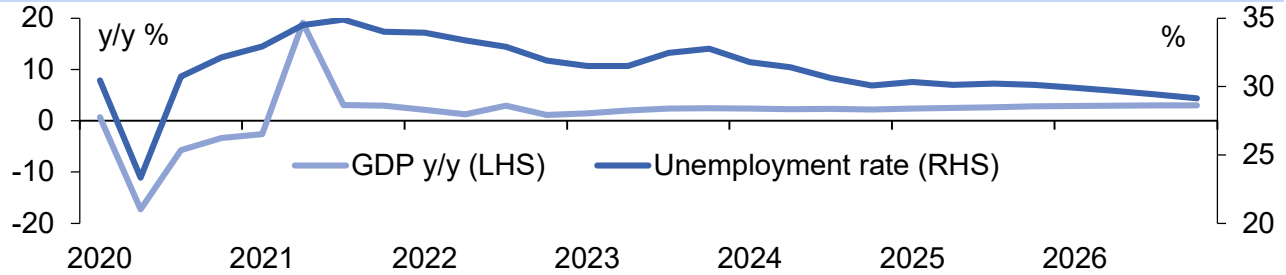




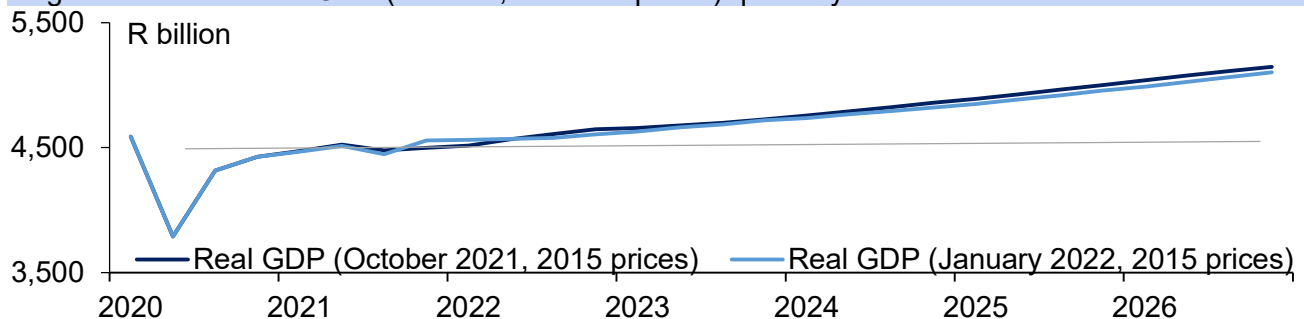
Figure 1: South Africa economic growth versus unemployment



Source: Investec

- The President's State of the Nation Address (SONA), 10th February at 7pm this year, provides updates on government's policy focus and implementation of economic plans, specifically the ERRP (Economic Reconstruction and Recovery Plan). It will also address progress made in combatting COVID-19 (30 million vaccine doses administered so far) and in alleviating its effects on South Africa (the SDR grant is eventually likely to see further extension, into a form of BIG), address social issue and concerns, and provide updates on budget plans (expenditures).
- The themes of building an ethical, capable state, combatting corruption and state capture reoccur in the SONA, which is expected to indicate the next steps following on from the Zondo commission.
- The President's address is also likely to highlight other reoccurring themes (see figure 20), including education, skills and job creation, the fight against gender-based violence, the need to improve living conditions and the focus on the infrastructure and investment drive.
- However, the likelihood is that nothing new will be enacted to substantially reduce the smothering regulatory burden which limits the growth of SA's private business sector.
- SA is likely to see economic growth of 1.8% y/y in 2022, with growth likely to lift toward 3.0% y/y by 2026 as growth enhancing reforms gather pace, including those in the key electricity sector, with insufficient electricity supply for a faster growing economy a risk. The substantial planned fixed investment in the electricity sector, specifically from private sector power producers, will however take many years before stabilising the grid, and SA is still at high risk of load shedding.
- Government's planned borrowings and fiscal deficit have been projected lower as a % of GDP in November's MTBPS, and the Budget on 23rd February is not expected to see any upwards revisions, while next week's SONA is anticipated to give insight on spending pressures.

