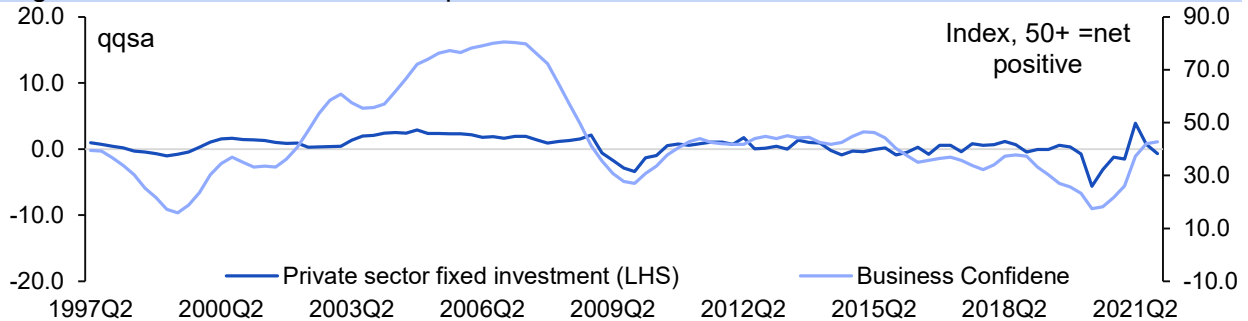




SONA: achieving SONA’s plans will depend on resolving insufficient skills capacity at state departments and parastatals

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Figure 1: Business confidence and private sector investment *



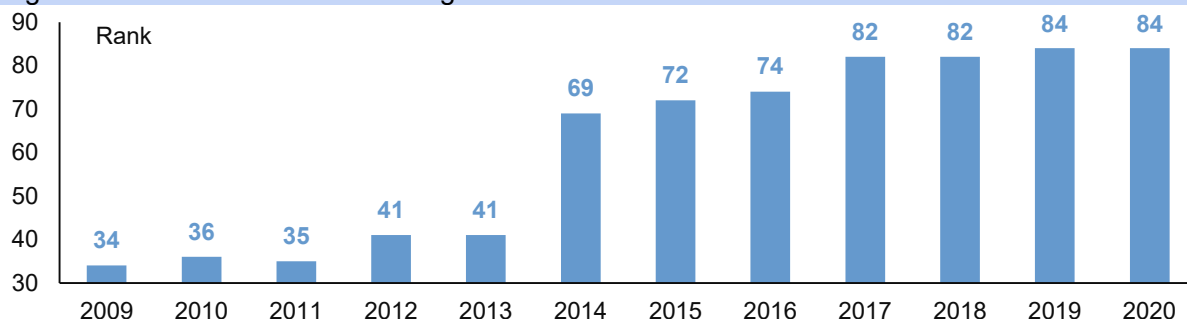
*4-quarter rolling average

Source: BER, Stats SA, Investec

The overarching tone of the State of the Nation Address (SONA) last night was one of optimism despite many severe problems South Africa faces, as the President tackled these head on and laid out the measures to address them. The concern is still however on implementation, particularly as many of the issues drag on from the past. A subtle difference in the speech was the growing openness the state now has in working with the private sector to overcome SA’s structural weaknesses in the economy given state capacity weaknesses in a number of areas. The president highlighted “(a) capable state is not only about the quality of public servants and the efficiency of institutions. It is also, fundamentally, about how citizens are empowered to participate.” Envisioned private sector involvement includes investigation and prosecution of crime (and corruption), school education and other state infrastructure, catalytic projects, partnerships for the Durban and Ngqura Container Terminals, prevention of cable theft and vandalism on the freight rail network.

