OPERATION VULINDLELA

Supporting the Implementation of Priority Structural Reforms

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# Operation Vulindlela: tales from the coalface

Nobel Symposium

13 March 2024

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2030 NDP

STAY SAFE

VACCINATE TO SAVE SOUTH AFRICA

# The context for reform: SA's development challenge

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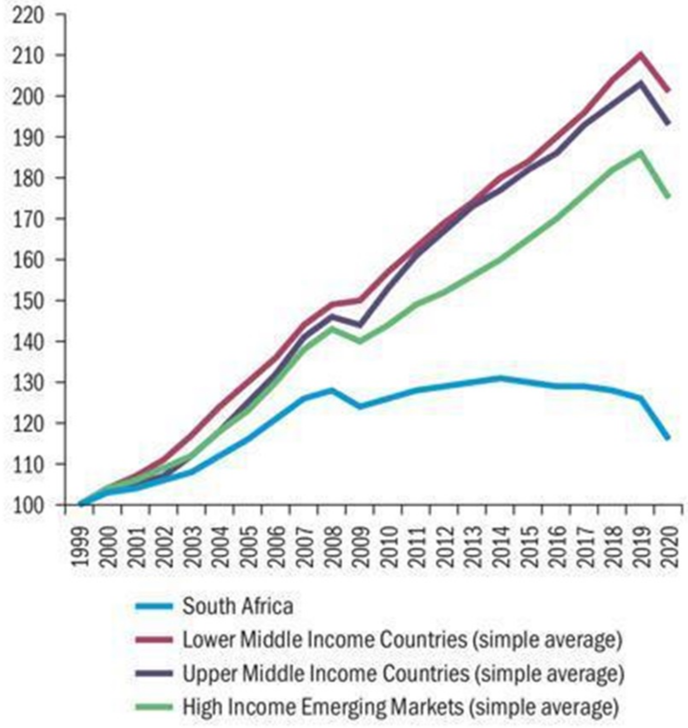
**GDP per capita before and after the financial crisis**
(real terms, index)




*Source:* World Bank staff calculations based on World Economic Outlook data.

- **In 1970, GDP per capita stood at just over half that of the average G7 country, at 53%**. **By the end of the 1980s, SA's relative GDP per head had shrunk to 32% of the G7 and** has since fallen to just 26%.
- South Africa's economy has been stuck in a low-level equilibrium with low GDP growth, stagnant fixed capital formation, and falling GNI per capita.
- South Africa's development trajectory (real GDP per capita) has drifted ~70% from peer group – highlighting the dominance of domestic structural constraints
- Rising public spending without an associated increase in economic growth has resulted in an unsustainable debt burden, with interest payments now the fastest-growing expenditure item

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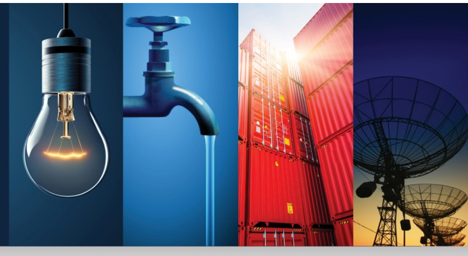
# A Contribution to a shared and inclusive growth reform agenda (NT, 2019); ERRP



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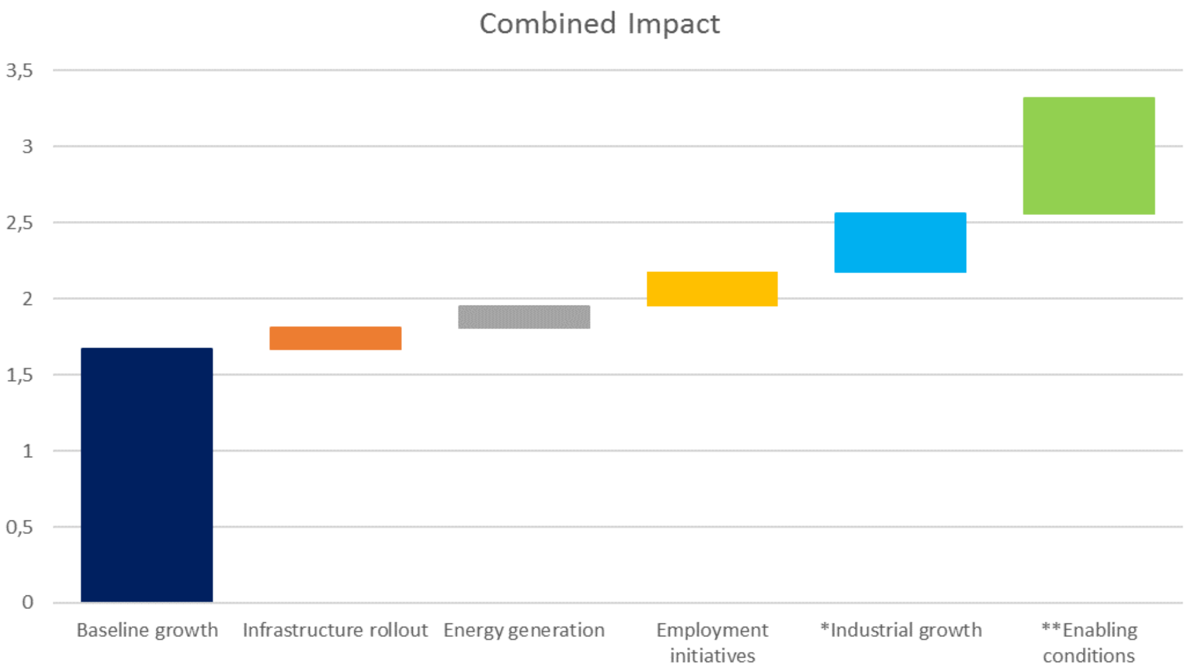