Figure 2: South Africa GDP (R billion, constant prices) quarterly



Source: Investec



Figure 3: SOE Stabilisation and Recovery – ERRP progress report

Some of these matters are subject to further governance processes within government

Intervention	Intended outcome	High level Outputs/Targets (specify Timelines)	Progress on implementation plans
Separation and unbundling of Eskom	Address the structural challenges and allow for focus into each business operation	Implementation of Eskom Roadmap by 2024	<ul style="list-style-type: none"> The amendments propose an electricity industry structure at the core of which is a Transmission Systems Operator (TSO), which role shall be assumed by a newly established wholly owned subsidiary of Eskom Holdings SOC. The Ministers of Public Enterprises and Finance has approved PFMA application of Eskom's corporate structure and the corporatisation of Eskom Transmission Business. The amendments proposed an electricity industry structure are at the core, of which the role of the TSO shall be assumed by the corporatized Eskom Transmission business which is expected to come into operations by 31 December 2021.
Corporatisation of Transnet National Port Authority	Implementation of the TNPA Act	Corporatisation of TNPA as a subsidiary of Transnet	<ul style="list-style-type: none"> Registering of TNPA as a corporate entity is underway. Development of Memorandum of Incorporation Appointment of TNPA Board – Applications to advertisement have been collated and shortlisting of potential candidates underway
SAA restructuring	Finalisation of new SAA	SAA established	<ul style="list-style-type: none"> Strategic equity partner identified Awaiting approval from National Treasury
Presidential SOE Council	Make proposals for SOE Reforms	Codification of SOE Bill	<ul style="list-style-type: none"> Development of proposals for government ownership model for commercial SOEs Evaluation of turn-around plans within government for some SOEs Proposals for governance framework for SOEs

Source: SA Government

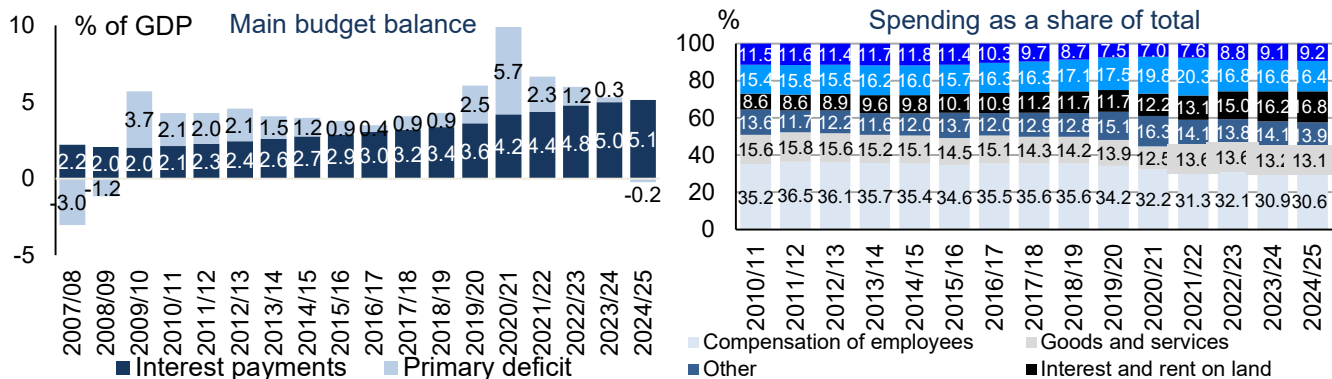
Figure 4: South Africa new daily cases – 7 day rolling average