Another key theme is the necessary growth of the private sector, and government’s responsibility to enable an operating environment for businesses that will aid them to grow and thrive. “We all know that government does not create jobs. Business creates jobs. Around 80 per cent of all the people employed in South Africa are employed in the private sector.” The SONA highlighted the impediment SA’s deep structural problems are to private sector corporate investment and growth. Electricity supply, rail and port transport, water supply and broad band spectrum saw immediate focus, with planned project implementation range over a number of years to upgrade and institute the infrastructure. However, the current 4 000MW shortage of electricity is unlikely to be resolved this year, but 14 900MW is planned over the next several years along with the structural changes to Eskom, and the transmission subsidiary reportedly already established. Transnet is to expand partnerships with the private sector while the repair of SARS and SOEs will continue. Reducing the cost of doing business, the removal of unnecessary red tape and reduction of the regulatory burden were also listed

Figure 2: South Africa: ease of doing business



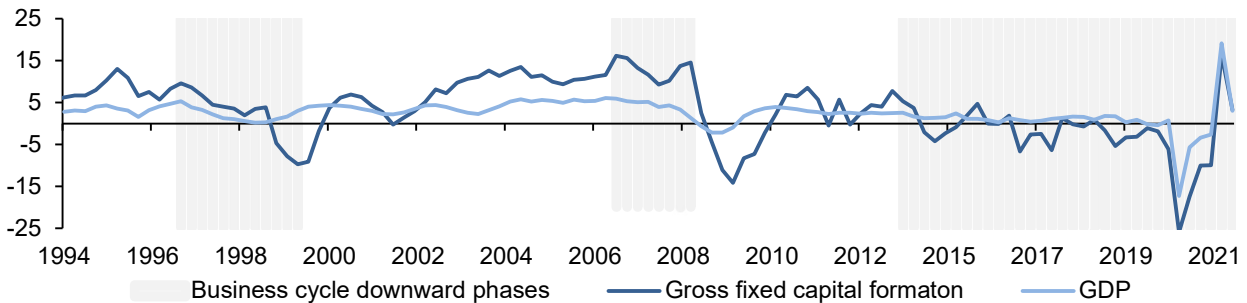
Source: World Bank



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Figure 3: Gross fixed capital formation vs GDP



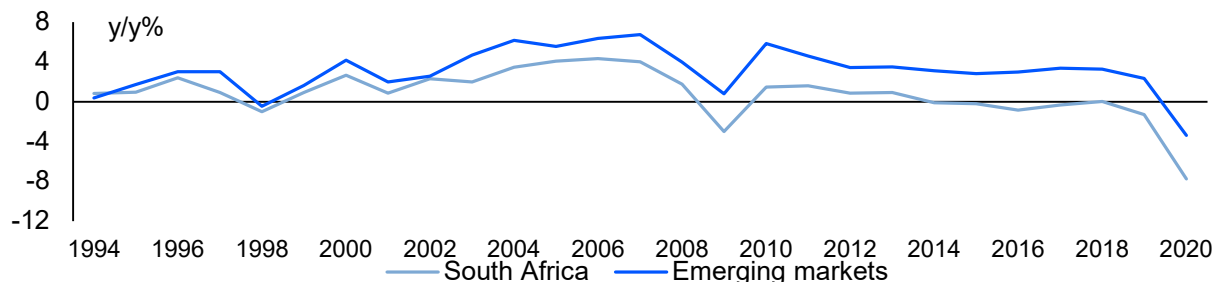
Source: Stats SA, SARB, Investec

in the objectives. Indeed, this year’s SONA comes across as dynamic but covers huge areas of concerns and structural issues in the economy that are to be met with either a plethora of plans and actions, or else further analysis and broad consultations, the latter including replacing the SDR with a permanent grant. However, the SONA also risks being read as a very lengthy wish list and likely with this in mind showed focus remains on the five priorities identified at the 2021 SONA and ERRP, namely: 1) overcoming the COVID-19 pandemic, 2) a massive rollout of infrastructure, 3) a substantial increase in local production, 4) an employment stimulus to create jobs and support livelihoods and 5) the rapid expansion of our energy generation capacity.

