ECONOMIC RECONSTRUCTION, GROWTH AND TRANSFORMATION

10 July 2020

Issues covered in this presentation

- Economic response to COVID pandemic
- Mandate of the NEC to ETC
- Balance of Forces
- Hegemony of the developmental state
- What has been done so far?
- What needs to be done?
- ANC leadership though social compacting
- Outline of sectoral interventions
- Sequencing of Interventions

Opening Remarks

- The Covid-19 shock is posing unprecedented challenges, the economic crisis entailed by the pandemic is unique in that it combines
    - health and economic shocks
    - deep supply shock - arising from wide-ranging and prolonged lockdowns of the economy by introducing measures such as **travel restrictions**, quarantines, community lockdowns, and school and **business closures**
    - consequent demand shocks – arising from a collapse in corporate investment plans, retrenchment of household spending, rapidly increasing unemployment
- Governments have focused on the provision of massive stabilisation packages, designed to flatten both, the contagion curve of the pandemic as well as the curve of economic meltdown, through
    - Monetary Policy Actions
    - Cash transfers,
    - Social Transfers
    - Grants,
    - Credit lines and
    - Guarantees from governments to households and firms.
- Globally, Central Banks are increasingly being called upon to assume a more active and direct role in supporting the real economy
- Commodity and service exports incomes has been weakened

Economic Context – Covid19

- The South African economy changed dramatically in March 2020 as a result of COVID-19 and the situation has had a profound impact on the ability of the economy to operate, create employment and pay taxes. The Pandemic has led to a **sharp decline** in growth, sources of revenue collection, and significant job losses
- COVID-19 has **deepened the effects** of pre-existing socio-economic trends, such as infrastructure gaps, income inequality and rising unemployment. The extensive job losses and financial difficulties have further disrupted family and social relationships
- The rate at which **trading partners** re-open their economies is putting a demand bottleneck on our export of goods and services. There is an investment slack driven by firms uncertainty about the speed of the economic recovery.
- There is increased use of **technological products** and services in most sectors. Households with lower affordability for broadband data are the least likely to work from home.
- There are new business costs related to the implementation of physical distancing measures in the workplace – resulting in the **changes in the composition of operational costs**
- The risk of experiencing job losses has fallen **disproportionately** on vulnerable households. This will likely deepen income inequality.

ROAD TO ECONOMIC TRANSFOMATION

The ANC proceeds from the premise that there are many policy documents that capture the approach of government on the issue of economic growth and social inclusion.

READY TO GOVERN - 1990

RDP- 1994

- The improvement in labour markets through the creation of **employment opportunities**
- Improved **manufacturing and agricultural productivity**
- Structural reform of industries

GEAR-1996

- Increasing the county's growth rate to create jobs & **reduce unemployment**
- Using foreign sector to drive growth **using exports** as a tool

Aimed at creating **400 000 jobs** by the year 2000

ASGISA– 2005

- Rectify constraints to growth identified as:
- **Volatility in the domestic currency** relative to its trading partners
- deficiencies in **infrastructure investment;**
- a lack of required skills in the **labour market** as well as skills mismatching;
- **Imperfect competition** in economic sectors of the economy.

NGP– 2010

- Building capacity that will enhance the creation of employment within agriculture, mining and manufacturing
- Improving the wages of workers
- minimization of the income inequality gap
- improving domestic savings

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NDP-2012

- Inclusive economic growth as a tool to improve **labour market wages and income inequality**
- Foreign economy encapsulated in **the exports** of the economy.

THE ANC ECONOMIC RESPONSE

THE ORGANISING FRAMEWORK FOR THE ETC DISCUSSION DOCUMENT

The Discussion Document's Organizing Framework

The following basic principles inform the Plan's organizing framework:

- Infrastructure programmes should serve as a basis to ignite economic recovery. There should be focussed interventions to promote sectors of the economy which stimulate industrialization.
- During this period, low income workers, the unemployed and vulnerable groups must be protected. The capacity of the economy to grow and create jobs must be protected
- The macroeconomic stance should be underpinned by the coordination of fiscal and monetary policies. South Africa needs to deploy macro-economic policy instruments that are compatible with the reconstruction of an economy.
- Policies to ensure that our programme is sufficiently financed and is financially sustainable. The South African Reserve Bank, development finance institutions (DFIs) and private financial institutions all have a role to play.
- Skills development to ensure that we have the right know-how for capable private and public sector activity.
- Strengthen the multifaceted partnerships with the rest of the African continent - **AfCTA**
- Black economic empowerment should be organically wired into the plan's configuration.
- Capable state in operation – to lead, guide and mobilise all social partners in the realisation of the plan. Micro-enterprises and community agency are key elements of the micro-economic strategy

ECONOMIC RESPONSE

WHAT HAS BEEN DONE?

ECONOMIC RESPONSES TO COVID-19

Economic Relief

In providing relief, the South African government announced a R500 billion social and economic support package for households and firms:

- Support for the most vulnerable through R50 billion in expanded social grants
- Direct income support for the unemployed. The distribution of food parcels and vouchers
- Encourage credit creation by the financial sector - a R200 billion government backed loan guarantee scheme for firms in distress – albeit its take up has been low
- Additional funding was also made available to municipalities for improved service delivery.
- Direct transfers to households, businesses tax relief. **Tax subsidy:** A new tax subsidy of up to R500 per month for the next four months for employees earning below R 6 500 per month
- **Employment tax incentive:** SARS to accelerate the employment tax incentive reimbursement from twice per year to monthly
- **PAYE & Provisional corporate income tax:** Tax compliant businesses with a turnover of less than R50 million were allowed to delay 20% of their PAYE liabilities
- Easing of monetary policy – cuts in interest rates
- The Department of Small Business Development made R 500 million available to distressed SMEs. The creative sector was also supported by the
- The **Industrial Development Corporation** committed R3Billion to a range of funding products in support of business to address vulnerable firms
- **Solidarity Fund:** Individuals and businesses are invited to contribute to this fund
- **Tourism Relief Funding:** The Department of Tourism has made an additional R200 million available to assist SMEs in the tourism and hospitality sector who are under particular stress due to the lockdown and travel restrictions
- **Banking sector:** The Department of Trade and Industry has passed new regulations in the banking sector providing for exemptions which will assist small businesses, consumers and firms in distress

ECONOMIC RESPONSE

WHAT IS TO BE DONE?