- **Modernizing network industries** to promote competitiveness and inclusive growth
- **Lowering barriers to entry** and addressing distorted patterns of ownership through increased competition and small business growth
- **Prioritizing labour-intensive growth:** agriculture and services
- Implementing **focused and flexible industrial and trade policy** to promote competitiveness and facilitate long-run growth
- **Promoting export competitiveness** and harnessing regional growth opportunities

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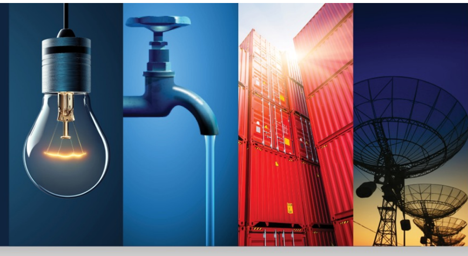
# South Africa’s history of public sector performance management



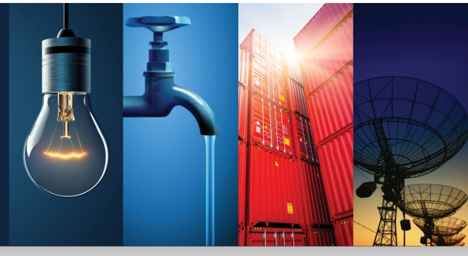
**There is a global trend to strengthen the role of the centre of government to fulfil multiple objectives:**

- *Policy coordination across government*
- *Strategic planning for the whole of government*
- *Driving implementation on key priorities*

**South Africa has made various attempts at implementing a “delivery approach”, with mixed success:**

- In 2009, SA decided to take on a delivery approach to unblock challenges to priority outcomes, learning from Tony Blair’s administration in the UK
- Led to **Outcomes Approach** in 2009-10, creation of DPME and its initial focus on planning and monitoring these outcomes, with performance agreements with Ministers
- Later learned from Malaysia’s application of deliverology to develop **Operation Phakisa** – intensive labs to diagnose and design a response to identified issues, with the intention for intensive monitoring and trouble shooting to take forward
- In both cases a challenge from adopting broad issues, major coordination challenges, and insufficient political will, which led to the plans being very complex, and difficult to drive
- Provinces have also developed delivery units in Western Cape and Gauteng

# Five priorities of Operation Vulindlela



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**Five desired outcomes of Operation Vulindlela as part of the Economic Reconstruction and Recovery Plan**

1. Supply of electricity stabilised
2. Reduced cost and increased quality of digital communications
3. Sustainable water supply to meet demand
4. Competitive and efficient freight transport
5. A visa regime that attracts skills and grows tourism

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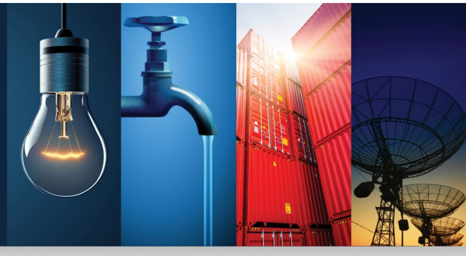
# Progress in accelerating economic reform



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**Government has achieved several important milestones since Operation Vulindlela was established in October 2020:**