However, insufficient focus was paid to how the state was planning on improving the capacity and skills deficit in state departments and parastatals without deeper involvement of private sector skills and capacity than was identified for some areas last night. Indeed, this is likely to be the course of action for other underperforming areas where the state lacks capacity, as the private sector becomes more heavily relied on. This year the address moved swiftly on from discussion on the Covid-19 pandemic after mentioning the key points, including that fully vaccinated adults are at 42% and SA will see the state of emergency lifted this year. Localisation remains on the agenda however, with no explanation of how this will avoid increasing the costs in SA, and avoiding shortages, two key areas which have been of concern.

The same topics of previous years were repeated in the SONA, stretching back to 2016 in table 5 on the next page, but many running longer than that. Little was identified which will give insight into the Budget on 23rd, although the state infrastructure spending plans may be refined. The reduction of fiscal deficits and debt as % of GDP will be key, and in turn also vital for substantially higher and sustained economic growth and employment. The most important outcome of the SONA will remain implementation and government seems to be getting on the right track now by increasing private sector participation and usage of skills.

Figure 4: GDP per capita



Source: IMF



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Figure 5: State of the Nation

<p>Feb 2016 - Zuma</p> <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 	<p>Feb 2017 - Zuma</p> <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 	<p>Feb 2018- Ramaphosa</p> <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
<p>Feb 2019 – Ramaphosa</p> <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 	<p>June 2019- Ramaphosa</p> <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 	<p>Feb 2020- Ramaphosa</p> <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
<p>Feb 2021- Ramaphosa</p> <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 	<p>Feb 2022 – Ramaphosa</p> <ul style="list-style-type: none"> > Remove corruption, strengthen the State > Localisation, reduce business costs > Red tape and regulation reduction > Infrastructure rollout, climate change > Electricity, water, rail, ports > Increased employment, economic growth > Increased private sector participation > Capable state, GBV, NHI, SDR, EWC 	

Source: SONA

Figure 6: Energy Security – ERRP progress report

Action	Reform completed or proceeding well	Some 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



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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

IRP 2019 Implementation Plan IPPP roll-out procurement plan



REIPPPP Bid Window 7 planned in the next Fin Year

Source: SA Government



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Figure 9: 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	■	Establish an independent economic regulator for water	■
Implement emergency procurement of 2 000 MW	■	Finalise the revised raw water pricing strategy	■
Implement procurement of new generation capacity in terms of IRP 2019	■	Establish a National Water Resource Infrastructure Agency	■
Enable municipalities to procure power from independent power producers	■	Address institutional inefficiencies in municipal water distribution	■
Restructuring of Eskom into separate entities for generation, transmission and distribution	■	Corporatise the Transnet National Ports Authority (TNPA)	■
Improve Energy Availability Factor (EAF) to over 70%	■	Improve efficiency of ports	■
Address institutional inefficiencies in municipal electricity distribution	■	Establish Transport Economic Regulator through Economic Regulation of Transport Bill	■
Complete spectrum auction	■	Finalise the White Paper on National Rail Policy	■
Complete migration from analogue to digital signal	■	Implement third-party access to freight rail network	■
Finalise Rapid Deployment Policy and Policy Direction	■	Publish revised Critical Skills List	■
Streamline process for wayleave approvals	■	Review policy framework and processes for work visas	■
Improve water-use license application process	■	Expand visa waivers and explore visa recognition system	■
Revive the Blue Drop, Green Drop and No Drop water quality monitoring system	■	Implement e-Visa system in fourteen countries, including China, India, Kenya and Nigeria	■

Source: SA Government

Reform completed or proceeding well ■
Critical challenges in implementation ■

Some challenges in implementation ■

Figure 10: 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 R90 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



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Figure 11: 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

PTO



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Figure 12: 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

Figure 13: 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 14: 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



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Figure 15: 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 16: 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 17: 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 approved 12 projects with support of R198m (of the R200m budget), thereby sustaining 3,516 jobs.

Source: SA Government

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