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The South African Economic Reconstruction & Recovery Plan

Economics | South Africa

The plan consists of multiple steps in the right direction.

- President Ramaphosa tabled **The South African Economic Reconstruction and Recovery Plan** in parliament today. The plan consists of high-impact interventions to kickstart the economy and to lay the foundation for a sustainable recovery.
- The plan rests on an **infrastructure expansion drive**, which will be partially financed by freeing up private savings currently tied up in pension funds. A key 'enabler' of the plan is to amend **Regulation 28 of the Pension Funds Act** to unlock this source of funding for long-term infrastructure projects and to facilitate direct access to pension funds by Development Finance Institutions. This is an economically sound method to unlock faster growth. It is also the key recommendation put forward in the International Monetary Fund's Fiscal Monitor. An effective public investment drive would reduce SA's long-standing capacity constraints and create considerable employment, which would over the longer term increase the country's potential growth rate. Many countries have used private pension funds to accelerate infrastructure expansion. It is therefore not unique to South Africa. What is problematic in the South African case, however, is government's poor track record of delivering infrastructure on time and on budget. Not only are the returns on public investment in South Africa low, but in many instances they are negative. Medupi and Kusile are prime examples. The low returns on public investment stem partly from a lack of capacity but also from deeply entrenched corruption. The public has therefore been asked to take a leap of faith that this time it will indeed be different.
- The most encouraging part of the plan is the focus on **fighting corruption**. It is essential that government delivers on this promise. It is the key to rebuilding public trust and boosting confidence. Fortunately, the President announced several steps which will go a long way towards this end. The most significant of these is the establishment of an open tender system, which will introduce far greater transparency and accountability to the entire tender process. Equally powerful is the decision to prohibit any relatives of office bearers to do business with government. Other initiatives include: the strengthening of SARS's capacity to collect taxes, the building of capacity within law enforcement and the judicial system as well as clamping down on the illicit economy. The President also stressed with great conviction that '…***there will be no political interference with the work of law enforcement***' and urged the public to '…***have faith that we have now turned the corner and that things will now be done differently***'.
- The plan also contains some details on how government will accelerate the deregulation of the energy and transport sectors. The President stated that SA will have an efficient and reliable energy supply within 3 years. The energy measures consist of the reforms announced in the State of Nation Address earlier this year, which will help lift the country's energy constraint if implemented quickly. There was also good news on the transformation of rail transportation, with government planning to open the rail network to private service providers to encourage competition and reduce costs. The President mentioned that government, labour and business were working on master plans for each major sector. Several have already been completed and others will be released for comment soon.
- Government confirmed its commitment to complete the rollout of additional spectrum, which would facilitate the development of the digital economy and reduce the cost of data in general. The President announced that government will release high demand spectrum to individual Electronic Communication Network Services (iECNS) license holders by December 2020 and expedite digital migration by March 2021. Another positive feature is the emphasis placed on using digital platforms to enhance the quality and outcomes of education.
- The plan contains many practical initiatives which together should improve the underlying investment environment and unlock greater job creation and faster economic growth. Much now depends on how quickly the specific measures proposed in the plan can be implemented. Some elements of the plan can be implemented almost immediately – especially the regulatory reform and the energy sector proposals. However, the central feature of the plan – the infrastructure drive – will be difficult for government to get off the ground. Even if government managed to overcome its protracted skills and systems constraints in project management, the state will still have to find a solution to the skills exodus and diminished capacity within the construction sector.

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The key elements:

