Post COVID-19

A New Inclusive Economic Future for South Africa
Delivering an Accelerated Economic Recovery Strategy

10 July 2020
A New Inclusive Economic Future: The COVID-19 crisis and the partnership created to respond, provides an opportunity to rethink SA’s future

COVID-19 has had a devastating impact on SA’s already weak economy

The outlook is extremely challenging
- Estimated funding shortfall of R3.4 trillion over the next 3 years
  - Budget deficit and SOE shortfall of R2.4 trillion
- Private sector funding requirement adding c.R1 trillion

We need a compelling and stable environment to attract investment and drive growth & employment

Restoring business and consumer confidence is key to:
- Accelerate GDP growth
- Protect and add jobs

The private sector can help to:
- Access local and foreign investment
- Implement national projects
- Create new businesses and jobs
- Grow tax base to strengthen the fiscus

Key success factors that will inform SA’s future:
- A shared vision with agreed targets
- Strong leadership
- A focus on inclusive growth and jobs
- Increase impetus to sustainable B-BBEE and Gender Equality
- Regulatory certainty and consistency
- Public / private sector collaboration

Requires a social and economic compact between all partners with the focus on shared prosperity

Working together to build the economy and tackle poverty, inequality and unemployment

SA in 2020
- GDP outlook $330bn
- Debt:GDP 82%
- S&P Rating BB-
- Gini co-efficient 63
- Unemployment 29%
- Business confidence 5/100
- Global Competitiveness 60/141
- Ease of doing business 84/190

SA in 2030
- GDP outlook $550bn
- Debt:GDP 60%
- S&P Rating BBB+
- Gini co-efficient 43
- Unemployment 15%
- Business confidence 70/100
- Global Competitiveness 25/141
- Ease of doing business 20/190

Building a bridge to recovery beyond COVID-19

We need an unambiguous and compelling new narrative focused on inclusive economic growth and investment to persuade capital providers to invest in South Africa
We need to work together to tackle constraints and challenges and deliver an inclusive and accelerated economic recovery strategy

South Africa will have to compete for capital against all other emerging markets

Fiscal discipline essential to reduce cost of capital

We need an unambiguous and compelling new narrative focused on inclusive growth and investment to persuade capital providers to invest in South Africa

Improving SA’s global competitive position is key
Key Priorities: We need national initiatives and policy interventions that will create certainty and enable more inclusive growth

Business is ready to help address the economic challenges in South Africa working in partnership with Government, labour and communities

The State should guide strategic initiatives and provide an enabling environment with policy certainty and consistency

Business should focus on sourcing skills and capital and investing in projects and initiatives to create growth and jobs

<table>
<thead>
<tr>
<th>Job enablers &amp; activators</th>
<th>Projects &amp; Initiatives</th>
<th>Policy focus areas</th>
<th>Policy certainty</th>
<th>Inclusive growth</th>
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<tbody>
<tr>
<td>ENERGY SECURITY AND GREEN ENERGY TRANSITION</td>
<td>Secure and affordable electricity supply</td>
<td>Tackle crime &amp; corruption</td>
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<td></td>
<td>Fast track green economy</td>
<td>Improve ease of doing business</td>
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<td>✓</td>
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<td></td>
<td>Implement Transnet’s road to rail strategy</td>
<td>Mobilise large scale infrastructure projects</td>
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<td></td>
<td>Ports expansion</td>
<td>SOE reform</td>
<td>✓</td>
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<td>Road infrastructure</td>
<td>Clarity on land reform</td>
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<td>Full spectrum utilisation</td>
<td>Education and skills development</td>
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<td>E-learning &amp; digital health platforms</td>
<td>Review trade policies</td>
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<td>Maximise commercial agricultural output</td>
<td>Align national energy strategy across all key plans</td>
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<td>Import replacement focus</td>
<td>Telecomms: maximise connectivity</td>
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<td></td>
<td>Increased financial inclusion and lower cost of capital</td>
<td>Financial inclusion and fiscal support</td>
<td>-</td>
<td>✓</td>
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**Immediate actions:** that will improve consumer and business confidence and require no policy changes