Source: JHU CSSE



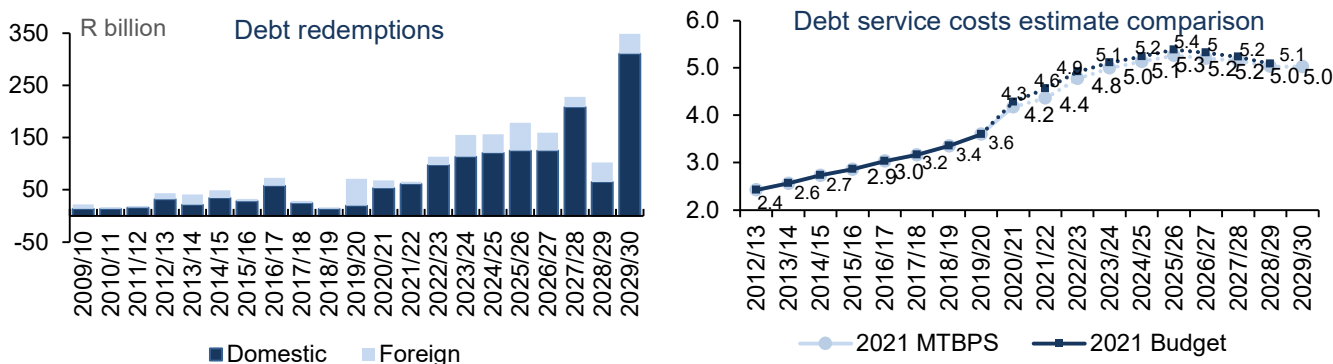
Figure 5: Main budget balance and spending as a share of total



Source: National Treasury

- While SA is making an effort to improve its state finances, and avoid further credit rating downgrades, it is not yet of the words as far as the credit rating agencies are concerned (despite Fitch's newly stable outlook). The agencies in particular worry about South Africa's slow economic growth rate, high expenditures relative to revenues and very slow, intermittent pace of fiscal consolidation.
- The November MTBPS showed planned government borrowings for 2022/23 sit at 74.7% of GDP (R4.7trillion), reaching 77.8% of GDP (R5.5trillion) by 2024/25, with the debt trajectory only expected to peak in 2025/26, at 78.1% of GDP. Most concerning though is that interest payments as a % of GDP continue to swell, from 2.2% in 2007/08 to 5.1% by 2024/25.
- The MTBPS shows capital expenditure, which fell from 11.6% of GDP in 2010/11 to 7.0% by 2020/21 sees only a modest increase to 9.2% by 2024/25, but this is contingent on bringing down the share of expenditure on compensation of employees to 30.6% of GDP by 2024/25, from 32.3% in 2020/21 (with a recorded peak of 35.6% in 2018/19).
- Some progress has already been made towards fiscal consolidation through reducing current expenditure via civil servant remuneration but not via interest payment or rent on land. Post, 2024/25 interest payments continue to swell, lowering the sustainability of government finances although government aims to prevent borrowing to finance debt, i.e. a debt trap.

Figure 6: Debt redemptions and debt service costs estimate comparison



Source: National Treasury



Figure 7: Energy Security – Eskom Social Compact – ERRP progress report

Interventions	
Short term	1. Managing load shedding: adequate communication & transparency to reduce uncertainty and a review of the load shedding schedule. Clear maintenance & operational recovery plan.
	2. Procurement of additional energy generation: 4 of REIPPPP to be connected to the grid& Kusile & Medupi to come online adding an additional 2 400 MW to the grid. Commitment from business to expedite the implementation of 2 500 MW of self-generation & capacity of further 2 500 MW to be procured through DMRE emergency procurement process
	3. Managing tariffs: Review of contracts entered into by Eskom with private and public sector & renegotiating of IPP contracts & reduction in price of coal supplied to Eskom
	4. Debt recovery: Review of municipal electricity collection & payment systems & installations of prepaids to be implemented across SA & the Masakhane campaign to be broadened
	5. Clean governance & illegal connections: Holding Executives accountable through lifestyle audits & implementation of forensic audit reports
	6. Tackling corruption: Addressing severe damage to Eskom infrastructure, maintenance of power stations, protection of whistle-blowers,
	7. Eskom’s operating model: Review of bloated management structure & associated costs & partnerships with private sector to support restaffing of Eskom staff
Medium term	8. Eskom’s financial viability: Reduction of Eskom’s debt, revised business model, restructuring of Eskom’s balance sheet and collection of debt
	9. Impact investment: Investing in viable large-scale infrastructure projects to make a good return for Eskom
Long term	10. Impact investment: Investing in viable large-scale infrastructure projects to make a good return for Eskom
	11. JET: Reduction of carbon emissions, Support worker and community participation and social ownership within renewable energy sector, Eskom to expand portfolio of renewable energies and other forms of clean energy & Impact assessment for repurposing of power stations
	12. Long-term supply of security: Work towards a reliable & affordable supply of energy that improves the quality of life of all SA citizens
	13. Regulator: Review of NERSA’s capacity & electricity framework must be conducted to ensure regulatory frameworks adapts to changing energy market

