

## Economic Reconstruction and Recovery Plan: prioritises implementation, taking this plan further in likely achieving its objectives than those before it

Thursday 15 October 2020



The President today detailed the Economic Reconstruction and Recovery Plan (ERRP) in Parliament. It is an important step in updating and including the nation in the ongoing work and developments led by the President on the repair and resolution of key structural challenges and constraints to robust economic growth in South Africa. There is a keen understanding in the plan of the problems, issues and current limitations, but also of the solutions needed to overcome these, and a strong will to do so.

The strong focus on what is needed to drive implementation takes this plan further than all the others before it, and while it has not been positively hailed by the markets, with the rand little changed among other key indicators, it is a more decisive approach. Four specific priority interventions are identified, whittled down from a large number identified, and these consist of:

- A planned ‘massive’ rollout of infrastructure across South Africa
- Rapidly expand energy generation capacity
- Drive for industrial growth
- Employment stimulus

This is key, as being mired down by all the broader objectives risks the plan being yet another blueprint which fails to achieve its goals. Key objectives are clean governance, swift reforms, inclusivity, an efficient state, transformation, a digital, green and sustainable economy, and investment in human capital.

The four interventions above aim to:

- achieve sufficient, secure and reliable energy supply within two years
- create and support over 800,000 work opportunities in the immediate term to respond to job losses
- unlock more than R1 trillion in infrastructure investment over the next 4 years
- reduce data costs for every South African and expand broadband access to low-income households
- reverse the decline of the local manufacturing sector and promote reindustrialisation through deeper levels of localisation and export
- resuscitate vulnerable sectors such as tourism, which have been hard hit by the pandemic.

While the Economic Reconstruction and Recovery Plan, or ERRP, seeks to build a new economy, and one specifically “for the reconstruction and recovery of our economy and country”, it focusses mainly on government interventions after four quarters of recession, a unprecedented rise in non-economically active individuals and key structural constraints. The ERRP differs from National Treasury’s Economic Transformation, Inclusive Growth and Competitiveness Plan which focused on key themes to boost private sector led economic growth. The ERRP seeks to achieve economic growth of 3.0% on average over the next ten years, and provide direct actions to deal with the immediate impact of Covid-19.

Concerns have centered around yet more plans without delivery in the past, but the President is showing strong commitment to implementation and the ERRP goals, and while it is not new information or objectives, is more achievable with the reforms and legislation the President is spearheading. Key however will be the actual achievement of a strong capable state, as SA has already had multiple plans and policies, but lacks implementation capabilities in the public sector.

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There is clear urgency, with the address concluding that “(w)e stand together at a crucial turning point in the history of our country. Our ability to reignite our economy rests on the decisions we take in this moment, and the urgency with which we address this crisis. We dare not take a moment to pause. Together, we will build a new economy. The time is now.”

Looking into the detail of the plan the four interventions are provided below:

### 1: Large-scale infrastructure rollout across South Africa

As part of the ongoing infrastructure drive, **a pipeline of projects** was detailed, specifically:

- By the end of June 2020, identified 276 catalytic projects with an investment value of R2.3 trillion.
- A list of 50 strategic integrated projects and 12 special projects was gazetted in July 2020.
- These catalytic projects have been prioritised for immediate implementation with all regulatory processes fast-tracked – enabling over R340 billion in new investment.
- These projects are at various stages of the project life cycle.
- Those that are already in construction will see the future phases brought earlier for implementation, including some human settlements projects, which have already received bulk financing to unlock them.
- We are exploring the use of credit enhancing instruments to unlock bulk water infrastructure and national roads improvement projects.

The infrastructure build programme will **focus on social infrastructure such as schools, water, sanitation and housing**, and **critical network infrastructure such as ports, roads and rail**.

Infrastructure SA and the Infrastructure Fund prepare and package projects, with private investors assisting in building capability for infrastructure delivery within the state and to develop blended financing models. The Infrastructure Fund will provide R100 billion in catalytic finance over the next decade, leveraging as much as R1 trillion in new investment for strategic infrastructure projects.

