SOUTH AFRICAN
ECONOMIC RECONSTRUCTION AND RECOVERY
BUILDING A NEW ECONOMY

Highlights of the Economic Reconstruction and Recovery Plan

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REPUBLIC OF SOUTH AFRICA

2030 NDP

On Thursday, 15 October 2020, President Cyril Ramaphosa presented the Economic Reconstruction and Recovery Plan to the Joint Hybrid Sitting of Parliament.

The Economic Reconstruction and Recovery Plan forms part of extraordinary measures that government is taking – after extensive consultation with the business, labour and community sectors as social partners – to restore the economy to inclusive growth following the devastation caused by the Coronavirus Disease (COVID-19) pandemic.

The objectives of the plan are to:

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

All these objectives are linked to the vision of the country set out in the National Development Plan (NDP).

"We must rebuild, repair and restore our country not after COVID-19, but in the midst of COVID-19. Our country had immense challenges for a number of years before coronavirus. The coronavirus pandemic has worsened these challenges. Poverty and inequality have deepened, threatening many South Africans with hunger and a sudden loss of income. Our economy, like other economies, has contracted sharply, businesses have closed and jobs have been lost.

"Notwithstanding these challenges we were duty-bound to respond as a government and the nation to this pandemic in a way that demonstrated our care for the lives and livelihoods of our people. Our response to the pandemic was therefore three-pronged – firstly, a robust health response, secondly, social and economic relief and now economic recovery.

"As we anticipated the impact of the pandemic on the livelihoods of the people, we responded by implementing a massive social and economic relief package to support companies, workers, households and individuals in distress. We announced a relief package which, with a total value of R500 billion or around 10% of gross domestic product (GDP), is the biggest on the African continent and compares favourably with other countries in the Group of 20.

"Relative to the size of our economy, our social and economic relief response to COVID-19 is roughly on par with countries like Canada, Spain, the United States and Australia. Through the special COVID-19 grants and the top-up of existing grants, close to R40 billion in additional support has been provided directly to more than 17 million people from poor households. Studies have shown that these grants were vital in reducing the impact of the pandemic on levels of poverty and hunger.

"The evidence suggests that the expansion of social protection has kept more than five million people above the food poverty line during the past six months. The Special COVID-19 Grant in particular represents a significant achievement, reaching more than six million unemployed people in a short space of time.

"More than 960 000 companies have benefited through the Unemployment Insurance Fund wage support scheme and through the grants and loans provided by various government departments and public entities.

"More than four million workers have received R49 billion in wage support, helping to protect these jobs even while companies were not able to operate. In addition to those businesses that have received direct support, many more companies have benefited from tax relief measures worth in the region of R40 billion.

"The South African Reserve Bank acted swiftly to support the economy and protect the financial system, reducing interest rates to their lowest level in more than 50 years. With a view to protecting jobs and saving companies that employ our people from bankruptcy, we introduced another important intervention in the form of a R200 billion Loan Guarantee Scheme.

"This scheme has thus far provided R16 billion in low-interest loans to almost 12 000 businesses. Banks have together provided an additional R34 billion in debt relief to individuals and businesses. Nonetheless, this is far short of what is needed and what is possible. We are therefore working with the banks to ensure that more companies are able to access this assistance as they resume their operations, and that the full potential of this scheme can be realised.

"The combined effect of the measures taken by government and its social partners has been to preserve our country's economic capacity and lay the foundation for a more rapid recovery. Despite these vital interventions, however, the damage caused by the pandemic to an already weak economy, to employment, to livelihoods, to public finances and to state-owned companies has been colossal.

"It is an opportunity not only to recover the ground that we have lost over the course of the pandemic, but to place the economy on a new path to growth. We are therefore presenting before this joint sitting of Parliament and the country a reconstruction and recovery plan to drive growth that is inclusive and transformative." – ***President Ramaphosa, Parliament, Thursday, 15 October 2020.***

BACKGROUND

The South African Economic Reconstruction and Recovery Plan builds on the common ground established by the social partners – government, labour, business and community organisations – through intensive and detailed consultations over the last few months.

It is informed by the work of Cabinet's Economic Cluster working together with government departments and Cabinet itself and draws on the contributions of the leading economists who make up the Presidential Economic Advisory Council.