| Emergency Budget | 1. **A “Zero-based” reconstruction budget** – clear messaging of a commitment to fiscal discipline aimed at reducing funding cost |
| SMMEs | 2. **Ensure Government and big business pay SMMEs on time** – this is critical for cash flow of all SMMEs |
| Energy & Water | 3. **Support additional lending** – amendments to the SMME Loan Guarantee Scheme and potentially increase size of programme |
| Mining | 4. **Mobilise immediately business mentorship / support programmes modelled on TAMDEV** |
| Construction | 5. **Fast-track construction of additional capacity** – finalise selection of Round 5 bidders, address obstacles to self-generation including wheeling, and commence IRP bi-annual review |
| Manufacturing | 6. **An industry / Government workshop to align on next steps** – agree an industry compact to enable increased investment |
| Transport | 7. **Use SIDSSA platform to finalise project pipeline** – need to get key infrastructure projects to a point of bankability |
| Agriculture | 8. **Promote and use the Proudly South Africa platform** – to encourage and boost demand for locally produced goods, incorporate Public Private Partnership leveraging of PPE success |
| Financial Services | 9. **Introduce lower port fees on exports** – to reduce the cost of exporting SA products and stimulate increased exports |
| Telecommunications | 10. **Backstop emergency farm financing** by providing government **support to the Land Bank** and grants, equity or technical support to framers |
| Tourism & Leisure | 11. **Private/Public partnership iro network industry infrastructure** – coordinate roll out and funding infrastructure investment |
| Education | 12. **Resource ICASA to enable the completion of the spectrum auction**, add licencing of Wireless Open Access Network (WOAN) and re-energise digital migration to free up spectrum |
|  | 13. **Stimulate domestic and regional tourism** – need dedicated marketing and promotion campaigns and opening of flights |
|  | 14. **Gain market share on international restart via protocols and new source market approach** – accelerate deployment of eVisas |
|  | 15. **Fast-track digital migration of degrees and school syllabuses** – early approval of migrated content |

*We need decisive leadership, together with appropriate capacity and expertise, to implement these immediate actions*
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Section 1

An opportunity to reimagine the South African economy and reset the trajectory

1. An opportunity to reimagine the South African economy and reset the trajectory

2. Actionable initiatives to drive investment, job creation and inclusive growth

3. Funding, cost of capital and fiscal considerations

4. Working together to ensure an accelerated economic recovery and a shared national vision

5. Sector and policy analysis underpinning actionable initiatives
The circumstances facing South Africa have changed dramatically even though the issues are similar. COVID-19 has had a devastating impact on the South African economy adversely affecting both lives and livelihoods. Q2 GDP has declined by 30% and over 1 million jobs have been lost, which demands a coordinated and bold response. An opportunity exists to reset the course for South Africa but this requires decisive leadership and urgent delivery. To build a better South Africa requires a shared national vision with a focus on inclusive growth and job creation. SA’s economic strategy urgently requires a new social and economic compact among all role players to deliver decisive leadership, inclusive growth and prosperity.
South Africa’s economy was already weak at the start of 2020

South Africa started the year in a technical recession after a 0.8% q-o-q decline in Q319 and a 1.4% q-o-q decline in Q42019, an expected fiscal deficit of 6.8% and public debt ratio of 65.6%

Source: SARB, National Treasury
The economic impact of COVID-19 exacerbates the challenges with B4SA’s own economic analysis being consistent with the SARB

**Q2 GDP growth expected to decline 30.6%**

**Over 1.1 million job losses in the last month**

**Declines expected across nearly all sectors**

**GDP not expected to return to original trajectory**

**Sources:** Stats SA and SARB

**Potential GDP**

**Sources:** SARB

**Total Employment**

**Sources:** SARB

**Direct impact of lockdown on Q2 GDP Growth**

**Sources:** SARB
In just a few months, COVID-19 has unravelled much of the progress made over the last 25 years and exacerbated the weakness of the last 10 years