Mid-Term

STATEMENT BY PRESIDENT RAMAPHOSA ON MEASURES IN RESPONSE TO COVID-19, 21 APRIL 2020

- *Our economic strategy going forward will require a new social compact among all role players – business, labour, community and government – to restructure the economy and achieve inclusive growth.*
- *We will forge a compact for radical economic transformation that ensures that advances the economic position of women, youth and persons with disabilities, and that makes our cities, towns, villages and rural areas vibrant centres of economic activity.*

STATEMENT ON OUTCOMES OF THE SPECIAL SESSION OF THE NEC (8 MAY 2020)

- *The NEC is focused on… developing a Post-COVID-19 Economic Reconstruction, Growth and Transformation Plan. The global and national economic projections look extremely grim, with predictions of a global and national recession as a best-case scenario and a global depression at worst.*
- *This will require that our Plan for Reconstruction and recovery must be treated like that of a post-War reconstruction situation, and in the word of the President, 'we must do whatever it takes' to ensure that we limit the damage to our economy, society and people, and get our economy back onto a path of recovery.*

THE MANDATE OF THE ETC

Economic Reconstruction, Growth and Transformation Plan

- Localisation
- Transformation
- Industrialisation
- Investment in the Second Economy
- Job creation
- Empower Small Business and cooperatives
- Empower informal sector
- Promote objectives of Broad-based Black Economic Empowerment
- Aviation Strategy
- New Economy
- Integration into the African Continent

Goals of the Mandate

- Enable preservation of jobs
- Speed up economic development and transform the economy to create work and sustainable livelihoods
- Massive programme to build economic and social infrastructure
- Strengthening the capacity of the state to intervene in the economy and to deliver on social services
- Protection of low income workers, the unemployed and vulnerable groups in society
- Strengthening of the productive capacity of the economy

CORRECTING THE LEGACY OF UNDERDEVELOPMENT

- We must get to grips with the fundamentals of a political economy that is the legacy of our tumultuous past. A a significant area of weakness in our social and economic policy, post the transition, has been a very real underestimation of the structural underdevelopment we inherited from colonialism and apartheid.
- There is almost a resignation that these areas of underdevelopment are lost to the economy. Alongside this has been a tendency to an over estimation of a modernising industrial economy's ability to correct such structural problems. We have underestimated the structural constraints on our growth capacity.
- COVID-19 has created more policy space for progressive policies despite fiscal constraints
- We need to think carefully what are the key policy interventions to enhance the progressive interventions

BALANCE OF FORCES

GLOBAL

- Protectionism and populism are on the rise
- Institutions of global governance, finance, health and trade are being undermined
- International trade and access to global supply chains is likely to be diminished for some time
- International trade & access to global supply chains is likely to be diminished for some time
- The Covid-19 pandemic has made us interrogate neo-liberal policies.

LOCAL

- We entered COVID-19 with slow growth, high unemployment and growing inequality, as well as a ratings downgrade, and COVID-19 has exacerbated the problem
- State capacity has not been as effective as it should be
- Subjective weaknesses in cadreships has led to a lack of coherence
- We have not always been honest about what we can and cannot do
- ANC-led Alliance continues to represent the most powerful political force in the country

THE DEVELOPMENTAL STATE AND THE VALUE OF ITS HEGEMONY

- A narrow and flawed understanding of what the developmental state is has led to the erroneous conclusion that it is only about public investments and public ownership, with a related over-emphasis on the limited funds of the State.
- A developmental state does not necessarily mean higher levels of state ownership, but high levels of guidance (including guiding the State's own institutions or companies)
- The fundamental problem of the State-guided high-growth system is between the state bureaucracy and private business.
- This contradiction is inherent once you execute an industrial policy (Japanese experience with different forms such as self-control, state control, and cooperation, but not the laissez far model)
- In our case, as a movement, we draw our hegemony from the clarity of our policies, popular support, a legitimate electoral mandate and thus control of State Power.
- It is these elements that enable the developmental state foundation, and being in power should enable us to guide the development process (not necessarily own every aspect of it or even finance it)
- The impact of Covid-19 has shown the critical role of the State. How does the State then leverage its capacity, inherent authority and capabilities in leading society for the recovery

AS STATED IN THE DRAFT ALLIANCE DISCUSSION DOCUMENT ON THE COVID-19 CRISIS

- There are strong views that the economy as we have known it will change permanently as countries emerge from their respective lockdowns. The intervening period, between now and the peak of infections, presents an opportunity for the development of principles that guide how scarce fiscal and other resources (both time and money) are spent in a constrained economic environment.
- These 'principles' must be informed by the imperative to achieve the goals of the shared strategy of the Alliance, the national democratic revolution, in line with the Freedom Charter, and in the case of the ANC, a vision of a national democratic society as described in its 2017 Strategy and Tactics: '(as a society) founded on a thriving economy …(with) cutting edge technology, labour-absorbing industrial development, a thriving small business and co-operative sector, utilization of information and communication technologies and efficient production and management', which combine to ensure national prosperity.

INFRASTRUCTURE LED-RECOVERY PLAN (1)

- The post COVID-19 economic recovery must have as one of its key elements a massive expansion of social and economic infrastructure to meet basic needs.
- An important element of this programme should be the maintenance of existing infrastructure.
- To fund the envisaged massive expansion it is proposed that the Infrastructure Fund already initiated by government be strengthened.
- Given the fiscal constrain, consideration should be given to exploring PPPs and BOTs.
- This must include attracting relevant skills and expertise to bolster existing capacity within the state in the preparation and delivery of projects; to eliminate waste, minimise delays, ensure efficiency of spending and value for money.
- To support the construction industry in the immediate term, it is proposed that a zero-rated credit extension should be advanced to the sector through credit guarantees.
- It is further proposed that the state's engineering capacity be strengthened by drawing on the capabilities of institutions where strong capabilities exist. This will assist in eliminating incidences of bad engineering project management.
- This capacity is critical in the short-term and can be used to support the work of the infrastructure agency.

INFRASTRUCTURE LED-RECOVERY PLAN (2)

MUNICIPAL INFRASTRUCTURE AND URBAN RENEWAL

- To address backlogs in municipal infrastructure built and maintenance as well as to support urban renewal
- Attention should also be paid to the revitalization of inner cities, including attracting significant private sector investment into the inner cities and in the townships.

EDUCATION

- COVID-19 has exposed the disparities in the education system, ranging from such basic amenities as water and sanitation to class sizes and access to ICT gadgets and data.
- A massive programme to upgrade school infrastructure in poor communities should be undertaken, and this should be combined with employment of educators to reduce class sizes and rationalise unviable schools.

FAST TRACK INFRASTRUCTURE PROJECTS

The case to fast track infrastructure projects to support economic growth

Largescale infrastructure projects remain one of the few levers left to mobilize public resources and stimulate the economy

Identify and support 'shovel ready' infrastructure projects from the public sector, to be implemented post the lockdown. Government should also engage private developers for projects that are ready to start as soon as the construction sector gears up. Constraints should also be identified and remedies provided.