The work that government has embarked upon to rebuild the economy after the devastation of COVID-19 is guided by the vision to 2030 of the NDP and the programme that was outlined at the beginning of the sixth democratic administration, where government set out the key priorities to drive change and transformation in South Africa.

Job creation

The creation of jobs is at the centre of the South African Economic Reconstruction and Recovery Plan – to get people back into the jobs they lost in the pandemic. Government is determined to create more employment opportunities for those who were unemployed before the pandemic or who had given up looking for work.

This means unleashing the potential of the economy by, among others, implementing necessary reforms, removing regulatory barriers that increase costs and creating inefficiencies in the economy, securing energy supply, and freeing up digital infrastructure.

This plan directly responds to the immediate economic impact of COVID-19 by driving job creation and expanding support for vulnerable households. Government aims to do this primarily through a major infrastructure programme and a large-scale employment stimulus, coupled with an intensive localisation drive and industrial expansion.

The interventions outlined in this plan will:

- 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 four 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 exports; and
- resuscitate vulnerable sectors such as tourism, which have been hard hit by the pandemic.

The Economic Reconstruction and Recovery Plan recognises that to support a rapid economic rebound, South Africa needs to focus on a few high-impact interventions and ensure they are executed swiftly and effectively.

"According to the modelling done by National Treasury, the implementation of this plan will raise growth to around 3% on average over the next 10 years. Our recovery will be propelled by swift reforms to unleash the potential of the economy, and supported by an efficient state that is committed to clean governance. It will be transformative. It will be inclusive. It will be digital, green and sustainable, and it will invest in our human capital to lay the foundations for the future." – ***President Ramaphosa, Parliament, Thursday, 15 October 2020.***

The plan has four priority interventions:

FIRST PRIORITY INTERVENTION: INFRASTRUCTURE

Government is embarking on a massive roll-out of infrastructure throughout the country.

Infrastructure has immense potential for stimulate investment and growth, to develop other economic sectors and create sustainable employment both directly and indirectly. It has developed a robust pipeline of projects that will completely transform the landscape of cities, towns and rural areas.

By the end of June 2020, there were 276 catalytic projects with an investment value of R2.3 trillion. Moreover, 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.

Government is 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 for the benefit of the people.

Government will focus on critical network infrastructure such as ports, roads and rail that are key to the economy's competitiveness. It has taken steps to remove the constraints that have hampered infrastructure delivery in the past.

Infrastructure SA and the Infrastructure Fund

To ensure that there is active implementation of the infrastructure built programme, government has established Infrastructure SA and the Infrastructure Fund with the capacity to prepare and package projects.

This approach is already encouraging private investors to help government build 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. Several projects are already in construction.

These include human settlements projects such as Matlosana N2 in North West, Lufhereng in Gauteng, Greater Cornubia in KwaZulu-Natal and Vista Park in Free State. Together these represent an investment value of R44.5 billion.

In total, government has gazetted 18 housing projects to the value of R130 billion, which together will produce more than 190 000 housing units.

Transport and road infrastructure

Transport projects currently under construction include the N1 Polokwane and N1 Musina with a total value of R1.3 billion.

Within the next six months, government will:

- embark on the modernisation and refurbishment of the commuter rail network, include the Mabopane Line in Tshwane and the Central Line in Cape Town;
- expand the national rural and municipal road rehabilitation and maintenance programme using labour-intensive methods;
- fast-track the implementation of gazetted strategic infrastructure projects through the approval of credit-enhancing instruments, provision of bulk infrastructure, and speedy processing of water use licences, environmental impact assessments and township establishment; and
- adapt the infrastructure procurement framework to enable public-private partnerships and unlock new funding.

SECOND PRIORITY INTERVENTION: ENERGY GENERATION

The second priority intervention is to rapidly expand energy generation capacity. Government is accelerating the implementation of the Integrated Resource Plan to provide a substantial increase in the contribution of renewable energy sources, battery storage and gas technology.

Power generation capacity

This should bring around 11 800 megawatts (MW) of new generation capacity into the system by 2022. More than half of this energy will be 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 12 months. The process to implement Bid Window 5 of the renewable energy programme has begun. Government is taking further steps to enable power generation for own-use.

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.

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, government aims to achieve sufficient, secure and reliable energy supply within two years.