From 1994 to 2008 South Africa thrived
- GDP doubled in US$ terms to $287bn
- Debt:GDP almost halved to 27.8%
- SA secured an Investment grade rating in 1999
- Foreign Direct Investment grew 30 fold to $12bn
- Tax revenues grew by 550%
- However growth was not inclusive as unemployment remained a problem and the Gini coefficient grew

Over the last 10 years South Africa has stumbled
- Debt:GDP has more than doubled record levels
- SA's Rating is now lower than in 1994
- Foreign Direct Investment has declined
- Unemployment and inequality continue to rise
- South Africa entered a recession prior to COVID-19

COVID-19 unravels much of progress since 1994
- GDP is expected to decline by more than 10%
- Debt:GDP expected to exceed 100% by 2023
- All key metrics have declined in the last 3 months

South Africa needs to embrace a more accelerated growth path
- Requires strategic choices and courageous leadership
The pandemic has highlighted the need to re-ignite the economy and offer better opportunities to a larger share of our people.

1. SA has the highest Gini coefficient with most of our talent trapped in poverty

   - South Africa is consistently ranked as one of the most unequal countries in the world
   - Has its roots in the history of colonisation and apartheid
   - In addition to being extremely high, inequality appears to be remarkably persistent
   - Despite B-BBEE legislation, until there is domestic economic growth the challenges of inequality stemming from an unjust past will continue
   - Sustainable economic growth is the key to addressing inequality and enhancing prosperity

2. The education system is simply not delivering

   - Per capita, South Africa spends more on education than most advanced economies yet its primary education system was rated 126th out of 138 countries (WEF 2016-2017)
   - After five years of schooling, about 50% of South African pupils cannot do basic calculations
   - 50% of children do not reach matric
   - South Africa has 1 engineer for every 3 200 people (China – 1:130; Europe – 1:250; Australia 1:450)
   - 70 000 positions available in IT; only 17 000 learners have qualified over the last 10 years

3. The unemployment rate is expected to increase to c.35%

   - The 2020 unemployment rate will be driven by the number of out-of-job South Africans who consider themselves unemployed vs discouraged
   - Modelling suggested that a 1% increase/decrease in real GDP growth leads to a 0.91% increase/decrease in employment
   - Even in the upside scenario, GDP is only expected to reach pre-COVID 2019 levels after 2 years
   - Current labour laws often deter businesses from employing workers, particularly given the uncertain economic outlook
We must address key issues which undermine our relative competitiveness and impede our growth potential

South Africa’s growth potential has been on a downward trend ... driven primarily by a drop in total factor productivity growth

South Africa’s growth potential has been on a downward trend ... driven primarily by a drop in total factor productivity growth. South Africa’s growth potential has been on a downward trend ... driven primarily by a drop in total factor productivity growth (ranks 60 out of 141).

Factors relating to competitiveness and ease of doing business that undermine our growth potential

A country’s potential growth is a combination of productivity growth and the accumulation of both productive investment and human capital.

Ease of Doing Business (World Bank)

Key concerns include:
- Security (135th)
- Labour market flexibility (111th)
- Hiring foreign labour (123rd)
- Poor Transparency (62nd)
- Government adaptability to change (100th)
- Low business dynamism (60th) is inhibited by:
  - Insolvency regulation
  - Administrative burdens to start a business
  - Ease of doing business

Key areas of concern include:
- Electricity supply
- Difficulty starting a new business
- Dealing with construction permits
- Registering property
- Credit availability
- Cross border trade red tape
- Enforcing contracts

<table>
<thead>
<tr>
<th>Key Challenges</th>
<th>Shared Vision</th>
<th>Key Risk Factors</th>
<th>Partnership</th>
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<tr>
<td>Impact of COVID-19</td>
<td>Reimagine SA</td>
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<table>
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<td>Getting Credit</td>
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<td>Protecting Minority Investors</td>
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<td>Paying Taxes</td>
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<td>Trading across Borders</td>
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<td>Enforcing Contracts</td>
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<td>Resolving Insolvency</td>
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<tr>
<td>Total score</td>
<td>35</td>
<td>84</td>
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</table>
Guiding principles for B-BBEE and Inclusive Growth