- Unblock infrastructure challenges for private developers
- Development of capacity to locally produce required materials (e.g. valves, pipelines)
- Upscale the Informal Settlements Upgrading Programme – Focus ON Serviced Stands and Self and Small and Medium Construction
- Designate Construction Inputs
- Already has projects in the pipeline that are large enough to give the economy the vital boost in the short-term and setup for log-term growth. A lot of groundwork has already been done with the projects in the pipeline.

STRATEGIC APPROACH TO FAST TRACK INFRATRUCTURE PROJECTS

To consolidate authority to execute these projects, establish a Special Project Group to oversee the implementation of the projects

The Special Project Group will remove constraints and expedite project delivery

Identify projects

Identify and support 'shovel ready' infrastructure projects from the public sector and the private sector.

Critical criteria

Key criteria should include, but not limited to:

- construction readiness
- Societal benefits
- The magnitude of impact (material employment impact)

Determine project needs

Needs assessment of the recommended projects and the responsible organization

Develop timelines

Using a project readiness matrix, classify projects according to different timelines (6, 12 and 24 months)

ENERGY (ELECTRICITY, OIL AND GAS) (1)...

BACKGROUND & STATUS QUO

Current challenges

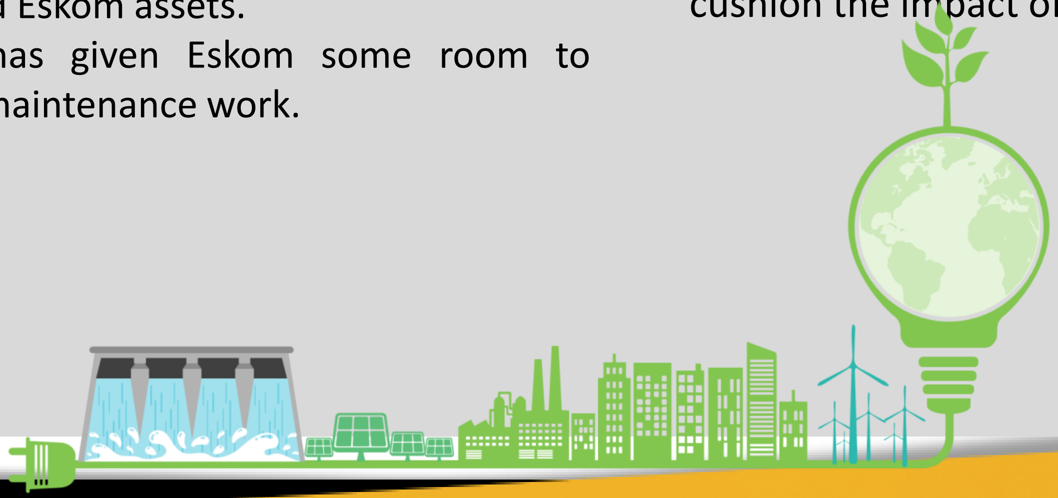
- Shortage of electricity supply is limiting growth and job creation
- Inefficient use of electricity, especially for cooking and heating
- Rising costs of energy, impacting real incomes and investment / employment
- Continued dominance of environmentally inefficient coal technologies, with emissions causing negative health impacts
- High cost build programme that is taking time to complete

INTERVENTIONS AND REFORMS

- The implementation of the Integrated Resource Plan should be accelerated, and its execution should have an industrialization focus.
- The state has an important role to play in a catalytic and partnership role with the private sector and communities towards in shaping the energy transition.
- A solution needs to be found to Eskom's debt problem, including the possibility of pension funds being mobilized to take over certain restructured Eskom assets.
- COVID-19 has given Eskom some room to undertake maintenance work.

INTERVENTIONS AND REFORMS

- Increase localisation of manufacture of wind and solar technology and increase BEE participation in sector
- Advance the agreed restructuring of Eskom integrated monopoly to facilitate both energy transition and competitiveness
- The SEZ for renewables must be located where Power Stations are going to be de-commissioned to cushion the impact of job losses



...ENERGY (ELECTRICITY, OIL AND GAS) (2)

INTERVENTIONS AND REFORMS

- Finalisation of the Petroleum Bill to facilitate upstream exploration and development
- Government to finalise all the required fiscal instruments, including the Petroleum Resources Rent Tax, as well as related royalty tax
- Implementation of the biofuels strategy, with a focus also on biofuels refineries in partnership (CSIR technology started; global interest)
- Government *to* develop an overarching bioethanol strategy that can lead to new investments in the petroleum sector, and also save sugar cane industry jobs
- Incentivise a shift in household energy use, in particular with changing cooking and heating methods from electricity to natural gas and liquefied petroleum gas (LPG). This will have an impact on peak electricity demand and also real incomes

INTERVENTIONS AND REFORMS

- Progress the new refinery project, with clear timelines
- Continue to implement the emissions standards
- Enable the investment in the necessary infrastructure for petroleum fuels and gas as required, which can also attract private sector investment
- Repurpose the Central Energy Fund and its subsidiaries to partner and catalyse new investments necessary in the energy sector
- Increase resources for research and development in the energy sector
- Finalise the Green Transport strategy, noting its impact on standards for petroleum in transport and related emissions
- Related ‘blue economy’ activities, such as ship building and ship repair, should be promoted through active policies

MINING

BACKGROUND & STATUS QUO

Current challenges

- Lack of investment in mining sector
- Ore bodies are becoming deeper and deeper in particular for gold and making mining of these minerals expensive
- No significant beneficiation and downstream sector (minerals processing)
- Low impact research & development
- Other value added business services for
- Tax policies and fiscal instruments needing continuous review in order to attract investment
- Decline in exploration activity, especially early-stage exploration
- Lack of financing for junior mining companies and emerging BBBEE companies in the sector

INTERVENTIONS AND REFORMS

- Regulatory disputes should be resolved to facilitate expanded investment
- Increased mining exploration to ensure long-term expansion of the sector
- Focus on enablers for minerals processing (export taxes; regulate major commodities for such; cheaper electricity rates)
- Increase R&D in mining. The Mandela Precinct established a few years ago should receive maximum support from the state and the mining companies.

