

EVALUATION OF THE ECONOMIC RECONSTRUCTION AND RECOVERY PLAN (ERRP)

Briefing of the Portfolio Committee on Planning, Monitoring and Evaluation

Department of Planning Monitoring and Evaluation (DPME)

10 November 2023



planning, monitoring
& evaluation

Department:
Planning, Monitoring and Evaluation
REPUBLIC OF SOUTH AFRICA



PURPOSE AND OUTLINE OF THE PRESENTATION

The purpose of this presentation is to provide a briefing on the evaluation of the Economic Reconstruction and Recovery Plan (ERRP).

1. Introduction, background and overview
2. Evaluation methodology
3. Key findings and lessons
4. Evaluation Recommendations
5. Conclusion: Critical next steps

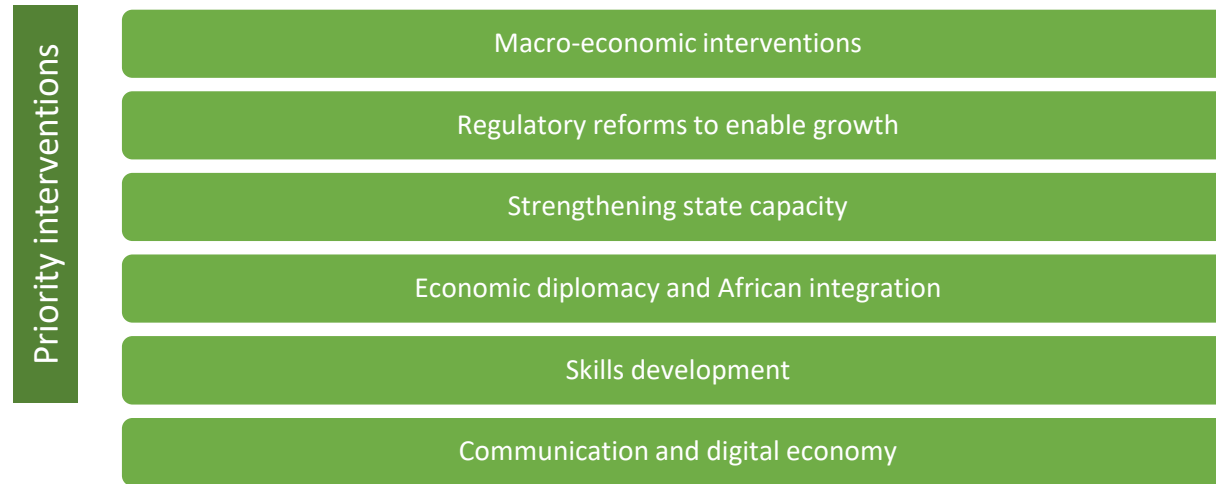
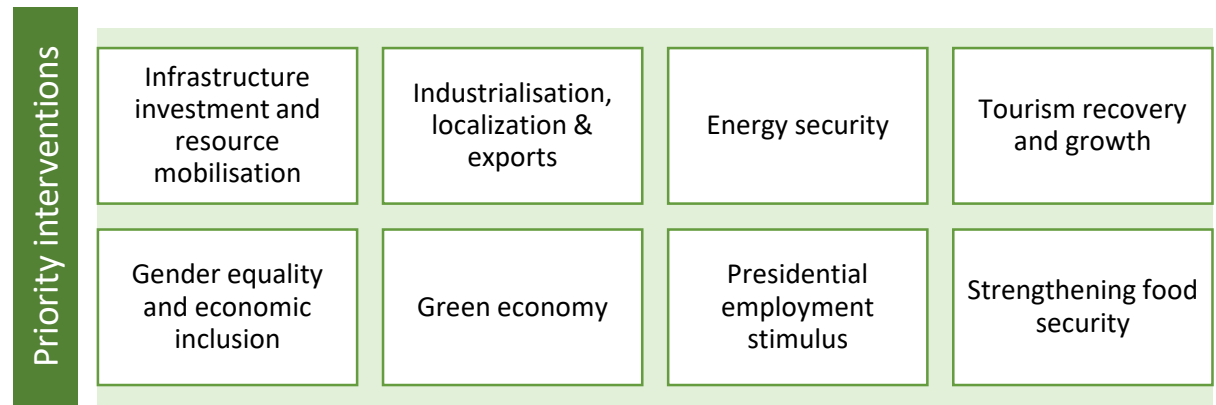
INTRODUCTION, BACKGROUND AND OVERVIEW

- In 2020, during the Coronavirus (COVID-19) induced hard lockdown, the South African economy contracted by -6.3%; about 2 million jobs were lost; and many South Africans lost their income.
- As a policy response, the President announced the Economic Reconstruction and Recovery Plan (ERRP) on 15 October 2020 as an intervention to arrest further decline, stabilise the economy and create conditions for recovery.
- Pre-Covid, the South African economy has been experiencing economic stagnation which put a strain in the effort to tackle the historical structural economic challenges of inequalities, unemployment and poverty.
- COVID exacerbated the social and economic challenges. Therefore, the ERRP was developed, in the short term, to preserve lives through supporting livelihoods, distressed firms and financial systems, health care.
- The ERRP comprises 3 interacting phases, Key Priority Interventions and Key Enablers & Structural Reforms to unlock the growth constraints.