• B4SA is fully committed to accelerated and sustainable B-BBEE

• However, the pace and depth of B-BBEE to date has been insufficient leading to a narrow base of beneficiaries

• Full and equitable participation by a broad base of black people in all aspects of the South African economy, with an emphasis on those that are most disadvantaged (women, youth, disabled, rural, poor) is critical

• Business’ ability to transform rapidly is enhanced by Government creating the enabling conditions for inclusive growth

• Corruption and maladministration will undermine B-BBEE and inclusive growth unless decisively addressed

A social and economic compact between all partners

• A collaborative, partnership approach between business, Government, organised labour and other social partners is needed

• Should be proactive and take into account the diversity and cyclicality of business sectors, formats, and relative sizes

• A substance over form approach, focusing on interventions to build social cohesion and ensuring a transformative culture within business

• Recalibrating and accurately measuring economic transformation is necessary to determine the current status and progress

Key recommendations to accelerate B-BBEE and transformation whilst also achieving accelerated economic growth and inclusivity

1 Enable a transformation culture in business
   • Work with business to build strategic partnerships to deliver transformation
   • Develop a research base that demonstrates the economic value of diversity

2 Policy consistency & simplification
   • Simplify B-BBEE Codes and ensure alignment with sector Charters
   • Identify key barriers to transformation and work with business to address

3 Selective SMME amendments and/or simplification
   • Review and simplify the application of certain regulations to SMMEs

4 Zero-tolerance policy on corruption and maladministration
   • Address procurement corruption in SOEs and ensure accountability for public funds allocated to supporting black and small business development

5 Skills development and employment promotion
   • Skills - leverage ISFAP and implement a widespread mentorship programme
   • Employment – leverage the YES initiative and other contributors to jobs

6 A mechanism to clearly measure Economic Transformation
   • Business to work with social partners to ensure a transparent measurement system and assess progress on an annual basis
   • Introduce into the socio-economic regulatory impact assessment process, specific considerations for the impact on economic development and SMMEs
To build a better South Africa requires a shared national vision with a focus on inclusive growth and job creation and a culture of delivery

### Key Opportunities presented by the crisis

- **A new social and economic compact focused on inclusive growth**
  - Business, Government, Labour and Communities have worked together to tackle the COVID-19 crisis
  - Must build on recent positive cooperation to now tackle SA’s economic issues

- **Infrastructure investment**
  - There is a strong pipeline of projects across network industries that must be prioritised and funded
  - Implementation must be accelerated

- **Rapid acceleration of SMMEs**
  - An opportunity to simplify regulations, review supply chains and tackle market concentration
  - Focus must be on improving SA’s:
    - Global Competitiveness ranking
    - Ease of Doing Business ranking

- **Unlocking sector opportunities**
  - Highly motivated and capable sector leaders have come together to formulate strategies
  - Business is ready to partner Government

- **Digital economy acceleration**
  - Can leverage SA’s strong ICT infrastructure to embrace digital work, health and learning
  - Digital migration and spectrum allocation is key

- **A new global paradigm**
  - SA is not alone, the whole world is embracing changes
  - Nations that adapt quickly will find new opportunities, but SA must compete for capital

### Key Constraints and Challenges to inclusive growth

- **Inequality & transformation**
  - Ongoing changes to legislation inhibits investment
  - Regulations should enable incremental new investment

- **State capability & capacity**
  - State capacity has not been as effective as it should
  - Public/private partnership will enhance capability

- **Corruption & crime**
  - Has inhibited local and foreign direct investment
  - Must urgently implement a zero tolerance policy

- **Inefficient and redundant SOEs**
  - Must urgently address the role of SOEs as sector enablers
  - Inability to supply sufficient and uninterrupted electricity is a major impediment to growth and confidence