INTERVENTIONS AND REFORMS

- Review tax policies and other fiscal instruments to ensure continued attractiveness for investment whilst enabling a more shared outcome in terms of benefits
- Allocate progressive increase in mining income to the Sovereign Wealth Fund
- Promote initiatives in backward linkages such as green hydrogen in combination with platinum fuel cells and battery storage technology.
- Stationary fuel cell applications in off-grid electricity generation (in which Eskom can play an important role) as well as mobile applications in fleet renewal and expansion for Bus Transport systems can provide a market for this proudly South African product and dramatically reduce carbon gases from our public transport system

PHARMACEUTICAL SECTOR

BACKGROUND

- The COVID-19 outbreak is expected to put pressure on already strained public health systems in South Africa. Additionally, detection of the virus might be a challenge due to lack of laboratory capacity and medical supplies.
- **South Africa's pharmaceutical sector** is worth approximately R56-billion at **Manufacturer's Exit Price (MEP)**annually. There are more than 200 **pharmaceutical** companies, but large **companies** dominate the sector with Aspen Pharmacare (34%) and Adcock Ingram (25%) the two largest companies, followed by Sanofi, Pharmaplan and Cipla Medpro.
- The pharmaceutical industry currently imports about 68% of the supplies. The EU accounts for 53% of all pharmaceutical products, showing heavy reliance on the global values chains for pharmaceutical supplies. For instance, India has announced restrictions on medical products and ingredients, including paracetamol and antibiotics.

Background Source: Quantec Data & Global Africa Network

INTERVENTION AND REFORM

- Local procurement of medical supplies. This will require rapid adjustment of local supply chains and manufacturing facilities.
- Identify alternative suppliers of hospital infrastructure which can be produced locally at short notice.
- Ramp up SMME production clusters as part of common buying strategy, including through repurposed production from automotive sector.
- Government must support current efforts by some state agencies that are in the process of establishing a state owned pharmaceutical company in line with the ANC 52nd conference resolution which explicitly states : *"The ANC should explore the possibility of a state-owned pharmaceutical company that will respond to and intervene in the curbing of medicine prices".*

INTERVENTION AND REFORM

- Improved research capacity
- Import Replacement Strategy on high volume imported medicines.
- Proper Implementation of Local Procurement Policies and set asides (designation) which are presently not being properly implemented.
- SAHPRA should prioritize registration for locally produced products and expedite licensing of local manufacturing site/facilities. Promote BEE in its activities.
- Export incentives to boost export opportunities.
- Ease of registration, registration preferences for priority products, selected companies e.g. Citizen owned
- Expedited reviews of variations, API sites etc.

HUMAN SETTLEMENTS

BACKGROUND & STATUS QUO

- Since the dawn of democracy there has been substantive expansion of home ownership and growing the productive assets. Government has been focussing on ensuring that South Africans live closer to economic opportunities and that the inherited apartheid spatial legacy is combated.
- According to Stats SA in 2018, approximately 81,1% and 13,1% of all households resided in formal dwellings and informal dwellings respectively. This rapid household growth and rural-urban migration are making it hard to **address existing backlogs**, amidst the new demands.
- More human settlements close to work opportunities, affordable basic services and reliable public transport are needed.

INTERVENTIONS AND REFORMS

- Give priority to land administration, management and development of skills in land related careers.
- Introduce measures to address high property costs, which coerce the poor majority into the periphery and deepen racial inequalities.
- Accelerate the transfer of title deeds to the rightful owners and ensure tenure security through adequate recognition and protection of the rights of long-term occupiers, women and labour tenants
- Advance women's access to land and participation in agriculture and rural economies.
- Promote sustainable use of water resources taking into consideration climate change.

As per the 2019 Election Manifesto, President Ramaphosa, emphasizes the following:

"Vacant land near the centres of cities and towns must be turned into affordable housing for the poor and working class, close to shops and parks, schools and clinics, public transport and places of work

WATER AND SANITATION

BACKGROUND & STATUS QUO

In response to the COVID-19 outbreak, people were advised to wash their hands regularly with soap and water to reduce the spread of the disease. This produced a predictable retort:- “How can we wash our hands if we can’t afford soap and don’t have water?”. This response highlights the two challenges that must be addressed in the water sector:-

- The failure to sustain reliable water supplies even where infrastructure has been provided; and
- the need to ensure that the water sector supports more sustainable livelihoods.

INTERVENTIONS AND REFORMS

The post-COVID response must urgently address these issues and strengthen the resilience of the water sector. An integral part of this response must be to employ and develop the new cadre of water technicians and professionals, many of whom are currently marginalised and unemployed, to ensure that the sector is able to respond to future crises.

Across the country, an overloaded and poorly maintained sanitation system calls for massive expansion and maintenance. Demand side - increase water availability & prevent wastage. Supply side - construction of new dams & related water infrastructure, inter-catchment & regional transfers.

INTERVENTIONS AND REFORMS

The current phase offers the opportunity to mobilise the resources needed through constructive and transformative partnerships with the private sector,. This approach will support rather than undermine the transformation of the sector which has failed to develop new talent to fill old shoes.

Three core programmes are identified:-

1. Assuring water security, through interventions in municipal water supply services;
2. Building the infrastructure base to secure and expand the economy;
3. Empowering the next generation of water managers.

ROADS

BACKGROUND & STATUS QUO

- Roads can represent a critical infrastructure but also enabler for lower skills activity
- Save for some regional road development, there has been a lag in developing road infrastructure in rural areas, particularly to upgrade key arterial roads that connect communities from gravel to paved roads
- Road infrastructure development provides a potential for absorption of skills, public works programmes, development of BBBEE companies, SMME participation and revival of the construction sector
- The nature of roads construction is such that it utilises local materials and thus has ability to maximise local production of inputs and skills

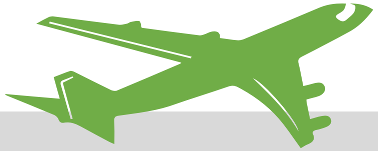
BACKGROUND & STATUS QUO

- There are existing institutions that can be leveraged for the capacity support needed to drive the necessary programmes
- The required infrastructure may not be easily funded through a private finance mechanism, hence the need to look at the other innovative ways to unlock funds for the State as proposed
- Poor road infrastructure or lack of it results in people having limited forms of transport that they can access, and increases likelihood of overcrowded transport, not desirable in a post-Covid world

INTERVENTIONS

- Launch a major road building, renewal and maintenance programme
- Urgent identification of critical projects and allocation of State institutions with the necessary capacity to support districts and provinces to ensure they move from concept to execution
- Alignment of this with the public works programme to absorb young people into employment
- Scale and longevity to be significant for multi-year procurement for sustainability of the SMME's and other companies on the programme
- Relevant road infrastructure to focus on labour intensive methods of construction

TRANSPORT AND LOGISTICS



BACKGROUND & STATUS QUO

The post COVID-19 public transportation will require massive investment to improve existing public transport infrastructure and the building of new infrastructure to link communities to economic hubs and social amenities such as schools, health care facilities and places of recreation.

Efficient transportation system is a critical component of economic activity. Transport availability can either boost or halt economic growth. Any halt on public transport or transportation of goods will have an impact on economic growth.