Source: SA Government

Figure 8: IRP 2019 Implementation Plan – ERRP progress report



Source: SA Government



Figure 9: Energy Security – ERRP progress report

Action	Reform completed or proceeding well	Some challenges in implementation	Critical challenges in implementation
1. Short term procurement from 8 preferred bidder with total capacity of 202MW	162		
2. Renewable Energy bid Window 4 (2 205 MW) – 2105 MW connected to the grid by December 2021 only 100 MW delayed due to project challenges	2105		
3. Emergency procurement delayed due to legal challenges	2000		
4. Small Scale Embedded Generation 100 MW (SSEGs) increased from 1 MW to 100 MW and currently 392 SSEGs have been with a generation capacity of 187 MW approved by NERSA	187		
5. Renewable Energy Bid Window 5 (2 600 MWW) – 25 preferred bidders announced with a total capacity of 2583 MW, financial closure expected in June 2022 and commercial closure by 2025	2583		
6. Remainder of the 11831 MW to be procured on track with slight delays.	11831		
7. Creating transmission company from restructured Eskom and facilitating a trading company (ERA amendments to create a trading company have been finalised)			
8. Enable upstream petroleum investments through finalisation of Upstream Petroleum Bill (Bill tables in Parliament on the 1 st of July 2021)			
9. Finalise biofuels regulations (Regulation gazetted on the 1 st of September 2021)			

Source: SA Government



- In detailing the progress report on the ERRP so far, the majority of the progress report focuses on plans, not implementation, showcasing the continued snail's pace of growth enhancing structural reforms and the continued tendency to be top heavy on planning and light on action. The SONA will likely show little difference, and typically showcases little new implementation on driving economic growth each year.

Figure 10: Structural Reforms – ERRP progress report

Structural reforms are critical for a stronger, more durable recovery.....yet progress on reforms is mixed

Actions	Status	Actions	Status
Raise licensing threshold for embedded generation	Reform completed or proceeding well	Establish an independent economic regulator for water	Some challenges in implementation
Implement emergency procurement of 2 000 MW	Reform completed or proceeding well	Finalise the revised raw water pricing strategy	Some challenges in implementation
Implement procurement of new generation capacity in terms of IRP 2019	Critical challenges in implementation	Establish a National Water Resource Infrastructure Agency	Some challenges in implementation
Enable municipalities to procure power from independent power producers	Reform completed or proceeding well	Address institutional inefficiencies in municipal water distribution	Some challenges in implementation
Restructuring of Eskom into separate entities for generation, transmission and distribution	Reform completed or proceeding well	Corporatise the Transnet National Ports Authority (TNPA)	Some challenges in implementation
Improve Energy Availability Factor (EAF) to over 70%	Critical challenges in implementation	Improve efficiency of ports	Some challenges in implementation
Address institutional inefficiencies in municipal electricity distribution	Some challenges in implementation	Establish Transport Economic Regulator through Economic Regulation of Transport Bill	Some challenges in implementation
Complete spectrum auction	Critical challenges in implementation	Finalise the White Paper on National Rail Policy	Some challenges in implementation
Complete migration from analogue to digital signal	Some challenges in implementation	Implement third-party access to freight rail network	Some challenges in implementation
Finalise Rapid Deployment Policy and Policy Direction	Some challenges in implementation	Publish revised Critical Skills List	Some challenges in implementation
Streamline process for wayleave approvals	Reform completed or proceeding well	Review policy framework and processes for work visas	Some challenges in implementation
Improve water-use license application process	Reform completed or proceeding well	Expand visa waivers and explore visa recognition system	Some challenges in implementation
Revive the Blue Drop, Green Drop and No Drop water quality monitoring system	Reform completed or proceeding well	Implement e-Visa system in fourteen countries, including China, India, Kenya and Nigeria	Some challenges in implementation

