport to enhance the visitor experience", in *OECD Tourism Trends and Policies 2016*, OECD Publishing, Paris, https://dx.doi.org/10.1787/tour-2016-6-en.

OECD (2015), *OECD Economic Surveys: South Africa 2015*, OECD Publishing, Paris, https://dx.doi.org/10.1787/eco_surveys-zaf-2015-en.

OECD (2014), *OECD Tourism Trends and Policies 2014*, OECD Publishing, Paris, https://dx.doi.org/10.1787/tour-2014-en.

OECD (2013), *OECD Economic Surveys: South Africa 2013*, OECD Publishing, Paris, https://dx.doi.org/10.1787/eco_surveys-zaf-2013-en.

Pearce, D. (1995), *Tourism Today: A Geographical Analysis*, Longman scientific & technical.

Rogerson, C. (2016), "Climate change, tourism and local economic development in South Africa", *Local Economy: The Journal of the Local Economy Policy Unit*, Vol. 31/1-2, pp. 322-331, http://dx.doi.org/10.1177/0269094215624354.

Rogerson, C. (2015), "Tourism and regional development: The case of South Africa's distressed areas", *Development Southern Africa*, Vol. 32/3, pp. 277-291, http://dx.doi.org/10.1080/0376835X.2015.1010713.

Rogerson, C. and E. Nel (2016), "Planning for local economic development in spaces of despair: Key trends in South Africa's 'distressed areas'", *Local Economy: The Journal of the Local Economy Policy Unit*, Vol. 31/1-2, pp. 124-141, http://dx.doi.org/10.1177/0269094215623731.

Sinclair, M. (1998), "Tourism and economic development: A survey", *Journal of Development Studies*, Vol. 34/5, pp. 1-51, http://dx.doi.org/10.1080/00220389808422535.

South African National Parks (2018), *Annual report 2017/2018*, https://www.sanparks.org/assets/docs/general/annual-report-2018.pdf.

South African Tourism (2019), *Tourism Performance Report 2018*, https://live.southafrica.net/media/272674/tourism-perfomance-report-2018_final.pdf

South African Tourism (2018a), *Tourism Annual Report 2017*, http://www.southafrica.net/research

South African Tourism (2018c), *Tourism Performance Highlights Quarter 4 2017*, http://www.southafrica.net/research. (accessed on 23 January 2019).

South African Tourism (2017a), *2016 Annual Tourism Report*, http://www.southafrica.net/research.

South African Tourism (2017c), *Tourism Performance Highlights Quarter 2 2017*, http://www.southafrica.net/research. (accessed on 23 January 2019).

South African Tourism (2017e), *Tourism Performance Highlights Quarter 3 2017*, http://www.southafrica.net/research. (accessed on 23 January 2019).

South African Tourism (2017f), *Tourism Performance Report Quarter 1 2017*, http://www.southafrica.net/research. (accessed on 23 January 2019).

Sports and Recreation South Africa (2012), *2010 FIFA World Cup Country Report*, https://www.gov.za/sites/default/files/gcis_document/201409/srsacountryreport2013-withcovera.pdf

Stacey, J. (2015), "Supporting Quality Jobs in Tourism", *OECD Tourism Papers*, No. 2015/2, OECD Publishing, Paris, https://dx.doi.org/10.1787/5js4rv0g7szr-en.

Statistics South Africa (2019b), *Tourism Satellite Account for South Africa, final 2016 and provisional 2017 and 2018*, http://www.statssa.gov.za/publications/Report-04-05-07/Report-04-05-072018.pdf

Statistics South Africa (2018a), *Gross domestic product - Third quarter 2018*, http://www.statssa.gov.za

Statistics South Africa (2018b), *Tourism Satellite Account for South Africa, final 2015 and provisional 2016 and 2017*, http://www.statssa.gov.za/publications/Report-04-05-07/Report-04-05-072017.pdf

Statistics South Africa (2017), *Labour market dynamics in South Africa, 2017*, http://www.statssa.gov.za

Statistics South Africa (2016), *Community Survey 2016 Statistical release*, http://www.statssa.gov.za

Tourism Business Council of South Africa (2018), *TBCSA comments: Draft revised white paper on national transport policy*, http://www.tbcsa.org.za (accessed on 24 January 2019).

UNCTAD (2017), Economic Development in Africa Report 2017 - Tourism for Transformative and Inclusve Growth.

World Bank (2018), Overcoming Poverty and Inequality in South Africa - An Assessment of Drivers, Constraints and Opportunities, http://www.worldbank.org (accessed on 21 December 2018).

World Economic Forum (2019), *The Travel and Tourism Competitiveness Report 2019- Travel and Tourism at a Tipping Point*, World Economic Forum, Geneva, http://www3.weforum.org/docs/WEF_TTCR_2019.pdf (accessed on 7 January 2019).

World Economic Forum (2017), *The Travel and Tourism Competitiveness Report 2017- Paving the way for a more sustainable and inclusive future*, World Economic Forum, Geneva, http://www3.weforum.org/docs/WEF_TTCR_2017_web_0401.pdf (accessed on 7 January 2019).

World Economic Forum (2015), *The Travel and Tourism Competitiveness Report 2015 - Growth through Shocks*, http://www3.weforum.org/docs/TT15/WEF_Global_Travel&Tourism_Report_2015.pdf

World Economic Forum (2013), *The Travel and Tourism Competitiveness Report 2013 - Reducing Barriers to Economic Growth and Job Creation*, http://www3.weforum.org/docs/WEF_TT_Competitiveness_Report_2013.pdf

World Economic Forum (2007), *The Travel and Tourism Competitiveness Report 2007*, http://www.weforum.org (accessed on 14 January 2019).

World Tourism Organization (2020), *Compendium of Tourism Statistics dataset 2014-2018*, World Tourism Organization (UNWTO), Madrid, https://www.e-unwto.org/toc/unwtotfb/current

World Tourism Organization (2018), *Compendium of Tourism Statistics dataset 2013-2017*, World Tourism Organization (UNWTO), Madrid, https://www.e-unwto.org/doi/book/10.18111/9789284420421

World Travel and Tourism Council (2018), *Travel and Tourism - Economic Impact 2018 South Africa*, https://www.wttc.org/-/media/files/reports/economic-impact-research/countries-2018/southafrica2018.pdf

Ziervogel, G. et al. (2014), "Climate change impacts and adaptation in South Africa", *WIREs Clim Change*, Vol. 5, pp. 605-620, http://dx.doi.org/10.1002/wcc.295.

OECD Economic Surveys

SOUTH AFRICA

The COVID-19 outbreak is worsening an already fragile economic outlook. Since 2013, growth has been modest and unemployment has been rising. Policy uncertainty has been the main driver of low confidence and subdued investment. Following a sharp fiscal deterioration in recent years, the crisis also heightened debt sustainability challenges. Curbing the public sector wage bill, restructuring SOEs and containing spending growth in higher education are urgently needed to improve spending efficiency and restore fiscal sustainability. Supporting the economic recovery in the short-run while accelerating structural reforms to increase potential growth is key. In the medium term, developing tourism, boosting transport infrastructure investments, promoting renewable energies and strengthening the social protection system can contribute to more sustainable and inclusive growth.

SPECIAL FEATURE: SOCIAL PROTECTION AND TOURISM

PRINT ISBN 978-92-64-32319-3
PDF ISBN 978-92-64-17268-5

Volume 2020/2
July 2020

ISSN 0376-6438
2020 SUBSCRIPTION
(18 ISSUES)

9 789264 323193