INTERVENTIONS AND REFORMS

- National Rail Policy process: Sector engagements would be undertaken.
- The PRASA Rail Modernisation programme is currently underway. Interventions and efforts are being made to fast-track this programme.
- High speed train and development of high speed rail network to be introduced. There is also a need to integrate the Gautrain as well as other future high-speed rail projects to the PRASA passenger rail network. Partnership between Transnet and PRASA should be strengthened.
- Consideration be given to introducing monorail for municipalities
- Ongoing engagement with the taxi industry, which transports a large portion of commuters, is required with a view to accelerate transformation and genuine empowerment within the industry.
- Need for National Aviation Industrial Strategy to be established.

INTERVENTIONS AND REFORMS

- There is also a need to improve the competitiveness of exporting firms by, among others improving integration and building an industry platform which drives differentiation and innovation.
- Attention must be given to the high non-user cost of domestic freight & the deterioration of overall freight system quality.
- Unlock potential of small harbours to contribute significantly to local economic development, support cooperatives, SMMEs and economic activities such as tourism and fishing. The fishing industry is supported by thirteen proclaimed fishing harbours.
- Further infrastructural repairs and maintenance are required to ensure that these harbours remain functional. Small habours can also serve as local economic nodes, and investment in these nodes can expand their socio-economic impact.
- The program on branch lines as part of the rail infrastructure must expedited.

TELECOMMUNICATIONS & DIGITAL ECONOMY

BACKGROUND & STATUS QUO

The fourth industrial revolution and a digital economy will employ technology to unlock systems and innovations that will cut across all sectors of the economy and improve of efficiency and productivity. South Africa's readiness for the fourth industrial revolution is pertinent to the country's integration into global value chains and overall economic strategy. Decisions taken now will shape the country's future and impact on its ability to be globally competitive.

At the moment, South Africa is five years behind the International Telecommunications Union deadline to migrate from analogue to digital transmission.

INTERVENTIONS AND REFORMS

- Support the Post Office
- Digitisation of Government
- Regulate the high cost of communications (data must fall)
- Rationalisation of SOCs
- Digital skills in government and Society
- Schools Connectivity
- Digital Migration switchover required

INTERVENTIONS AND REFORMS

- E-government is an integral part of the digital transformation and the 4IR. Full government digitisation required.
- Licensing of High Demand Spectrum in terms of the Policy Direction and preparations for the licensing of 5G.
- Licencing of the Postbank

AVIATION

- Aviation and Travel is inherently connected to tourism, the aviation sector enables people to travel from one point to another. Before the coronavirus pandemic, South Africa's aviation industry was facing challenges.
- The Infrastructure provider ACSA and the various private infrastructure providers such as Lanseria, the SA Weather Services and Air Traffic and Navigation Services (ATNS) are affected by the current closures.
- The collapse of the aviation industry therefore has a much broader multiplier in various industries and in the labour market:
    - Air travel is linked to accommodation, transportation, travel agencies, car hire services, tour operators, air ticket providers, airport bus services, taxi services, e-hailing ground-based facilities maintenance; suppliers of aviation fuel and lubricants, catering services within flights and in airports; maintenance and repair services for aircrafts; logistics companies; travel insurance providers; equipment manufacturers; and warehousing and storage providers. All co-dependent on a vibrant airline industry.
- This value-chain supports over 470 000 jobs. With the major airlines in South Africa likely to close down, the industry risks losing 60% of the value chain jobs.
- In particular, the placement of national carrier SAA into business rescue in December 2019, the business rescue of Comair, SA Airlink, SA Express amongst others means that the business of SAA Technical to maintain various companies aircraft is at risk
- The tariffs, charges and infrastructure programmes by ACSA, ATNS, SA Weather Service and the CAA are compromised
- Thousands of jobs in support industries are at risk, e.g., catering and ground handling services
- The absence of a sustainable airline industry may lead to a balance of payment problems

TOURISM

BACKGROUND & STATUS QUO

The industrial linkages of the tourism sector in the South African economy has important implications for the general stimulation of the country's economy through the multiplier effect and employment

"Importance of tourism spending and investment on economic activity and employment for every R1 million spent in the sector, five jobs (one skilled, two semi-skilled and two unskilled) are sustained. The same R1 million in expenditure results in an added R1.26 million to the economy (directly) and an additional R350,000 added due to downstream linkages (indirectly)."

PriceWaterHouseCoopers 2020

INTERVENTIONS AND REFORMS

The value chain that has a tight relationship with other sectors of the economy.

- Government should develop a tourism infrastructure project pipeline to unlock South Africa's diverse product.
- Increase SMME funding in the tourism sector in a manner that deepens the spatial tourism in villages and small towns.
- Increase spending on the maintenance of strategic national parks, world heritage sites and other strategic tourist attractions.
- Increased focus on domestic tourism packages, including a SADC focus on destination marketing

INTERVENTIONS AND REFORMS

- Finalize the pilot project and roll out E-Visas and increase the processing capacity in the rollout of e-VISA applications.

- Develop "new-normal" supply-side capabilities and capacity that is rooted in driving economic transformation in the supply side of the tourism sector.

- Government needs to urgently work on an economic case for next round of VISA free countries that would be strategic for the recovery of the tourism sector through international tourism when boarders re-opened, and this should be urgently implemented.

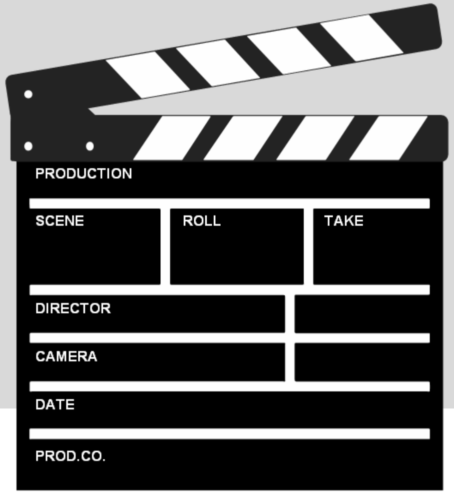
CULTURE AND CREATIVE INDUSTRIES

BACKGROUND & STATUS QUO

- The creative sector employment in SA accounts for 1,14 million jobs and 2% contribution to GDP.
- The creative economy includes people in the Visual Arts and Crafts, Audio-Visual and Interactive Media, Design of Jewellery; Automotive Design, Creative, Arts; Entertainment Activities, Book Publishing, Music, Advertising, Architectural and Design Activities.
- Areas that are dependent on live entertainment, sports and tourism have been adversely affected.
- On the positive side, **the availability of creative sector content in TV, Gaming, Radio has contributed to psychological health and well-being of many South Africans during this period**, and broadcasters and social media have provided online and free content in recent weeks.