Source: SA Government

Reform completed or proceeding well 
 Critical challenges in implementation 

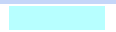
Some challenges in implementation 



Figure 11: Industrialisation through localisation – ERRP progress report

Seven areas of Focus:

Government has implemented South Africa's localisation agenda with seven areas of focus based largely on the social pact at Nedlac and includes using SA raw materials (agriculture and mineral beneficiation) in the first six value chains; and localising services:

1. Agro processing (i.e., food and beverage sector)
2. Healthcare (inc. Covid-19 essentials and vaccines)
3. Basic consumer goods (clothing, electronics, household hardware products, packaging material, furniture)
4. Capital goods, including green economy inputs
5. Construction value chains, including steel
6. Transport equipment, including vehicles and components
7. Services, like call centre services; film/arts and culture; digital and financial services

Source: SA Government

Figure 12: Industrialisation through localisation – ERRP progress report

Government is pursuing increased localisation using 10 policy tools

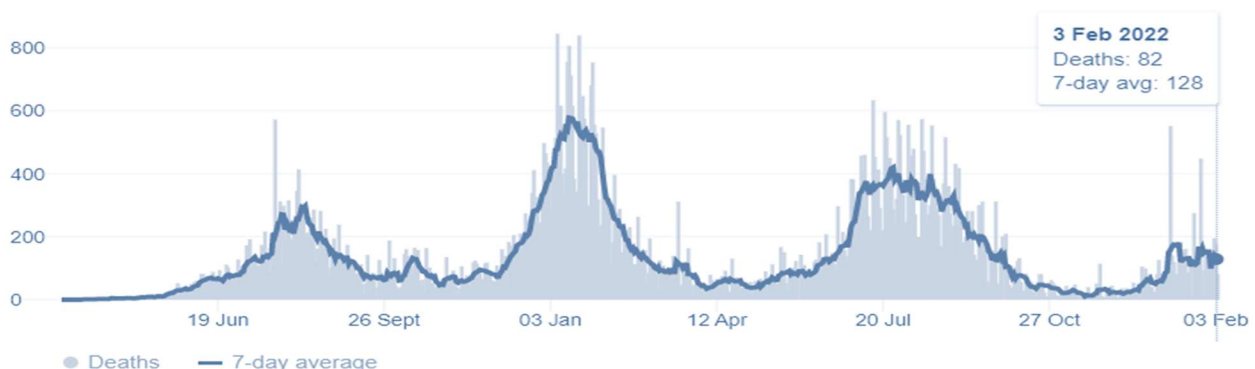
1. Masterplans: a cross-cutting tool to increase industrial dynamism
2. Tariff measures
3. Combating illegal imports
4. Competition policy
5. Incentives
6. Industrial funding
7. Investment / Industrial Facilitation
8. Infrastructure spending
9. State procurement
10. Export promotion

Some examples:

1. Through the DTIC incentives in the Auto Masterplan, Toyota invested R2.5 billion for the production of the Corolla Cross. This is SA's first locally produced hybrid vehicle. 621 locally produced parts will be used resulting in significantly higher local content than in previous Corolla models, with R1.4 billion new local procurement every year.
2. An edible oil manufacturer, with the support of a DTIC-administered incentive is establishing a palm oil refining facility, which will replace 50% of SA's imported refined palm oil, with lower cost crude, creating value in SA in the refining process, with expected value addition to South Africa of R500 million per annum

Source: SA Government

Figure 13: South Africa new daily deaths – 7 day rolling average



Source: JHU CSSE



Figure 14: Strengthening Capacity of State – ERRP progress report

- Part 1 of the Zondo Commission report has been handed to the President. The work of the Commission is vital to the national effort to place the era of state capture behind us and ensure that such events are never allowed to happen again.
- Completion of the Commission's work is expected by the end of February 2022.
- Attacks on public infrastructure including power lines, train stations and railway lines; illegal mining; and the activities of so-called community fora hold back investment and increase business and workers costs.
- Illegal migrants have displaced South African workers and permanent residents from key labour-intensive segments of the economy such as Agriculture, Informal Retail and Hospitality. Government is developing a development-oriented view on migration to mitigate these effects while protecting the rights of legitimate refugees and migrants.
- BUSA has always helped the Criminal Justice Cluster. Any further help BUSA may wish to bring should be done through National Treasury channels to insulate the Criminal Justice or the NPA from any interference