- Regulatory changes implemented to **enable private investment in electricity generation** and create a competitive energy market
- **Spectrum auction concluded** after a ten-year delay, enabling substantial new investment in telecommunications
- **Comprehensive review of the work visa system completed**, with recommendations to overhaul the work visa system and attract skills and investment
- **National Rail Policy adopted** to guide the modernization and reform of the rail sector, including third-party access to the network
- **Backlog of water use licenses cleared** and **license application system re-engineered**, unlocking billions of Rands in investment
- **Private sector participation introduced in container terminals**, to crowd in investment and improve the efficiency of port operations
- **eVisa system expanded to 34 countries,** with almost all countries now covered by either a visa waiver or eVisa
- Legislative reforms underway to **create a transport economic regulator**, **reform the electricity sector**, and **establish a National Water Resources Infrastructure Agency**

# Estimated impact of key OV reforms over the medium term

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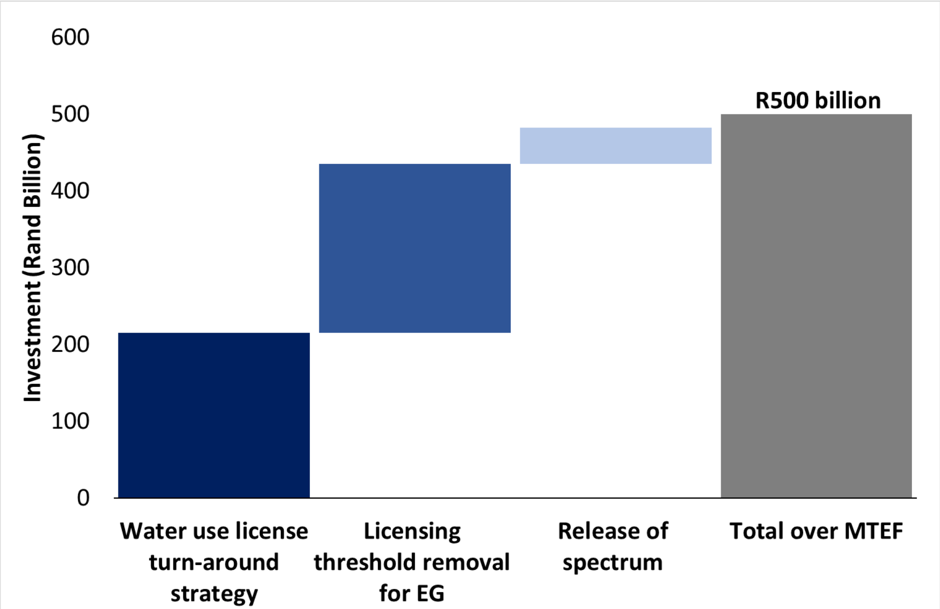
**Estimated investment impact of key reforms post-implementation is significant**




Note: The momentum in investment in telecommunications expansions observed in 2022 is expected to continue over the MTEF

- At the outset of Operation Vulindlela three years ago, an initial projection indicated that the array of OV reforms had the potential to generate an additional R500 billion in investment.
- After three years, post-implementation of some of the key reforms, investment of over R480 billion is expected over the medium term.

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# Case study: embedded generation