1st phase:
Engage and Preserve – comprehensive health response to save lives and curb the spread of the Covid-19 pandemic.

2nd phase:
Recovery and Reform – interventions to restore the economy while controlling the health risks.

3rd phase:
Reconstruct and Transform – building a sustainable, resilient and inclusive economy.



INTRODUCTION, BACKGROUND AND OVERVIEW

- This Rapid Evaluation was conducted to assess the design and implementation aspects of the Economic Reconstruction and Recovery Plan (ERRP) as a programme.
- The evaluation was commissioned by the Economic Sectors, Investment, Employment and Infrastructure Development (ESIEID) Cluster in response to a resolution of the Cabinet Lekgotla of 05-06 September 2022.
- Specific objectives of the Rapid Evaluation were:
 - To quantify the envisaged outcomes of the ERRP and clarify its execution.
 - To review the quality and implementability of the plan.
 - To identify possible bottlenecks, quick wins and gaps in the plan and inform the review of the plan.
 - To recommend an M&E Framework that will assist in ensuring the implementation of M&E activities based on a credible Theory of Change (TOC).

EVALUATION METHODOLOGY AND PROCESS

Type of evaluation: Rapid Design Evaluation

Process followed:

1. Commissioning of evaluation by the ESIEID Cluster;
2. DPME partnering with Development Bank of Southern Africa (DBSA) and the National Planning Commission (NPC) Secretariat
3. Desktop Review and Rapid Evidence Synthesis
4. Key Informant Interviews – respondents drawn from government, labour, business and academic research.
5. Development of M&E Framework
6. ESIEID Validation Workshop
7. Finalisation and formal adoption of Evaluation Report

Formal adoption of the evaluation report and implementation of recommendations:

- Presentation of final report: ESIEID DG Cluster (15 June 2023);
- Ministerial Cluster, 19 September 2023
- Briefing of Cabinet (03 October 2023)
- Development of an Improvement Plan to outline how the recommendations will be implemented.

Desktop Review and Rapid Evidence Synthesis

Key Informant Interviews (government, labour, business and academic research)

Development of M&E Framework (Build on existing system; interrogate the Theory of Change)