### 2: Rapid expansion of electricity generation capacity

The ERRP further details that the implementation of the **Integrated Resource Plan** is being accelerated to increase the contribution of renewable energy sources, battery storage and gas technology, bringing around 11,800 MW of new generation capacity into the system by 2022, with more than half generated from renewable sources.

In the immediate term, agreements will be finalised with **Independent Power Producers** to connect over 2,000 MW of additional capacity from existing projects by June 2021. The Risk Mitigation Power Procurement Programme will unlock a further 2,000 MW of emergency supply within twelve months.

The process to **implement bid window 5 of the renewable energy programme** has begun. The current regulatory framework will be adapted to facilitate new generation projects while protecting the integrity of the national grid. Applications for own-use generation projects are being urgently fast-tracked.



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The work of **restructuring Eskom** into separate entities for generation, transmission and distribution continues and will enhance competition and ensure the sustainability of independent power producers going forward. To achieve this, a long-term solution to Eskom's debt burden will be finalised, building on the Social Compact on Energy Security recently agreed to by social partners. Through these measures, the ERRP aims to achieve sufficient, secure and reliable energy supply within two years.

### 3: Reindustrialisation

Fast track **reforms to reduce the cost of doing business and lower barriers to entry**. Current **timeframes for mining, prospecting, water and environmental licenses will be reduced by at least 50%** to facilitate new investment.

**The Petroleum Resources Development Bill will be finalised** to unlock our country's enormous untapped potential in upstream oil and gas reserves.

Shortly publish an expanded list of countries from where **resumption of international travel** will be permitted, which will be supported by targeted marketing in partnership with the private sector.

Greater private sector participation **in rail, including through granting third-party access** to the core rail network and the revitalisation of branch lines.

Work is underway to **improve the efficiency and capacity of the ports** of Durban, East London, Ngqura and Cape Town.

The release of high-frequency **spectrum** by March 2021 and the completion of digital migration will reduce data costs for firms and households. This process is being managed by ICASA and will promote transformation, reduce costs and increase access.

The turnaround at the **South African Revenue Service** has begun in earnest, and significant areas of tax evasion and tax fraud have already been identified. Working to clamp down on the illegal economy and illicit financial flows, including transfer pricing abuse, profit shifting, VAT and customs duty fraud, under-invoicing of manufactured imports, corruption and other illegal schemes.

The Public Procurement Bill will be fast-tracked and transversal contracts put in place for large-volume items. Finalise and begin implementation of the new National **Anti-Corruption Strategy**, which will improve transparency, monitoring and accountability in government and across society.

All of these actions will be taken within a supportive macroeconomic framework, which balances the need to **restore fiscal sustainability with economic growth**. A critical pillar of this plan is the fiscal framework that will be outlined by the Minister of Finance in the Medium Term Budget Policy Statement.

Among other things, this framework will provide a path of **fiscal consolidation**, debt reduction and reprioritisation that is supportive of growth and recovery. We cannot sustain the current levels of debt, particularly as increasing borrowing costs are diverting resources that should be going to economic and social development. In **reducing government expenditure**, we are ensuring that funds are reprioritised towards poverty alleviation, infrastructure investment, support for economic development and fighting crime and corruption.

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**Reducing the reliance of SOEs on the fiscus** by intensifying efforts to stabilise strategic companies, accelerating the rationalisation of SOEs and, where appropriate, identifying strategic partners.