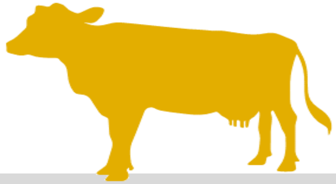
BACKGROUND & STATUS QUO

- Activities in the audio-visual and interactive media and demand for e-books and e-press have been boosted by the lockdown.
- However, businesses and individuals operating in the live creative industries in South Africa are amongst the greatly affected people.



INTERVENTIONS AND REFORMS

- It is proposed that advocating/development of an online platform for the distribution creative products be created.
- Digital access has become a public need.
- Accordingly, online dissemination of cultural products such as music, film and design products must be encouraged, supported and appropriately incentivized.



LAND AND AGRICULTURE

BACKGROUND & STATUS QUO

The agro-processing sector contributes a significant component towards total manufacturing value added as well as employment. The sector contributes approximately 20% towards the total value added of the manufacturing sector.

SA's agriculture is export-orientated, with exports of roughly US$10 billion in 2019, which approximately 50% was accounted by Asia and Europe.

The NDP indicates that there is a possible for 1 million job opportunities in the sector

INTERVENTIONS AND REFORMS

Immediate arising due to COVID-19:

- Consolidate and expand existing partnerships to share costs and access financing to cushion against shutdowns
- Link agro-production and agro-processing clusters to consolidated buying/ group buying programme to meet food requirements for additional social relief .
- **Land is critical for agricultural and other basic needs**
- Government must release land at all levels – land is key to the whole transformation agenda
- While the amendment to constitution on expropriation are not in place – we must continue to expropriate on the basis on constituional principle of fair and equitable
- Taxation of unused land

INTERVENTIONS AND REFORMS

Immediate, medium and long-term:

- Ensure more support for emerging and small-scale farmers;
- Invest in agricultural research and new smart technologies;
- Establish a sustainable strategy for agriculture to mitigate the impact of climate change;
- Address the domination of agricultural inputs by big business and the monopoly;
- Domination in agro-processing and food retail that keep out small players;
- Consolidate all government measures offered to small-scale farmers to scale-up on production, including promotion of co-operative activities or systems through joint marketing and joint processing can be done to increase productivity

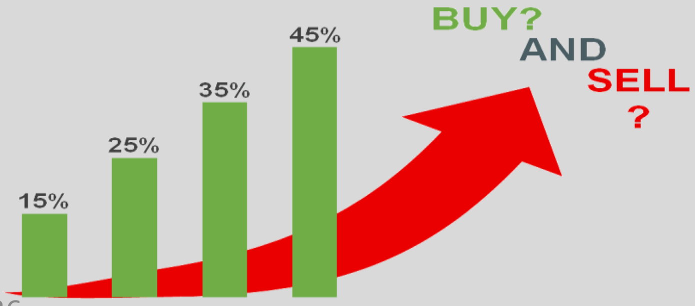
Background source: Quantec Data

SMMEs AND COOPERATIVES

BACKGROUND & STATUS QUO

A significant adverse effect on this sector, will have a dire impact on employment levels. It is important to ensure that SMMEs remain operating and workers remain employed. Relief Measures include the debt fund relief on existing debts and repayments.

Under the current conditions, SMMEs will be hit hard. Thus focus has to be put on mitigating these negative effects on SMMEs.



IMPACT

SMMEs might experience inventory and supply shortfalls of certain products

SMMEs might default on their debt repayments-working capital constraints, which might translate in SMMEs shedding jobs

High possibility of job cuts due to decline in revenue due to COVID-19

INTERVENTIONS & REFORMS

- Use the SEFA wholesale funding window and funds from other DFIs to provide low-cost capital which can provide assistance to businesses that have lost income and customers due to Covid-19 but are otherwise profitable
- Fast-track payment of SMMEs – cut to 15 days. The implementation must be monitored
- Use SMME digital platform to offer ways for SMMEs to access value chains and cluster digitally - including disaster response procurement.
- Sectors that can be targeted to build strong cooperatives include, retail, financial services manufacturing and infrastructure development.
- Young people, women and people with disabilities must be supported to form cooperatives in these sectors.

DFIs AND FINANCE

INTERVENTIONS AND REFORMS

- DFIs have an important role to play in the developmental and economic transformation agenda of the South African economy.

- This role is in the form of correcting market failures that emanate from the largely oligopolistic financial intermediation market structure.

- And, one of the most important binding constraints for the success of DFIs to deliver on their developmental mandate is the access to funds at a cost that allows for interest on developmental loans in the funding of critical developmental projects that have favorable economic multiplier effects.
- Some of the DFIs are not properly capitalized

INTERVENTIONS AND REFORMS

- There is a need to urgently and directly address liquidity challenges of DFIs.
- Amend Regulation 28 of the Pension Fund Act in order to increase the access of the Savings of South Africans to fund long-term infrastructure and capital projects.
- Increase the availability of financial intermediaries at a reasonable rate of interest.
- South Africans to fund long-term infrastructure and capital projects.
- Dedicated international "Green Funds" could be accessed to fund these new industries. Green bonds have been shown to be cheaper than traditional bonds.
- Investment in green and sustainable solutions offer opportunities to promote long term economic competitiveness and climate resilience.

FINANCIAL SECTOR AND STATE BANKS

INTERVENTIONS AND REFORMS

The financial services system has failed at the SMMEs lending level as a platform for driving inclusive growth at the bottom of the pyramid and also unlocking the cast funds for investments in infrastructure.

While South African financial services sector can rightly be said to endow our emerging market nation with 'the financial plumbing of a rich place' with deep, liquid markets and stable cross-border transactions.

The credit loss rates (CLR) on lending from South African banks to SMMEs have been low by global standards (ranging from 0,3% to 2,5% across different banks) suggesting that the challenge has been conservative lending assumptions rather than inherent risk under pre-crisis conditions.

INTERVENTIONS AND REFORMS

It is proposed that there should be proactive steps taken to increase competition in the banking sector. Processes towards the establishment of a properly capitalized and governed State Bank need to be accelerated.

To respond to this challenges :

- The conference resolution on the Post Bank and State Bank must be implemented and regulations must be finalised.
- A more strategic approach for both the Post Bank and State Bank is needed to build capacity, including financial skills
- The Post Bank is playing a critical role in social service payment and transfer system, this should be leveraged to strengthen its capacity.
- Enhance the capacity of the State Banks, and ensure these are properly capitalised and governed, with them being enabled to access different forms of access to capital.