ESIEID Cluster Validation Workshop on the Draft Evaluation Report

Adoption of Final Evaluation Report

Development & implementation of Improvement Plan

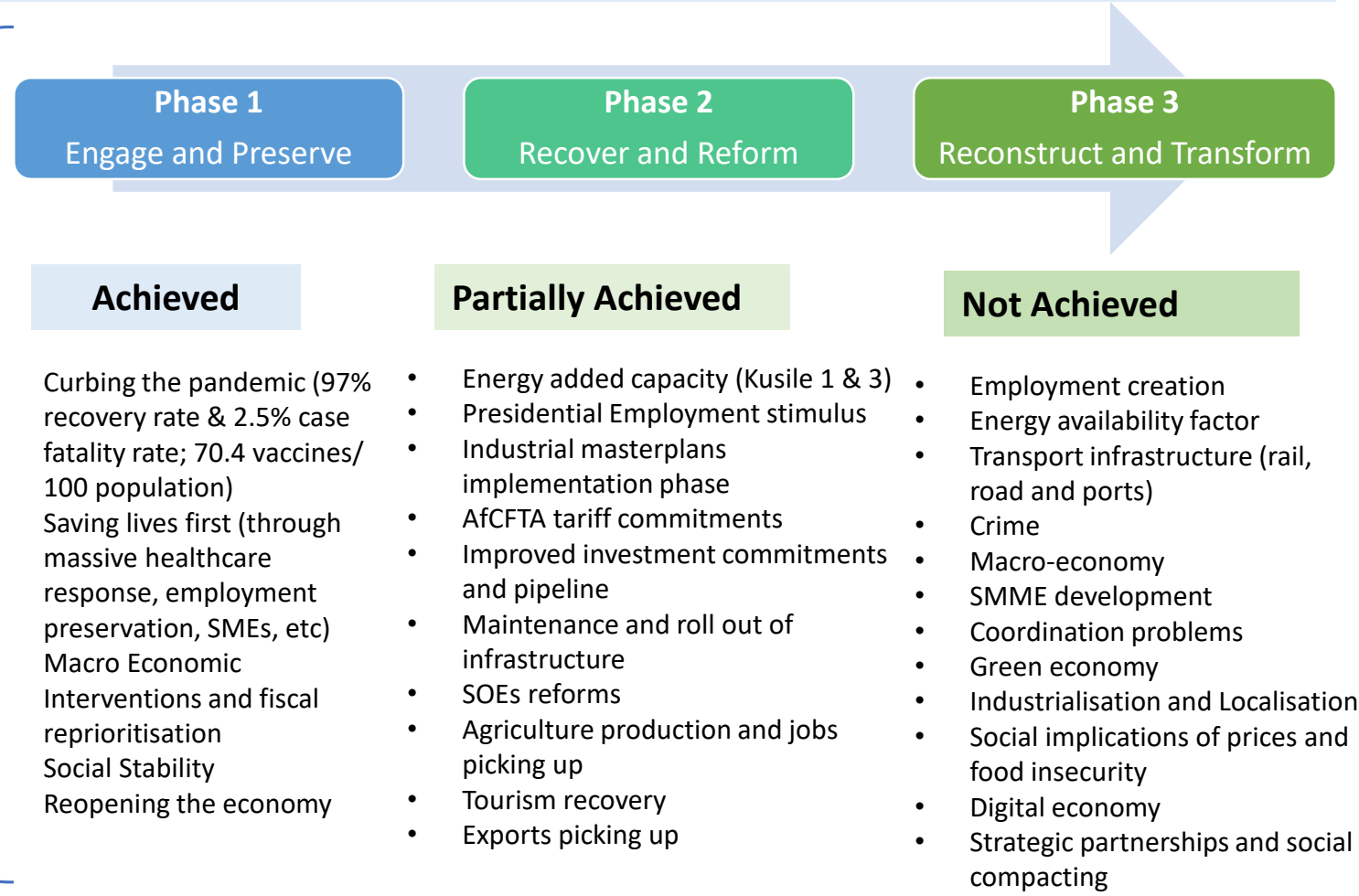
LIMITATIONS TO NOTE

- This is a rapid evaluation. It was conducted over a **limited time and used limited resources**, and limited new data collection. This approach was followed considering the short timeframes by which recommendations to improve efficacy were required by the Cluster and Cabinet.
- **The scope does not include assessment of impact.** Impact evaluation will require careful design and a focus on specific intervention area(s) and application of appropriate methodology. This report, instead, suggests specific areas for consideration.
- This study takes a broad approach to cover all aspects of the ERRP. **There is limited focus on specific intervention areas.** Again, this report suggests possible areas that can be subjected to detailed evaluations.
- **Limited stakeholder engagement.** The Theory of Change (TOC) and the M&E Framework in this report largely represents the evaluators' perspective. Rigorous process requires detailed stakeholder engagement. TOC presented here must be regarded as a recommendation until it is interrogated and finalised by the ESIEID cluster. Gaps in the M&E framework must be closed by implementing departments and entities.
- A limited number (17) of Key Informants could be targeted. Only **9 of the 17 Key Informants were successfully interviewed.** Notwithstanding the limited number, the interviews generated rich insights to inform the conclusions.
- **The scope does not include expenditure review.** Expenditure review is therefore recommended to provide an assessment of public spending on the overall ERRP and its specific interventions.

HIGH-LEVEL ASSESSMENT OF PROGRESS

The economy has recovered to pre-2020 levels. However, key indicators of employment, fiscal position, fixed investment and production in 6/10 major economic sectors (i.e. construction; manufacturing; mining and quarrying; electricity, gas and water; transport, storage and communication; as well as trade, catering and accommodation) are yet to reach their pre-2020 levels. Implementation of ERRP Programme interventions is underway, but yet to show enduring results.

Collective Impact				
Key indicators	MTSF 2024 targets	NDP 2030 targets	Status	
GDP growth (%)	2% - 3%	5.4%	1.9% (2022)	●
Investment (GFCF% GDP)	23%	30.0%	14.2%	●
Unemployment (%)	20% - 24%	6.0%	32.7%	●
Employment (million)	19.3 mil	23.8 mil	16.3 mil (Q2, 2023)	●
Inequality (Gini coeff.)	0.66	0.60	0.65 (2016)	●
Poverty (food poverty)	20%	0.00	55.5 (2016)	●
Poverty (lower bound)	28%			