- **Funding constraints**
  - COVID-19 has diminished global availability of funding
  - Unsustainable government finances lead to a high cost of capital meaning long term projects can’t be funded

- **Policy certainty**
  - Economic Transformation is a national imperative
  - Simplify B-BBEE Codes and ensure alignment with sector Charters to attract investors

- **Innovation & entrepreneurship**
  - Enablers to create Entrepreneurs and support innovation
  - SMMEs drive the greatest number of new jobs and taxes

- **Education outcomes**
  - A fundamental rethink of education is essential
  - Should encourage business to invest more in upskilling

- **Health & wellness**
  - Covid-19 has highlighted public healthcare issues
  - Partner the private sector and embrace digital tools
Business is the primary contributor to the economy and is well positioned to do more to assist with the key challenges.

Private sector contribution to SA

How Business can assist with Constraints & Challenges

- **Inequality & transformation**
  - Increased commitment to economic and social transformation
  - Consider a new narrative based on shared prosperity

- **State capability & capacity**
  - Business is ready to partner on delivery of key infrastructure projects
  - Business can assist with skills and expertise as demonstrated by B4SA

- **Corruption & crime**
  - Sector initiatives to tackle crime in SMMEs, mining and construction
  - Coordinate with the financial services sector to address corruption

- **Inefficient and redundant SOEs**
  - Need to close and/or rationalise certain SOEs to enhance performance
  - Private sector participation will increase competition and efficiency

- **Funding constraints**
  - Able to source private capital for economically viable projects
  - Have the skills and expertise to source international capital

- **Policy certainty**
  - Help Government set policy to improve SA’s Global Competitiveness ranking
  - Simplify B-BBEE Codes and ensure alignment with sector Charters

- **Innovation & entrepreneurship**
  - Focus on improving SA’s Ease of Doing Business ranking
  - Alignment across existing Innovation & Entrepreneurship ecosystems

- **Education outcomes**
  - Partner Government to transform education with a focus on workforce upskilling

- **Health & wellness**
  - Partner with the public sector to embrace wellness technology tools and preventative care models
Africa presents opportunities for greater regional cooperation as well as increased localisation via the accelerated roll out of AfCFTA

Full impact of COVID-19 in Africa only expected in H2 2020
- South Africa will have an important role to play in the region providing healthcare support, supplying PPE and offering skills and expertise
- To accelerate the economic recovery in the region, South Africa should establish a focused program to:
  - accelerate exports of high priority manufactured products to targeted countries
  - ensure an expedited penetration of the African Continental Free Trade Area ("AfCFTA")

Opportunities to develop new AfCFTA corridors

1. Sea Corridors: Cape Town - Walvis Bay – Lagos - Accra
   - Aims to unlock trade with West Africa’s biggest economies
   - Reduce cargo time-at-sea by 30+ days compared to European Imports

2. Road/Rail Corridors: Johannesburg – Lusaka – Dar es Salaam – Nairobi
   - Aims to unlock trade with East Africa’s biggest economies
   - Road freight 30+ days shorter than time-at-sea from Asian Imports

The Maputo Corridor Initiative
- The Maputo corridor connects South Africa's industrial and commercial heartland with its nearest deep water port in Maputo via the N4 highway
- There are opportunities that should be accelerated including:
  - increasing the export of agricultural products and mining output from Limpopo and Mpumalanga
  - building a LNG import terminal and leveraging the ROMPCO pipeline
B4SA has completed an extensive risk analysis which highlights the need to work together in several key areas.