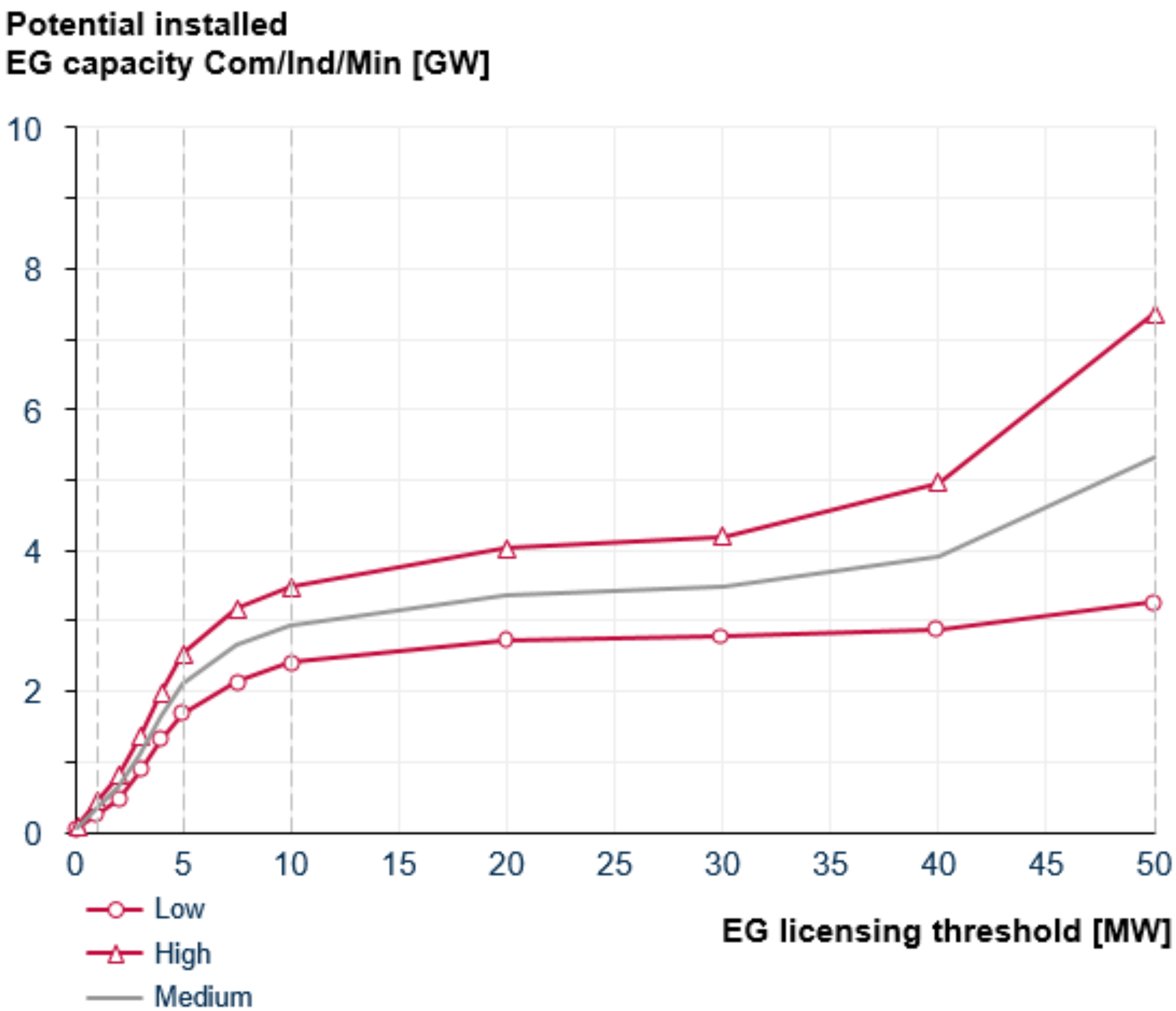
- Relative to 2019 and 2020, the supply-demand balance has worsened. This means that load shedding is likely to persist for several, making economic recovery unlikely – unless reforms are implemented urgently.

- Eskom EAF has declined (65-67% actual performance vs 70-75% expectation in IRP 2019, with 62% YTD in 2021). There is no realistic possibility of the EAF reaching 70-75% in the next few years.
- New-build capacity is delayed – new generation capacity in coal, gas, solar photovoltaic (PV) and wind planned but will not come online within the timeframes initially expected in the IRP 2019.
- Short-term capacity shortfall estimates range from 3 000 MW (IRP 2019) to 4 000 MW (MTSAO 2020) and 8 000 MW (CSIR 2020), resulting in an energy shortfall of between 4 500 Gigawatt hours (GWh) and 17 500 GWh.
- Demand will either remain stable or increase in 2021 and beyond. Supply constraints act as a “handbrake” on growth – the faster the economy grows, the greater the energy shortfall.

- Enabling private investment in embedded generation capacity is the only feasible way to achieve energy security and reduce the risk of load shedding in the medium term.

# Advocating for reform

- Operation Vulindlela worked with reform implementers to address obstacles to investment in embedded generation.
- Extensive engagements were held with sector experts, organised business and Eskom to clarify all the issues.
- OV engaged with DMRE to identify the key reasons for not implementing the reform and discuss ways of mitigating these concerns.
- A substantial body of evidence was developed to “build the case” for a higher threshold, including modelling of the expected market response and impact on the electricity supply shortfall.
- This evidence was provided to political principals to inform decision-making, outlining all of the risks and advantages.
- Mechanisms to mitigate risks were agreed upon, including to address the readiness of municipalities and Eskom for a large increase in embedded generation.
- These discussions enabled the President to announce in SONA 2021 that the threshold would be lifted, creating a significant boost to confidence in the reform agenda.
- This reform will be a significant step forward in enabling investment in new generation capacity.




NOTES: Eskom data only – excludes municipalities; Installed EG capacity of up to 1.24/1.40/1.27 of maximum demand for com./ind./min. customer categories (profile dependent);
Sources: Eskom; CSIR analysis

**Building the evidence base:**

The raising of the licensing threshold for embedded generation projects to 100 MW is expected to result in up to 5 000 MW of new generation capacity through private sector investment – this will significantly decrease the risk of load shedding and provide Eskom with needed space for maintenance.