KEY FINDINGS IN SUMMARY

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|--|--|
| 1.
Justification and
appropriateness: | <ul style="list-style-type: none">- Economic problems in 2020 and pre-COVID justified the introduction of the ERRP and key interventions were found to be appropriate.- However, the changing context presents new problems & opportunities that necessitates continual adaptation of the policy responses. |
| 2.
Design aspects: | <ul style="list-style-type: none">- Desktop review on the design aspects identified several discrepancies which necessitated the review of the ERRP main document and implementation plan. |
| 3.
Implementation
arrangement: | <ul style="list-style-type: none">- The ESIEID Cluster institutional architecture needs to be inclusive of Provincial Government, State-Owned Enterprises, Metros, private sector firms. |
| 4.
Monitoring and
evaluation: | <ul style="list-style-type: none">- M&E lacks a coherent Theory of Change and measurable outcomes. |
| 5.
Implementation
progress: | <ul style="list-style-type: none">- Some important ERRP implementation milestones have been achieved.- Lack of measurable targets and inconsistent reporting hampered assessment or progress.- Data improvement to enable performance measurement is required. |
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KEY FINDINGS IN SUMMARY

6. State of recovery

- GDP shows recovery to pre-2020 levels but the economy remains fragile;
- Employment, fiscal position, fixed investment, and production in certain economic sectors are yet to reach their pre-2020 levels.
- Covid-19 restrictions affected various industries disproportionately. Similarly, there has been uneven recovery of various industries in response to the gradual opening and eventual lifting of all restrictions in June 2022.
- Major setbacks occurred due to the April 2022 flood disaster, the July 2022 unrests, the October 2022 Transnet strike as well as the effect of global shocks such as the Russia-Ukraine conflict and the financial tightening
- Leading institutions have reduced their previous year's GDP forecasts for South Africa. South Africa's GDP is growing slower than key international benchmarks.
- Energy shortage and inefficiencies within the transport logistics have escalated and remains key constraints to growth.
- Several well-known structural constraints have for years hindered economic growth and are binding constraints to faster and resilient recovery. Besides these, South Africa has also been set back by the 2022 flood disaster, the July 2022 unrests, the 2022 Transnet trike and the exposure to fragile global supply chains.
- Beyond recovery, focus on building resilience;

LESSONS IN SUMMARY – QUICK WINS AND BOTTLENECKS

Coordination improves efficiency and impact

- Central coordination has proven to be more efficient and effective in decision making process and execution e.g. NATjoints as it pools together expertise from across departments and entities especially in crisis situations.

Increased uncertainties dictate constant review of assumptions about recovery

- The tightening fiscal space limits the government’s ability to pursue some of its policy priorities. Timeframes for stabilising public debt percentage of GDP have extended further and only expected to improve after 2025/26.
- There is need for investor confidence boosting measures, which include preventing the criminal gangs from disrupting the construction projects, improving the pace of public infrastructure delivery and maintenance, improving energy security and the functioning of SOEs.

Challenges of scalability and duration of interventions

- Limited funding constrain scalability of successful interventions. Some programmes are over-subscribed (e.g. tourism support, small scale agriculture, etc.).

Complementarity/coherence

- Joined-up process of skills planning interventions and the departments responsible for ERRP priority intervention areas can enable various sector plans to leverage each other in order to achieve greater impact, improve coherence and efficiency. Same can be said for e.g. infrastructure, investment, agriculture and food security, small business development.

Need to enhance transparency

- Publicly accessible information is fragmented. An integrated ERRP public facing dashboard should be introduced to provide quarterly update to citizens on ERRP implementation

Economic concentration stifles growth and inclusion

- To build resilience, policy interventions of the ESIEID Cluster must more clearly integrate measures to reduce concentration and monopolies and competitive and accessible markets, especially to expand inclusion of small business sector.

LESSONS IN SUMMARY - BOTTLENECKS

Challenge of economic concentration

Industry	Turnover share of top 10% of firms	Turnover share of bottom 50% of firms	Gini Coefficient
	2016	2016	2016
Agriculture	80,7%	1,3%	0.824
Catering, accommodation and other trade	55,7%	5,7%	0.675
Community, social and personal services	62,2%	7,1%	0.692
Construction	72,1%	3,0%	0.774
Electricity, gas and water	93,3%	0,6%	0.871
Finance	77,2%	4,4%	0.773
Manufacturing	92,6%	0,5%	0.871
Mining and quarrying	97,0%	0,2%	0.888
Retail, motor trade and repair services	84,1%	1,2%	0.835
Transport, storage and communication	90,1%	1,2%	0.856
Wholesale	88,1%	0,8%	0.854
All firms	85,8%	1,6%	0.836