THIRD PRIORITY INTERVENTION: EMPLOYMENT

The third key intervention is an employment stimulus to create jobs and support livelihoods. Large-scale job interventions driven by the State and social partners have proven effective in many countries that have faced devastation from wars and other crises.

Employment stimulus

Government has committed R100 billion over the next three years to create jobs through public and social employment as the labour market recovers, with over 800 000 employment opportunities created in the months ahead.

The employment stimulus is focused on those interventions that can be rolled out most quickly and have the greatest impact on economic recovery. At the heart of the employment stimulus is a new, innovative approach to public employment which harnesses the energies and capabilities of the wider society.

It uses the considerable creativity, initiative and institutional resources that exist in society to respond to local community priorities. These activities will be locally driven, allowing participants to earn an income while contributing to their community. Traditional forms of public employment are being scaled up and new forms of public employment created to meet the immediate need.

Government will expand the natural resource management programmes such as Working on Fire and Working for Water.

It will create 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 teaching and enabling learners to catch up from time lost because of COVID-19.

More than 60 000 jobs will be created for labour-intensive maintenance and construction of municipal infrastructure and rural roads. To support the healthcare system, an additional 6 000 community health workers and nursing assistants will be deployed as government proceeds with the implementation of the National Health Insurance.

Public employment will be expanded at the provincial and city level, contributing to cleaner, greener and safer public spaces and improved maintenance of facilities. In all of these programmes, government will ensure that recruitment is fair, open and transparent, and that opportunities are advertised widely.

To assist young people who are unemployed to access these and other opportunities, government will soon launch the national Pathway Management Network as a platform for recruitment and other forms of support. The employment stimulus includes direct support for livelihoods and the protection of jobs in vulnerable sectors.

Support is being provided to more than 100 000 early childhood development practitioners and to 75 000 small-scale farmers whose production was disrupted by the pandemic.

Grant-making programmes are being expanded in the creative, cultural and sports sector, and funding has been allocated to protect jobs in cultural institutions such as museums and theatres.

More than 40 000 vulnerable teaching posts are being secured in schools which have lost income from fees.

"The speed and urgency with which we are expanding employment programmes demonstrates our commitment to support those who are without work. As these and other recovery measures are being rolled out, we need to do everything in our means to provide support to those in society who continue to face hunger and distress." – ***President Ramaphosa, Parliament, Thursday, 15 October 2020.***

The implementation of the employment stimulus has already commenced. Each of these work opportunities is fully funded and ready for implementation.

Special COVID-19 Grant

Government will be extending the Special COVID-19 Grant by a further three months to maintain a temporary expansion of social protection and allow the labour market sufficient time to recover.

FOURTH PRIORITY INTERVENTION: REINDUSTRIALISING THE ECONOMY

The fourth key intervention is a drive for industrial growth. This is in the context of a steady decline of the manufacturing base over many years. To place the economy on a new trajectory, government will support a massive growth in local production and make South African exports much more competitive.

Government will build on the work that was being done in several areas before the pandemic struck. Through the first two South African investment conferences, government managed to secure 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 that is essential to mining, manufacturing, telecommunications and agriculture.

In 2019, South Africa recorded its first trade surplus with the European Union, driven by record exports of manufactured goods. The country produced and exported more motor vehicles last year than in any previous year.

The agricultural sector has continued to grow, with a bumper maize harvest and the expansion of many high-value crops. Government has positioned South Africa as one of the most attractive destinations in the world for global business services.

There are huge opportunities that government can seize through effective partnerships, targeted deployment of resources and the right policies.

South Africa currently imports around R1.1 trillion of goods, excluding oil, each year. If the country were to manufacture just 10% of these goods locally, it is estimated that it could add two percentage points to the annual GDP.

The rest of Africa currently imports R2.9 trillion worth of manufactured goods from outside the continent each year. If South Africa were to supply just 2% of those goods, it would add 1.2 percentage points to the annual GDP. And if government succeeds in reaching the target of R1.2 trillion in new investment by 2023, it could add around 2.5% to the annual GDP.

"It is to realise this huge potential that the social partners have agreed to prioritise a range of consumer and industrial products for local procurement." – ***President Ramaphosa, Parliament, Thursday, 15 October 2020***.