INTERVENTIONS AND REFORMS

- The successful implementation of the responses to the challenges, will enhance **access to affordable finance.**

- In addition there should be a complete review of the competitiveness and enabling of access to capital and liquidity by the large banks, noting their dominance of the financial system especially for corporations and flow of funds in the financial system.
- In particular there must be funding for the following:
  - Infrastructure
  - SMMEs
  - BBBEE

THE BLUE ECONOMY

Background, Status Quo or Problem Statement	Proposed Intervention
• South Africa's long coastline and vast ocean space could potentially **contribute up to R177 billion to GDP and create about 1 mill jobs by 2033.** • Coastal and Marine Tourism could potentially **create 116 000 jobs and contribute R21.4 billion to GDP (2026) with opportunities for communities, women, youth, SMMEs.** • **Aquaculture (sales value of R1billion and 6500 jobs** - 2018), has potential for local and rural economic development, food security and empowerment (women, youth, SMMEs). • Fisheries, employing in excess of **60 000 people, contributes R14.3 billion, supporting 2000 SMMEs**, ensures food security and markets. • Economic loss through illegal activities and degradation impact on natural resources, diminishing economic opportunities.	• Implement **investor-friendly model** for tariffs, fees, rentals, leases and concessioning to promote marine manufacturing and competitiveness. • Promote **national ships registry** and facilitate **cargo handling** • Optimise and upgrade port **ship/rig repair facilities**, infrastructure, equipment (cranes, caissons, capstans) promoting private sector investments. • Implement coastal and marine **tourism** initiatives. • Maintain/expand including **eco-tourism** • **Stabilise aquaculture industry** to sustain current 4875 jobs (2019) including industry-friendly legislative regime for aquaculture and streamlining authorisations • **Stabilise fishing industry** to sustain current jobs and maintain markets including relief for small-scale fishers. • Implement **comprehensive protection** strategy for SA territorial waters to protect our natural resources.

THE GREEN ECONOMY

Background, Status Quo or Problem Statement	Proposed Intervention
• As part of 2019 ANC Manifesto, the waste sector together with green procurement and green infrastructure was identified as a catalytic sector • South Africa is rich in Biodiversity which underpins the economy and currently **employs 418 000 people**. • The current COVID 19 crisis has resulted in loss of tourism revenue and market opportunities • South Africa's extensive conservation estate provides the basis for ecotourism and its associated economic activities, particularly in rural areas. • Identified **Strategic Water Source Areas** (SWSAs) only cover ~12% of SA's surface area, but provide ~60% of SA's mean annual runoff. • Despite their critical value, however, our SWSAs are faced with multiple threats, including drought and environmental degradation • Benefits from rehabilitating ecological function in SWSAs: (i) increasing water quantity; (ii) improving water quality; and (iii) creating jobs through the EPWP programme • The **air quality** in the Vaal Triangle Airshed, Highveld and Waterberg National Priority Areas is poor, and sometimes very poor, resulting in many preventable respiratory problems • Waste recycling, beneficiation and the transition to a circular economy is an area where we can potentially create 127000 jobs by 2023	• **Massive infrastructure rollout** in Protected Areas to include: fencing, roads, tourist accommodation, safety and protection facilities, patrol vehicles, anti-poaching capacity • **Rehabilitation and restoration** of the ecological infrastructure in key Strategic Water Source Areas (SWSAs), including Ecosystems, Wetlands, and forests • Use the Extended Producer Responsibility (EPR) schemes to help divert waste from landfill sites in the following industries paper and packaging, batteries, lighting, e-waste and waste tyres • Developmarket access tool for distribution, local beneficiation and export potential of ash, gypsum, slag and biomass • investigate and interact with leading experts within the **Hydrogen fuel** industry to determine the feasibility of the utilisation of organic waste components in the development of aviation fuel in Secunda. • **Waste picker integration** and revitalization of buy-back centres and operationalization of landfill sites.

ECONOMIC RESPONSE

LABOUR MARKET, MANUFACTURING, LOCALISATION & AfCTA

Labour Market

- The creation of decent work remains the most powerful way to address the problem of income inequality and poverty.
- The capacity of the economy to create employment faster than the growth rate of the labour force depends on **the economic growth rate and** the skills and efficiency of the labour market.
- All these factors require a **coherent and multifaceted** combination of growth-oriented policy shifts that include microeconomic reforms, trade and industrial policy, macroeconomic reforms, public works, social policy and skills development measures with private sector partnerships.

Specifically:

- South Africa needs a job creation scheme that works in conjuction with the Public Works Programme, oriented to become *Employer of Last Resort*. Through this, millions of workers who are currently excluded from the mainstream of the economy will be provided livelihoods and a way out of poverty.
- To incentivise *labour absorbing industrial programmes*. Support those industries that would rapidly absorb employment (domestic focussed growth);
- We need to develop *labour based construction* methods for our infrastructure programmes
- *Embed skills formation* as key elements of an upward and inclusive growth trajectory. Developing South African skills and knowledge while preparing to manufacture products based on the evolving technologies.
- Embark on a massive artisan development programme, in this regard ensure articulation between TVET and Industry

MANUFACTURING & THE NEED FOR LOCALISATION

How will this help you?

Why is localisation important? Development economists and policymakers view localisation as a strategy to deepen industrial linkages in the economy and thereby accelerate the process of economic development. Localisation is also aimed at increasing local manufacturing capacity and capabilities, and in so doing, increasing jobs, reducing imports and improving the country's competitiveness and balance of payments.

To gain a deeper understanding of the benefits if localising procurement expenditure in economy during and post Covid-19, it is ideal to identify the components of the value chain that could be produced locally. This in-turn could lead to further development in the value chain components identified which could then encourage more industrialisation through increased demand for local production. The main sectors that will be impacted by localising the specified health spending include, but not limited to the following:

Sectors directly and indirectly impacted by government procurement spend

- Review all current industrial policies and incentives & enforce designations on the identified goods to be localized
- Utilise government's procurement muscle to localise industries, transfer knowledge and skills to ensure that the industry could provide the required products into the future, thereby reducing imports in due course
- Every state entity should disclose in its Annual Reports what percentage of its Goods & Services and Capital Goods is imported products, together with an explanation why and steps taken to change the reliance on imports.
- eCommerce platforms should aggressively and actively promote locally-manufactured
- The export tax on scrap metal should be speeded up to enable foundries and steel mini-mills to rapidly recover and grow
- All innovation agencies such as CSIR, Innovation Hub and others should re-orient their budgets to new product development and to improving the industrial competitiveness of local production.
- Tools such as industrial funding, tax incentives, licensing and others public measures should be reviewed to enable conditionalities to be placed for localisation.