Source: Competition Commission

- 69.5% of the sectors are highly concentrated. Highly concentrated sectors are farming inputs, agro-processing, healthcare, communications, upstream steel value chains, the alcohol gambling and cigarettes industries, transport, financial services, and petrochemicals.
- Top 10% of firms constituted 85,8% of the total turnover by firms, while the bottom 50% of the firms contributed only 1,6% of the turnover
- Structures of these industries must be disrupted through competition regulatory interventions – The concentrations have history of protection and high entry barriers.
- CompCom has conducted several market inquiries to inform policy actions to improve competition landscape in various industries:
- Fresh produce; healthcare; media and digital platforms; data market; banking; online intermediation; public passenger transport; liquefied petroleum gas (LPG); and retail market.
- Relevant interventions must help change the distribution of income by firm sizes over time.
- The 2016 baselines are that the share of turnover of the top 10 percent of firms is 85,6 percent compared to 1,6 percent attributable to the bottom 50 percent of firms which are SMMEs.

EVALUATION RECOMMENDATIONS

Key Recommendation 1: Immediate enhancements to ERRP design and implementation

The ERRP should be continued. In doing so, specific enhancements must be introduced immediately in order to address the identified design weaknesses:

- Prioritise activities that will address the current pressing challenges in line with Ministers' agreed priorities with the President: Energy Action Plan; efficiency of freight logistics; fighting economic crimes; public infrastructure delivery and maintenance; governance and functioning of SOEs, etc.
- Target new growth opportunities, namely oil and gas, green hydrogen, beneficiation of strategic minerals, and digital economy.
- Establish measurable targets in all areas where identified to be lacking.
- Implement competition reforms as in key industries as recommendations by the Competition Commission.
- Integration of provincial level interventions in the national discourse on ERRP.
- Review assignment of implementation responsibility for departments and State Owned Enterprises (SOEs).
- Allocate resources for ERRP programme management, including information system to support regular monitoring and quarterly dashboard updates for the general public.

EVALUATION RECOMMENDATIONS

Key Recommendation 2: Enhance Monitoring, Evaluation and Learning (MEL)

Implement the Monitoring, Evaluation and Learning (MEL) Framework that has been proposed in the Evaluation Report. This should assist government and its social partners with common understanding of envisaged outputs and monitoring of results.

Effective implementation of MEL will require allocation of resources/ capacity support for ERRP Programme Management and coordination. This should include appropriate information system and data management capacity to support quarterly monitoring and reporting, and a public-facing dashboard to provide quarterly updates to citizens about the ERRP implementation progress and results achieved.

Key Recommendation 3: Strengthen coordination to resolve the most critical issues

To strengthen institutional arrangements, retain the ESIEID Cluster role of coordinating ERRP implementation but extend the functions to include other critical actors

Facilitate inter-cluster engagements in order to establish a coordinated approach on matters that hamper economic recovery and business confidence. Immediate priority in this regard are with the Justice, Crime Prevention and Security (JCPS) and the International Cooperation, Trade and Security (ICTS).

- Crime and violence on construction and other economic sites; vandalism of infrastructure; illicit mining; counterfeit goods;
- Mechanism for attracting international partners that can bring new capabilities into South Africa, such as green hydrogen, etc.;
- Measures to fast-track regulatory changes that have been identified to reduce red-tape and other cross-cutting constraints; and
- Continuous monitoring of social implications of ERRP interventions.
- Continuation of government high-level engagements with the private sector, and directed more at joint actions in resolving critical challenges affecting investment and recovery, e.g. energy, transport logistics and crime.

EVALUATION RECOMMENDATIONS

Key Recommendation 4: Prioritise specific in-depth evaluation

Conduct in-depth studies for specific prioritised areas in order to enhance policy learning and iterative, adaptive policy management. Specific proposed areas for immediate attention are:

- To conduct an expenditure review in order to assess budget allocations and spending on all the ERRP interventions and the results;
- An evaluation of the Industrial Policy Masterplans to assess implementation progress and how they support the recovery process;
- An evaluation of the impact of structural reforms and their implications for growth and competitiveness.

Key Recommendation 5: Integration of economic recovery interventions into the government's next planning cycle

Ensuring integrations of the ongoing Phase 2 and Phase 3 ERRP interventions into the government's Medium-Term Strategic Framework (MTSF 2024-2029).

Immediate priority in this regard is to establish relevant outcome indicators for Industrialisation Masterplans and Infrastructure development for the 3–5 years with a view to inform the MTSF 2024-2029.