- **Stepping up the fight against corruption:** Government commits to restoring prudent financial management of public funds through implementing an Open Tender Process, embarking on a multi-stakeholder campaign to deal with the illicit economy (eliminating protection rackets for jobs and the illegal occupation of construction sites by armed gangs), restoring both human and technological capacity at SARS as well as building capacity in all law enforcement agencies and the judicial system to speed up prosecutions. Business has also committed to act decisively against corruption within the private sector.
- **Aggressive infrastructure investment:** The Infrastructure Fund will provide R100 billion in finance over the next decade and R1 trillion in new investment for strategic infrastructure projects. The infrastructure investment drive will involve both development of new infrastructure and maintenance of existing structures. This will include the improvement of the country's general infrastructure such as roads, rail and ports for domestic use and to increase the country's export competitiveness. Effort will be put in place to encourage public-private partnership in the delivering of infrastructure projects. To ensure that the projects are implemented and completed on time, government will establish a government agency, Infrastructure South Africa, which will coordinate the infrastructure investment programs and where there are capacity constraints for certain key projects, enlist the help of the DBSA and Coega. The programmes will be aimed at increasing the long-term capacity of the economy and creating job opportunities. It will also go a long way towards enabling a revival of the construction industry, which has been on a downward trajectory since 2013.
- **Employment-orientated strategic localization, reindustrialization and export promotion:** This is primarily aimed at encouraging local beneficiation and limiting imports of goods that can be produced locally. The industrialisation will be done in conjunction with the infrastructure investment drive. Priority will be given to industries located in depressed areas as well as those with a competitive advantage to help expand sales of South African made products to the export market. The participation of SMMEs will be intensified through provision of 0-2% interest loans for start-ups, with priority given to value chains that will supply construction input goods, agro-processing, healthcare, basic consumer goods as well as capital goods used for infrastructure projects.
- **Energy security:** to expand energy generation capacity, the national power supplier, Eskom, will be unbundled to improve its efficiency. The utility, together with some renewable energy sources will provide further power generation, which will be connected to the national grid at the end of the year. The connection from the fourth window of renewable energy programs will also take place mid-2021 to 2022. The implementation of the nuclear programme will take place at a pace and rate that is affordable. Private organisations will be allowed to generate power for own use and price and market regulatory changes will be implemented in the gas industry to increase the usage of LPG for heating and cooking, which will ease some pressure on the national grid.
- **Support for tourism:** The industry was the hardest hit by the pandemic. Given its upstream and downstream supply chain linkages and its ability to absorb employment at various skill levels, this sector was highlighted as an integral part of the recovery plan. Three recovery phases were identified, namely: re-ignite demand, protect and rejuvenate supply, and strengthening the enabling capability. From the demand side, the focus areas emphasise adapting and responding to consumer preferences and constraints as well as reprioritising marketing investments and strategies. Supply will be protected and promoted through financial interventions such as the establishment of the Tourism Relief Fund and Tour Guide Fund, implementing globally recognised safety protocols and launching investment and market entry facilitation programmes. The cultural and creative industries will be promoted through the development of: audience and consumption, local content and cultural value adds to tourism packages.

- **Greening the economy:** The aim here is to accelerate the development of a greener and more sustainable economy. Green industrialization guarantees the security of energy, food, water and electricity supply. It also addresses the challenges of poverty and unemployment. The two key interventions include: implementing sustainable water and energy measures in public and private buildings, retro-fitting the Mpumalanga power stations with solar power. Other green interventions include: supporting small business to capitalise on opportunities presented by the green economy, reviving buy-back centres and waste picker integration, and revitalising and upgrading existing government hatcheries and research centres.

- **Food security:** More than 50% of South Africans faced food security challenges, and Covid-19 has further threatened food security as many farmers faced income losses and the risk of shutting down. In response to the Covid-19 crisis, the government provided support of R50 billion in social grants, food parcels and vouchers to the most vulnerable. Further to that, the Comprehensive Land and Agrarian Strategy will be prioritised to ensure food security. This strategy places emphasis on industrial crops, white and red meat, fibres, grains and fruits and vegetables.

- **Mass Public Employment Programme:** Government proposes a mass public employment programme, which is intended to build on the existing Extended Public Works Programme (EPWP) and the Presidential Youth Employment Intervention. The key actions include:
  - The R100 billion that was earmarked for job creation and retention in the Covid-19 support package announced earlier this year. The employment stimulus is projected to create a cumulative 2.5 million direct jobs by the end of the 2021/22 and 5 million jobs by 2023/2024.
  - Direct employment opportunities will be created through the launch of campaigns such as the 'War on Waste', building the circular economy, supporting the learning environment in schools as well as initiatives to support and expand small scale farmers producing food for their own consumption and for local informal markets.
  - Government has been running public works programmes for decades. The idea behind these initiatives is to provide the unemployed with a source of income, usually well below the minimum wage, but more importantly, with a point of entry into the labour market, some practical experience and hopefully a set of practical skills through 'learning by doing'.
  - These programmes are intended to be temporary by nature – a starting point from where an individual can search for more meaningful and sustainable employment using the references, experience and skills acquired in the programmes. The CDE has done a tremendous amount of work on how to kick start job creation on scale in South Africa. Much of this research concludes that there are more effective ways to draw the unemployed into the formal labour market. The CDE proposed export zones or hubs, where regulations are adjusted to allow private firms to open the door to the labour market by employing workers at a wage of less than the minimum wage but more than the public works programmes, while aggressively transferring skills towards the actual production of goods for export purposes. In these environments no other labour regulations relating to the conditions of employment and the working environment are relaxed, only wages are adjusted to enable the absorption of the large pool of unemployed and unskilled labour into the formal economy. Under such initiatives, the nature of skills transferred would be more meaningful and tailored for a far greater range of potential jobs opportunities, while workers would be paid better and be part of a permanent and dynamic organisation. Given the scale of SA's unemployment crisis, these more dynamic solutions need to be taken seriously and implemented.
- **Macroeconomic policies:** There are new announcements on this front. The plan will be underpinned by coordination between fiscal and monetary policies as well as the continued support from the private financial sector, particularly the banking sector.