Source: SA Government

- In particular, planned general government fixed investment from 2023 to 2025 at R500 billion is anticipated, although this has yet to be achieved efficiently, without wastage or corruption.
- Further plans show "Government has also committed R100 billion over a decade from 2019/20 to the Infrastructure Fund to leverage private- sector and development finance, with R24 billion allocated over the 2022 MTEF period."
- "The review of public-private partnership regulations recommends simplification of the regulations, eliminating delays in approval and implementation, and standardising project preparation; and building capacity at all levels of government. These will be implemented from early 2022".

Figure 15: Employment Programmes

Department	Programme description	Budget	Jobs/livelihoods
DBE	Basic Education Employment Initiative	R6 000 000	287 000 ★
NT	Innovation in PPS for Metros	R841 000	35 000 ★
DTIC	Social Employment Fund	R800 000	50 000 ★
DWYPD	PYEI/National Youth Service	R400 000	35 000 ★
DCOG	MISA: Waste separation & treatment solutions	R284 000	11 818
DFFE	Environmental programmes	R318 000	8 150
DHET	PEI/National Skills Fund: Pay for performance model for digital skills	R100 000	4 500 ★
	Universities: Graduate Assistants		3000 ★
DSD	Social workers and NDA programme	R150 00	3 880
Health	Staff and assistant nurses, Port Health screening	R365 000	2 568
Tourism	Support to 40 provincial tourism attractions & tourism monitors	R108 000	2 360
DSI	Enviro-Champs water graduates and other	R67 000	1 650
DSAC	District Six, Hip Hop & Phanzi museums	R15 000	914
DEL	Employment counselling at Labour Centres	20 000	250 ★
	Sub-Total	R9 558 000	446 090

Source: SA Government

★ New programmes



Figure 16: Strengthening Capacity of State – ERRP progress report

NEDLAC Social partners were informally briefed on the National Labour Migration Policy (NLMP) during November 2021 and broadly endorsed its intentions

The policy aims to achieve a balance on four major, complex areas:

1. To address our peoples' expectations regarding access to work, given worsening unemployment and a perception that foreign nationals especially undocumented, are distorting labour market access. This practice is promoted by some employers who do not comply to existing labour legislations and undermine existing minimum standards.
2. DHET has released a scarce and critical skills in high demand list to provide guidance to all our institutions to prioritise education and training interventions in those areas.
3. SA, as signatory to international treaties and conventions governing the rights of migrants, will ensure that its policies and interventions remain within the ambit of our constitution.
4. SA will also implement these initiatives within the context of our regional integration and cooperation imperatives that we have already agreed to at SADC and African Union levels.

Source: SA Government

Figure 17: Support for SMMEs – ERRP progress report

- Small Enterprise Manufacturing Support Scheme at the end of November 2021:
 - Approvals = R 505.7m to 54 SMMEs, with 3,082 Jobs facilitated.
 - Disbursements = R 292.4m to 44 SMMEs.
- 289 Products listed with Wholesalers and Retailers.
- The Business Viability programme approved 5 deals amounting to R 25m, facilitating 92 job opportunities.
- As of 30 November 2021, the Township and Rural Entrepreneur Programme:
 - Provided non-financial support to 22,999 SMMEs
 - Approved R 306 454 496 in funding to 7,338 SMMEs, facilitating 9,946 jobs
 - Disbursed R 248 099 892 in funding to 6,905 SMMEs, facilitating 8,684 jobs
- The Informal and Micro-Enterprises Development Programme provided equipment of R1.1m to 51 women, 32 men and 19 young people of KwaMashu.