CONCLUSIONS: CRITICAL NEXT STEPS

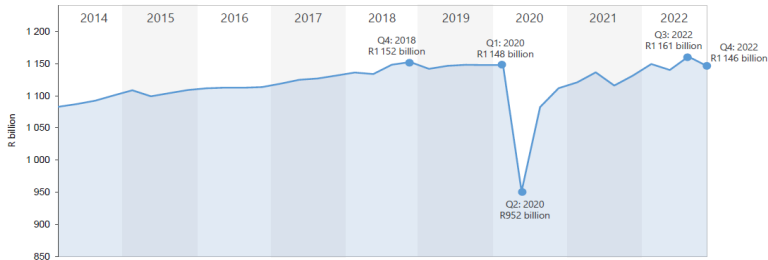
1. In accordance with the National Evaluation Policy Framework (NEPF), the ESIEID Cluster must develop an Improvement Plan and coordinate its implementation. An Improvement Plan will outline how the evaluation recommendations are to be implemented.
2. DPME actions:
 - a) To guide the ESIEID cluster in the development of an Improvement Plan
 - b) To support the ESIEID cluster in commissioning an expenditure review on the ERRP
 - c) Development of ERRP Performance Information Dashboard which will strengthen existing M&E and reporting processes
 - d) To facilitate further integration of ERRP Phase 2 & 3 interventions in the planning and budgeting system.
3. It is recommended that the Portfolio Committee Notes the findings and recommendations from the evaluation of the Economic Reconstruction and Recovery Plan (ERRP).

ANNEXURE: SELECTED KEY INDICATORS

Assessment of economic recovery – selected indicators

Economic recovery from COVID-19

South African GDP fell below pre-pandemic levels in Q4: 2022
Real GDP (constant 2015 prices, seasonally adjusted)



Source: Stats SA

4 industries that show recovery

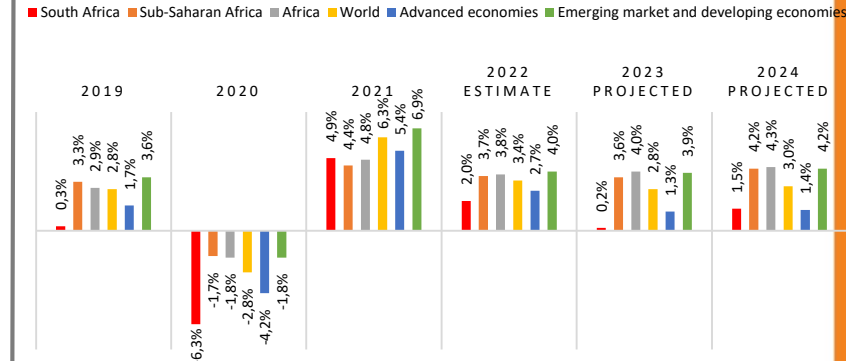
- Agriculture, forestry and fisheries: +25,4%
- Finance, real estate and business services: +8,0%
- Personal services: +6,2%
- General government services: +0,5%

Source: Stats SA

- Construction: -23,1% smaller than pre-2020.
- Mining and quarrying: -8,1%
- Manufacturing: -6,8%
- Electricity, gas and water: -6,3%
- Transport, storage and communication: -3,8%
- Trade, catering and accommodation: -3,6%

6 industries yet to show recovery

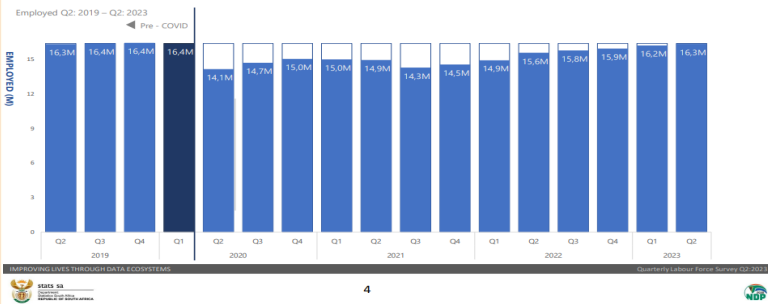
GDP Data – Selected comparisons



Sources: World Bank (2022), IMF (2023)

Total employment

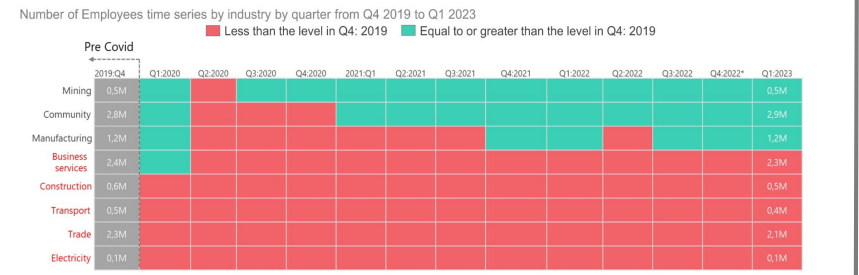
The number of employed increased to 16,3M and has almost reached pre-COVID levels of 16,4M. This is the 7th consecutive increase since Q4: 2021.