Together with business and labour, government will soon be publishing localisation targets for goods in areas like agro-processing, healthcare, basic consumer goods, industrial equipment, construction materials and transport rolling stock.

'Buy Local' campaign

Government will enforce government policies to ensure that all public infrastructure projects use locally made materials – including steel products, cement, bricks and other components. It will support the efforts by organised business, and is planning to establish supplier development programmes for large companies and in key sectors.

Government welcomes the commitment by trade unions to ensure their investment companies increasingly invest in companies that buy from local manufacturers. The National Economic Development and Labour Council (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.

The social partners have also agreed to support a massive 'buy local' campaign for this festive season, with a particular call to support women-owned enterprises, small businesses and township enterprises.

Government calls on every South African to contribute to the recovery effort by choosing to buy local goods and support local businesses.

This is one way that each and every one of us can contribute to building a new economy. A vital part of growing the industrialisation effort are the sectoral masterplans, which bring all partners together to agree on specific measures to improve productivity, investment and competitiveness. There are currently masterplans in the automotive, clothing and textile, poultry and sugar sectors.

Government is working to finalise masterplans in the digital economy, forestry, agriculture and agro-processing, creative industries, aerospace and defence, renewable energy, steel and metal fabrication and furniture.

A central pillar of this work is the transformation of the economy, creating space for new black and women entrants, and take deliberate steps to change ownership and production patterns. In promoting localisation and industrialisation, government will be focusing in particular on the development of small, medium and micro enterprises (SMMEs).

This will take place alongside the development of rural and township economies. There are between 2.4 and 3.5 million SMMEs in the country, with the largest number in the informal and micro sectors. They offer the greatest untapped potential for growth, employment and fundamental economic transformation.

Through a focused support programme, government will support SMME participation in the manufacturing value chain. This will include the targeting specific products for manufacture by SMMEs for both the domestic market and for export.

It will also 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.

"Economic growth cannot be realised without the inclusion and active participation of women." – ***President Ramaphosa, Parliament, Thursday, 15 October 2020.***

Supporting women-empowered companies

Among other outlined measures, government will be working with women-empowered companies to progressively reach the target of directing at least 40% of procurement spend to such enterprises. This is also a vital part of the programme to end gender-based violence and femicide, which is fuelled by gender inequality, particularly economic disparities between men and women and gender non-conforming persons.

In addition to these priority interventions, government will create enabling conditions for a competitive, inclusive and fast-growing economy. Government is fast-tracking reforms to reduce the cost of doing business and lower barriers to entry. The current time frames for mining, prospecting, water and environmental licences will be reduced by at least 50% to facilitate new investment.

The Petroleum Resources Development Bill will be finalised to unlock the country's enormous untapped potential in upstream oil and gas reserves. Although international tourist travel is likely only to recover in the medium term, government efforts are now focused on implementing an efficient e-visa system and extending visa waivers to new tourism markets.

To support tourism over this peak tourism season, government will shortly be publishing 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.

Government urges South Africans to continue to explore their country in support of the tourism recovery as one of the hard-hit sectors by the COVID-19 pandemic. It will shortly publish the revised list of critical skills, occupations in high-demand and priority occupations to enable highly skilled individuals to be speedily recruited, and expedite the issuing of special skills visas to support local firms.

Government is promoting greater private sector participation in rail, including through granting third-party access to the core rail network and the revitalisation of branch lines. It will establish a single economic regulator in transport as a matter of urgency to promote competition and efficiency. By mid-October 2020, work was underway to improve the efficiency and capacity of the ports of Durban, East London, Ngqura and Cape Town.

Reduction of data costs for firms and households

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 the Independent Communications Authority of South Africa and will promote transformation, reduce costs and increase access. Government is developing innovative new models to provide low-income households with access to affordable, high-speed internet through connection subsidies for broadband and support for public WiFi hotspots.

Action against crime and corruption

Decisive action against crime and corruption is essential to inclusive growth. Criminal elements in South Africa have taken to the illegal occupation of construction sites and soliciting protection money from businesses. To combat these practices, a Joint Rapid Response Team at a national and provincial level will respond to the problem of violent disruptions at construction sites and other business activities.

Well-functioning revenue service

A well-functioning revenue service is central to the economic recovery programme. The turnaround at the South African Revenue Service (SARS) has begun in earnest, and significant areas of tax evasion and tax fraud have already been identified. SARS is rebuilding its capacity to reverse the decline, improve compliance and recover lost tax revenue.