African Continental Free Trade Area (AfCFTA)

- According to UNCTAD, **FDI flows to *Africa*** are forecast to fall by 25 to 40 per cent in 2020. The negative trend will be exacerbated by low commodity prices. In 2019, FDI flows to Africa already declined by 10 per cent to $45 billion.
- The pandemic could accelerate the **drive towards implementing AfCTA** - new regional industrial clusters may emerge.
- **New Regional industrial development path**. AfCTA geared towards regional value chain, with domestic industrial clustering to build linkages, crowding in domestic micro and SMEs and facilitating backward linkages.
- An important component of the AfCTA should be the **modernization and harmonisation** of infrastructure, including the ones that facilitate connectivity between countries such as the Beitbridge – physical, digital, economic and institutional structures.
- Important issues that have to be prioritised for regional development and the continent include:
  - Harmonisation of Infrastructure development
  - Industrial and market linkages
  - Migration policy
  - Environmental sustainability
  - Diffusion of research and development

SEQUENCING AND IMPLEMENTATION OF ECONOMIC RECONSTRUCTION, GROWTH AND TRANSFORMATION

1. Infrastructure expansion and financial mobilisation:

- Focus on expansion of key economic and social infrastructure electricity, water and sanitation, roads, freight and logistics, human settlements, health and education
- We should review Regulation 28 in order to increase allocation to developmental assets and private equity to support industrialization, agriculture and public infrastructure.
- Increase capacity of DFI’s and change regulation to unlock funding for infrastructure
- Utilise social dialogue and social compacting to increase private and public levels of investment in economic and social infrastructure
- Utilise labour based construction methods with a focus on skills transfer, there must be empowerment and inclusion of young people, women and people with disabilities
- Infrastructure expansion is the ‘fly-wheel’ which stimulates increased levels of self-sustaining economic activity, job creation and knowhow, rather than using limited resources simply on increased welfare grant payments

2. Promote investment and job creation in productive sectors:

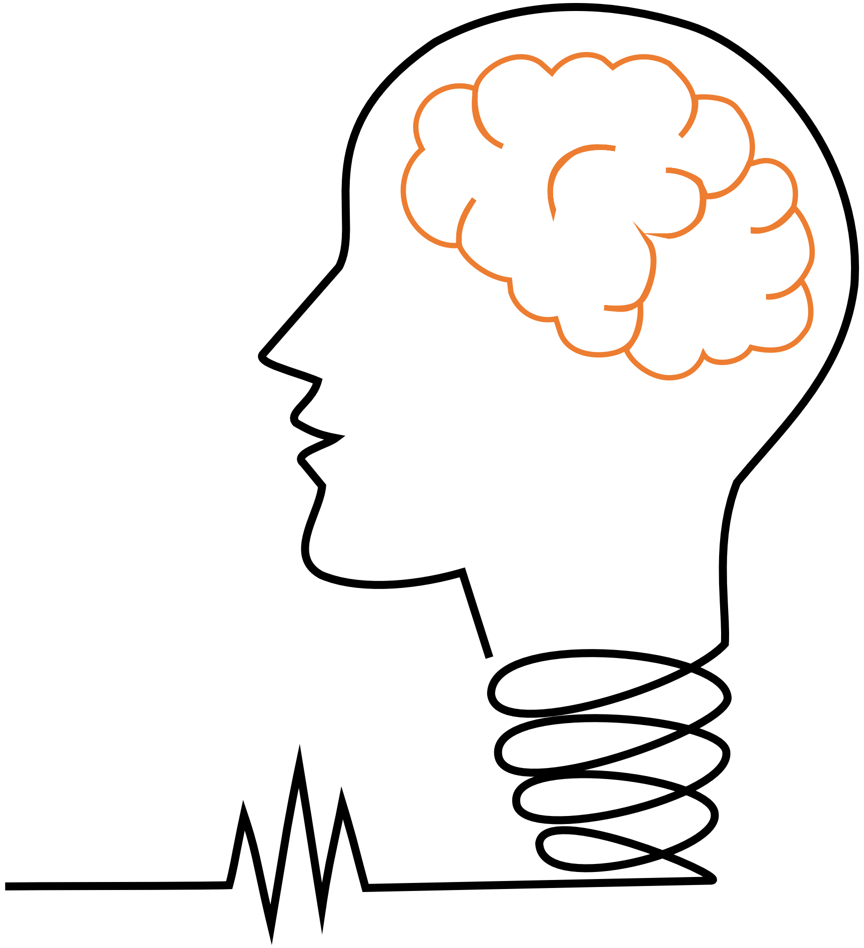
- Focus on key sectors with high growth and labour absorbing potential such as agriculture, manufacturing, mining, tourism, services, green and blue economy and the digital economy
- Policies must be prioritised to deconcentrate industries and sectors to enhance competition and entry of new participants
- Utilise social dialogue and social compacting at sectoral level to increase private and public investment in key strategic sectors
- The developmental state to put in place policy frameworks to guide investment and the expansion in these key productive sectors, removing obstacles to investment, developing required skills and promoting localisation and export competitiveness

Concurrently with the stages above, strengthen state capacity:

- Build a capable, ethical and entrepreneurial developmental state
- Strengthen capacity of the state to manage infrastructure projects through a new infrastructure development agency
- Strengthen the capabilities of the state and state-owned companies - and the manner in which the public sector engages with the private sector - to achieve the kind of strategic planning capabilities required to move South Africa onto a higher growth path
- Stabilise national debt and stimulate inclusive growth in order to strengthen public finances and thereby improve capacity for improved service delivery
- Stabilise and improve operational efficiencies of state-owned companies
- Strengthen and deepen the use of the district development model to improve service delivery in urban and rural areas

RETHINKING STATE CAPACITY

- Draw on lessons of having good agencies and how this can provide a model to execute through attracting the right technical skills in the right environment.
- The level of ambition and complexity of the restructure, implementation and financing proposals for the recovery requires their oversight to be matched with a relevant resourcing.
- It is thus proposed that there should be a properly capacitated economic co-ordination function in the Presidency, to be staffed by a professional secretariat and led at a senior level to have the necessary combination of understanding of economic policy, project portfolio co-ordination and research. Its role will include making key recommendations to further evolve the implementation as well as identify new catalytic interventions .
- In relation to overarching project management of initiatives, the State to leverage the capacity that has been developed in current organs of state, including the existing capacity in SOEs.



SOCIAL COMPACTING

- For South Africa's post-COVID-19 reconstruction to be effective it will be necessary for leaders to articulate the interests of the economy or a sector as a whole, not just their own specific class interest
- Short-term tactical compromises will be required in order to achieve longer term strategic goals and objectives
- **National level compacting** is required to lift overall socio-economic performance and create a new inclusive economy
- **Sectoral level compacting** e.g. on just energy transition, on mining, and on telecoms etc., is needed to guide sectoral reforms and unlock investment, jobs and transformation in specific sectors, we should seek input from the key participants in those sectors and then guide and support their work.
    - Design of each Sector Task Team to develop more directed **solutions; Set sectoral** agenda; Dashboarding progress and the tracking of **joint commitments**;
    - The sectoral compacting **must be focussed, rapid, directed, practical and solution-oriented.**

THANK YOU