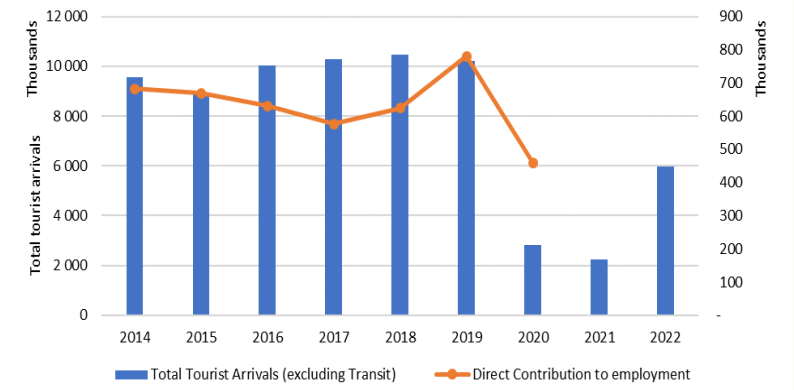
Source: Stats SA

Employment in key industries compared to 2019

Five out of eight industries (Business services, Construction Transport, Trade and Electricity) have not returned to pre-pandemic employment levels.

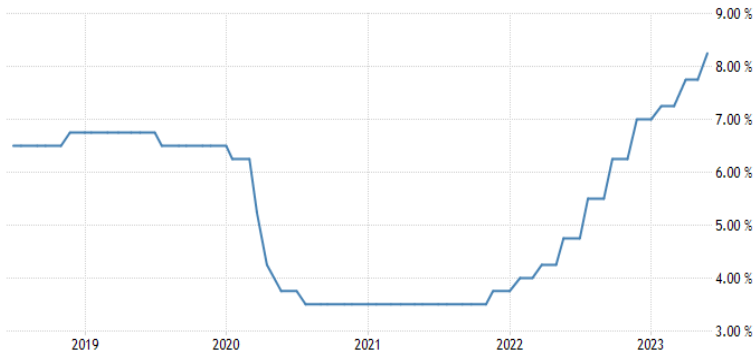


Tourism activity and employment



Assessment of economic recovery – selected indicators

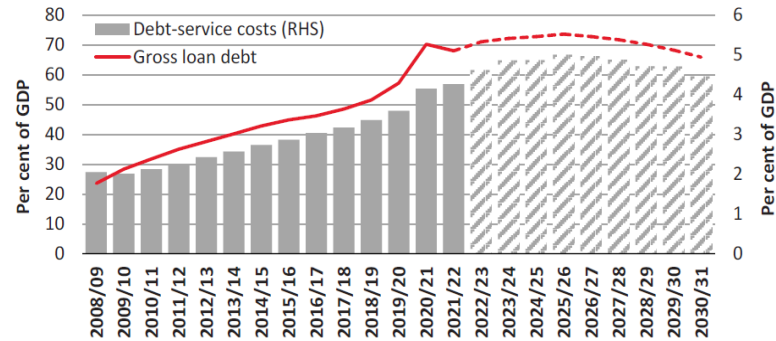
Interest rate



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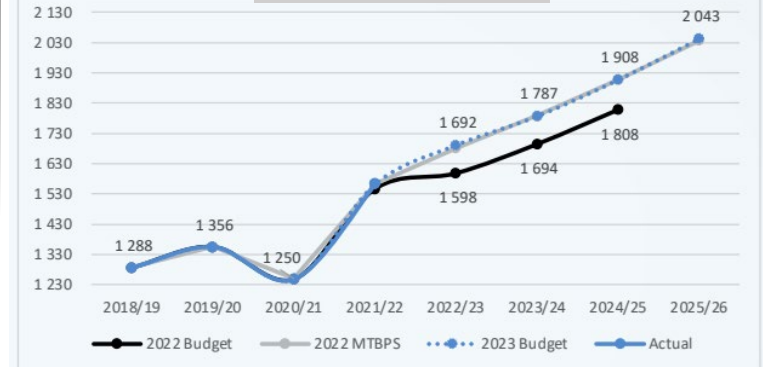
Source: <https://tradingeconomics.com/south-africa/interest-rate>

Gross loan debt & debt service costs



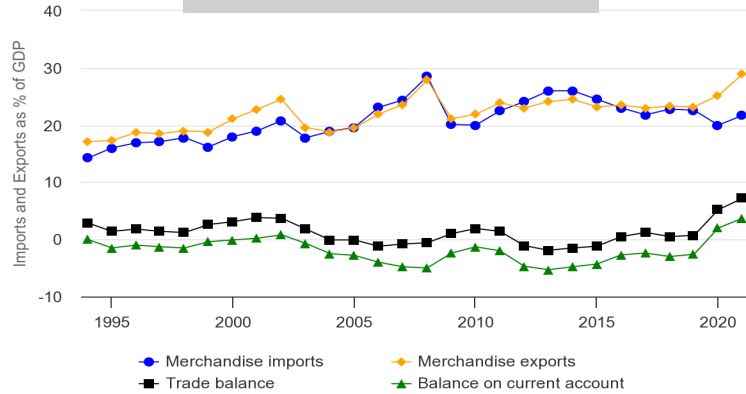
Source: National Treasury

Tax revenue (R'bn)