Massive growth planned in local production aiming to make South African exports more competitive. South Africa imports around R1.1 trillion of goods, excluding oil, each year, the ERRP aims for the manufacture of 10% of these locally, **adding an estimated 2% to annual GDP growth.**

In the first two South African Investment Conferences, SA secured pledges of around R664 billion in new investment. To date, just under R170 billion of capital expenditure committed during those investment conferences has been invested in projects for construction and buying equipment is essential to mining, manufacturing, telecommunications and agriculture. Reaching the target of R1.2 trillion in new investment by 2023, the ERRP estimates could **add around 2.5% to annual GDP growth.**

**Localisation** targets in agro-processing, health care, basic consumer goods, industrial equipment, construction materials and transport rolling stock to be published. All public infrastructure projects to use locally-made materials, including steel products, cement, bricks and other components. Supplier development programmes for large companies and in key sectors. NEDLAC agreement commits all companies and government entities to publicly disclose in their annual reports the value of procurement from local producers and on steps to be taken to improve localisation.

**Masterplans** to bring all partners together to agree on specific measures to improve productivity, investment and competitiveness, currently there are masterplans in the automotive, clothing and textile, poultry and sugar sectors. Finalising masterplans in the digital economy, forestry, agriculture and agro-processing, creative industries, aerospace and defence, renewable energy, steel and metal fabrication and furniture.

**Transformation** of economy via creating space for new black and women entrants with deliberate steps to change ownership and production patterns. In promoting localisation and industrialisation, focusing on the development of small, medium and micro enterprises. This will take place alongside the development of rural and township economies and include the provision of business infrastructure support, financial assistance through loans and blended funding, facilitating routes to market, and assistance with technical skills, product certification, testing and quality assurance.

### 3: Employment stimulus

SA has **committed R100 billion over the next three years** to create jobs through public and social employment as the labour market recovers. Over 800,000 employment opportunities are aimed for in the months ahead with the employment stimulus focused on those interventions that can be rolled out most quickly and have the greatest impact on economic recovery.

Traditional forms of public employment are being scaled up and new forms of public employment created to meet the immediate need, expanding natural resource management programmes such as Working on Fire and Working for Water.

**300,000 opportunities for young people** to be engaged as education and school assistants at schools throughout the country, to help teachers with basic and routine work so that more time is spent on

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teaching and enabling learners to catch up from time lost because of Covid.

**60,000 jobs for labour-intensive maintenance** and construction of municipal infrastructure and rural roads.

An additional **6,000 community health workers** and nursing assistants as the implementation of National Health Insurance proceeds. Public employment will be expanded at the provincial and city level, contributing to cleaner, greener and safer public spaces and improved maintenance of facilities.

The **national Pathway Management Network** will be launched as a platform for recruitment and other forms of support.

Support provided to more than 100,000 early childhood development practitioners and to 75,000 small-scale farmers whose production was disrupted by the pandemic. More than 40,000 vulnerable teaching posts secured in schools which have lost income from fees. The Special COVID-19 Grant extended by a further 3 months.

### Conclusion

With a strong focus on delivery, the need for fiscal consolidation and so the reduction in government expenditure, today's ERRP should have received a more positive market response, but likely the positive attributes were lost in the length, and the fact multiple, largely unfilled plans have gone before it which repeatedly disappointed markets.

The MTBPS is expected to underpin the ERRP and so could engender a positive market response if it avoids hiking the debt projection up to a peak of 100%, and expenditure is materially cut.

Briefly the ERRP aims to deliver economic growth through swift reforms:

- To create jobs, primarily through aggressive infrastructure investment and mass employment programmes
- To reindustrialise our economy, focusing on growing small businesses
- To accelerate economic reforms to unlock investment and growth
- To fight crime and corruption
- To improve the capability of the state

The reason the ERRP plan has more chance of success than those of the past decade is because substantial work has gone into it already, and a number of factors are partially achieved, and others are in process, as opposed the airy promises without of calculated deliverable metrics and supervision. Regulations are also in the crosshairs, particularly the reduction of red tape and improving civil servants productivity, specifically halving time for mining, prospecting, water and environmental licenses. The release of high frequency Spectrum is set for March next year, while private sector can participate in rail, including through granting third-party access to the core rail network and the revitalisation of branch lines.





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