Government is working to clamp down on the illegal economy and illicit financial flows, including transfer pricing abuse, profit shifting, value-added tax and customs duty fraud, under-invoicing of manufactured imports, corruption and other illegal schemes. The decisive action taken to prevent, detect and act against COVID-19-related corruption will strengthen the broader fight against crime.

The Special Investigating Unit (SIU) has made significant progress in probing allegations of criminal conduct in all public entities during the national state of disaster. The work of the SIU continues and the outcomes of the investigations will be made public once all the due process have been completed.

Strengthening law-enforcement

Law-enforcement agencies are being strengthened and provided with adequate resources to enable the identification and swift prosecution of corruption and fraud. Government wishes to assure all South Africans that there will be no political interference with the work of law-enforcement agencies.

It will strengthen the framework to ensure that political office-bearers at all spheres of government do not do business with the State. Government welcomes the agreement at NEDLAC that all social partners will act decisively against corruption and fraud in their ranks.

The Public Procurement Bill will be fast-tracked and transversal contracts put in place for large-volume items. Government will soon finalise and begin implementation of the new National Anti-Corruption

Strategy, which will improve transparency, monitoring and accountability in government and across society.

Through these actions, it will ensure that every Rand of public expenditure is spent productively to benefit the people and support their recovery effort. 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.
Government cannot sustain the current levels of debt, particularly as increasing borrowing costs are diverting resources that should be going to economic and social development. That is why it is urgently implementing the economic reforms that it has agreed with the social partners at NEDLAC to unlock investment, stimulate economic activity and generate revenue for the fiscus.

In reducing its expenditure, government is ensuring that funds are reprioritised towards poverty alleviation, infrastructure investment, support for economic development, and fighting crime and corruption. It is also reducing the reliance of state-owned enterprises (SOEs) on the fiscus by intensifying efforts to stabilise strategic companies, accelerating the rationalisation of SOEs and, where appropriate, identifying strategic partners.

It is clear that implementation is going to be the key in giving effect to this recovery and reconstruction plan. This requires a more effective and efficient state, with greater coordination and integration between national, provincial and local government. Through the District Development Model, government is beginning to see progress in the alignment of the work of the different spheres.

To ensure focused and urgent implementation of the plan, dedicated capacity is being created in The Presidency to drive progress, and support departments and agencies in the implementation of their mandate.

Operation Vulindlela

To fast-track the delivery of economic reforms, Operation Vulindlela will be implemented as a joint initiative of The Presidency and National Treasury reporting directly and regularly to the President.

This initiative will work closely with Cabinet's Economic Cluster to ensure that the priority interventions and key enabling reforms are implemented rapidly and effectively and that those responsible for their implementation are held accountable. A National Economic Recovery Council comprising relevant members of Cabinet will provide political oversight and enable rapid decision-making.

The Department of Planning, Monitoring and Evaluation remains the backbone of government reporting on the five-year Medium-Term Strategic Framework. This will take place alongside the implementation arrangements which have been agreed among the social partners at NEDLAC.

Government will release the NEDLAC Social Partner Economic Recovery Action Plan and the Social Compact for Energy Security. These contain very significant measures that government will be working with social partners to implement.

A Presidential Working Committee, chaired by the President, will meet regularly to receive reports from each social partner on the extent to which it has implemented its commitments.

It will be supported by an Economic Recovery Leadership Team and working groups on particular areas of the recovery action plan.

"In the aftermath of a fire, green shoots begin to emerge. The ashes enrich the soil, and new life takes root to replace what was lost. Our country is emerging from one of the most difficult periods in living memory.

"South Africans have suffered and have made great sacrifices, sharing in this hardship with people all over the world. But as South Africans, we have a deep reservoir of resilience to draw upon. We have endured much, and have always emerged stronger and more united. We 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 shall not rest until we have fulfilled the potential of our country.

"We shall not rest until we have built a new economy based on fairness, justice and equality. This is the task of our generation: to renew, to repair, to rebuild. We dare not take a moment to pause. Together, we will build a new economy. The time is now. *Ke nako*." – ***President Ramaphosa, Parliament, Thursday, 15 October 2020***.

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