Source: SARS

Balance on current account



Highcharts.com

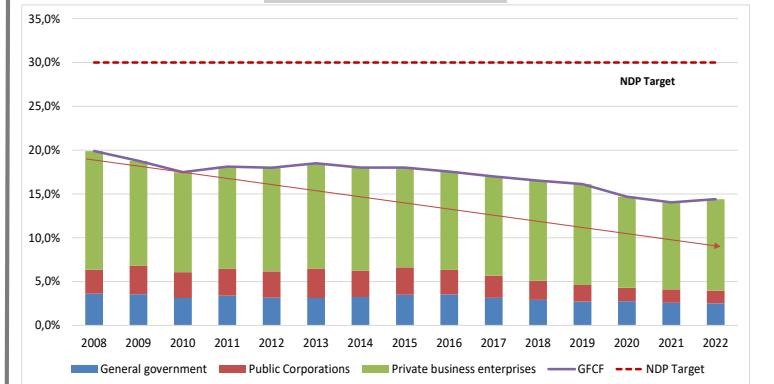
Source: SARB; DPME Development Indicators

Credit ratings by major agencies

Agency	Rating	Outlook
S&P GLOBAL	BB-	Revised from positive in May 2022 to stable outlook March 2023 – keeping it unchanged in May 2023
MOODY'S	Ba2	Improved from negative in November 2020 to stable in April 2023
Fitch	BB-	Improved from negative in November 2020 to stable in December 2021 – keeping it unchanged in May 2023
SAR	BBB	Stable long-term outlook

Source: S&P; Moody's; Fitch; SAR

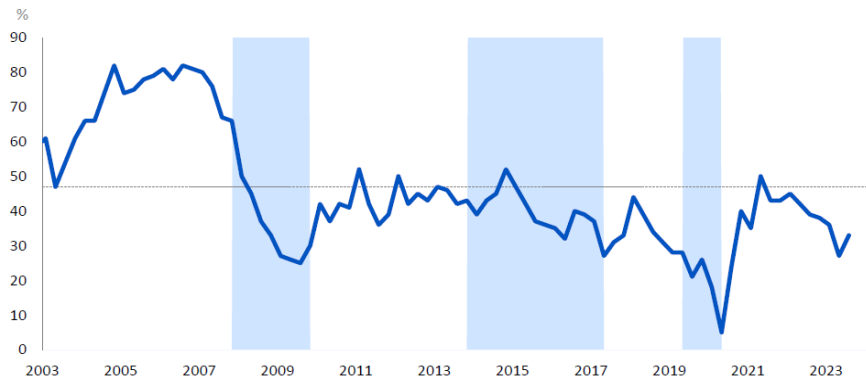
GFCF % of GDP



Source: Stats SA

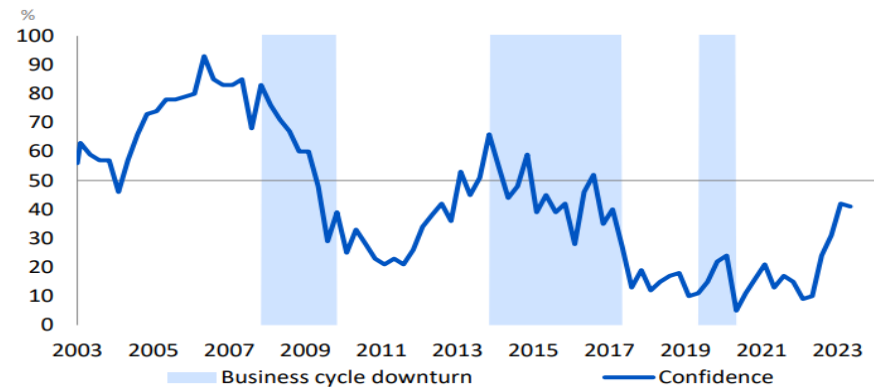
Assessment of economic recovery – selected indicators

Figure 18: RMB/BER Business Confidence Index



Source: <https://www.ber.ac.za/knowledge/pkviewdocument.aspx?docid=20396>

FNB/BER Civil Confidence Index



Source: <https://www.ber.ac.za/knowledge/pkviewdocument.aspx?docid=19269>



THANK YOU