Source: SA Government

Figure 18: Responding to the July Unrest – progress report

- Government committed R2.3bn to assisting affected enterprises – including the uninsured to recover from the unrest.
- An additional R11bn was also provided for in the MTBPS 2021 for SASRIA.
- As of 30 NOVEMBER 2021, the IDC had approved 96 transactions to the value of R 2,5 billion thereby sustaining 39,520 jobs.
- As of 26 NOVEMBER 2021, the NEF had approved 155 transactions (supporting 96 firms) with a combined value of R836m thereby sustaining 7,428 jobs.
- As of 26 NOVEMBER 2021, Government's Critical Infrastructure Recovery Programme had had approved 12 projects with support of R198m (of the R200m budget), thereby sustaining 3,516 jobs.

Source: SA Government



Figure 19: State of the Nation – repeating the same themes

Feb 2016 - Zuma	Feb 2017 - Zuma	Feb 2018- Ramaphosa
<ul style="list-style-type: none"> > Fight back against corruption > Act against state capture > Improve education > Better life for poor > NHI, land reform > Build capable state > Stimulate growth, save jobs > Reduce debt 	<ul style="list-style-type: none"> > Fight against corruption continues > Change institutions in economy > Change structure of economy > Change systems in economy > Change ownership of economy > NHI, land redistribution > Reignite growth and job creation > Education more accessible 	<ul style="list-style-type: none"> > Investment drive > New growth path, jobs summit > Improve education, skills > Improve living conditions for poor > NHI, land expropriation > Fight gender-based violence > Strengthen capacity of state > Fight corruption, state capture
Feb 2019 - Ramaphosa	June 2019- Ramaphosa	Feb 2020- Ramaphosa
<ul style="list-style-type: none"> > Economic transformation > Job creation, education > Skills, health, social wage > Spatial integration > Fight gender-based violence > Ethical capable state > Local government > Economy grows faster than population 	<ul style="list-style-type: none"> >Transformation and job creation >Education, skills and health >Reliable quality basic services. >Land expropriation, spatial integration >Social cohesion, safety >Capable ethical state >A better Africa and world 	<ul style="list-style-type: none"> > Infrastructure and Investment unit > Inclusive growth, create jobs >Improve education, skills >Improve living conditions for poor > NHI, land reform > Fight gender-based (GBV) violence > Strengthen capacity of state >Fight corruption, state capture
Feb 2021- Ramaphosa		
<ul style="list-style-type: none"> > Fight corruption, strengthen the State > Sustainable jobs, inclusive growth > Electricity generation/ operation Vulindlela > Accelerate economic growth > Defeat COVID-19 pandemic > Infrastructure rollout, climate change > Industrialisation, localisation > Education, GBV, living conditions 		

Source: SONA

Figure 20: Industrialisation through localisation – ERRP progress report
Impact of localisation is being felt on the ground – further examples:

3. Announced at the SA Investment Conference and facilitated by Government's investment support, PG Bison is making a R2,5 billion investment, which will increase local capacity from 420m³ to 1,200m³ of board per day, and address a significant import leakage.
4. Government mobilised R340 million in technical localisation funding – to support the recruitment of technical experts able to identify, unlock and implement localisation initiatives working directly with firms across a range of sectors.
5. In the construction sector, Government is tightening the regulation of cement to ensure that imported cement meets SA safety standards. In addition, cement has been designated at 100% local content for all public infrastructure projects.
6. Government has decreased tariff duties (with an import duty rebate facility) for textiles used in the local manufacture of apparel, coupled with commitments by retailers to buy local textile output; and increased tariffs on finished goods to support industry (steel products; food products)
7. Government incentive helped establishment of advanced manufacturing covid vaccine and anaesthetic production lines with Aspen's R3bn investment – the largest in the Southern Hemisphere – which will lead to substantial import replacement including of the anaesthetics used in the treatment of COVID-19.

Source: SA Government

SONA preview: the Sona is expected to give insight into the serious problems plaguing SA's economy, and so supportive measures for growth and job creation

Friday 4 February 2022



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SONA preview: the Sona is expected to give insight into the serious problems plaguing SA's economy, and so supportive measures for growth and job creation

Friday 4 February 2022



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