- The economic crisis is likely to eclipse the health crisis in the coming year.
- A number of key risks exist, with the greatest being the potential for social unrest due to the loss of livelihoods.
- The risks identified by B4SA can be mitigated by working together to develop a coordinated economic response.
- B4SA has identified specific opportunities by sector to help ensure South Africa can come together to focus on an accelerated economic recovery.
- B4SA has demonstrated the potential of mobilising the private sector to collaborate with the State, including supporting with capacity and funding constraints.
The role of SOEs: The success of SA is interlinked to the success of SOEs which are over-leveraged and have consistently under-delivered

<table>
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<th>% of total SOE Debt</th>
<th>67</th>
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<th>7</th>
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<th>&lt;1</th>
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Net Debt to NAV
- Eskom: 3.0
- Transnet: 0.9
- SANRAL: 0.2
- PRASA: 0.1
- ACSA: 0.3
- Rand Water: 0.2
- PetroSA: 3.8
- SAA: n/a
- SAPO: 0
- Denel: n.m

Net Debt to EBITDA
- Eskom: 14.4
- Transnet: 3.8
- SANRAL: 6.1
- PRASA: 0.3
- ACSA: 2.0
- Rand Water: 1.1
- PetroSA: 6.2
- SAA: n/a
- SAPO: 0
- Denel: 1.8

Sustainability of debt
- Eskom: ✗
- Transnet: ✗
- SANRAL: ✗
- PRASA: ✓
- ACSA: ✓
- Rand Water: ✗
- PetroSA: ✗
- SAA: ✓
- SAPO: ✓
- Denel: ✓

Govt contingent liabilities:
- SOE Guarantees: R 385bn
- Road Accident Fund: R 270bn
- IPPs: R 161bn
- Post retirement medical: R 70bn
- Claims against Govt: R 36bn
- UIF: R 22bn
- Other: R 36bn

Total contingent liabilities: R980bn

1. In the 2020 Budget it was announced that total debt of the seven largest SOE borrowers was R760bn
   - in addition, Government has R980bn in contingent liabilities of which R385bn are SOE guarantees

2. South African SOEs generate an average return on equity (ROE) of below 0.2%², which is:
   - significantly below the average ROE of c.5%³ generated by emerging market peers
   - well below SA Govt cost of funding of c.7.6%
   - if returns don’t improve they will therefore perpetually require bailouts

3. Debt levels at Eskom, Transnet and SANRAL are unsustainable and inhibit new investment
   - as a result critical infrastructure projects have not been implemented

4. We note the creation of an SOE Council and think they and the DPE need urgently to implement:
   - a review of the mandate and purpose of each SOE
   - rationalisation and closure where relevant
   - management and governance improvement
   - cost savings and eliminate waste and corruption
   - balance sheet restructuring - working with National Treasury to optimise aggregate cost
   - revenue enhancement via selective increases and targeted expansions
   - public private partnerships to fund expansion
   - allowing greater private sector competition

5. SOEs and the SOE Council need appropriate private sector technical support to fulfil their mandate

1. SAA value of assets based on business rescue draft as at Nov 2019, and debt value based on latest public announcements
2. 2018 Budget Speech
3. JPMorgan Global Emerging Market Bond Index (USD) used as a proxy
4. Latest 2017 reported EBITDA of –R2.8bn and NAV of –R17.8bn
**Key iterative steps:** All stakeholders need to partner across key areas and focus on ensuring delivery and accountability

- Greater labour flexibility is key to new investment
- Need inclusive growth with balanced regulation
- Potential opportunity for a paradigm shift with all players

- Need urgent and effective interventions by sector with support and alignment from SOEs
- Private sector can assist with access to funding
- Must reprioritise state spending

- Need a catalyst to drive new investment
- Focus on inclusive growth and job creation

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**State:** guide strategic initiatives and provide an enabling environment with policy certainty and consistency

**Business:** focus on sourcing capital and investing in projects and initiatives to create inclusive economic growth and jobs

**Labour:** focus on ideas to create new jobs and ensure greater labour flexibility and fair working conditions rather than just protecting existing jobs

All social partners must focus on ensuring shared prosperity to address poverty, inequality and unemployment

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**Identify critical sectors and enablers for recovery**

1. Key areas of immediate focus
   - Need to assess Economic Value and Economic Risk

2. Develop and implement strategies to scale
   - Need to stimulate innovation
   - Rethink where SA has a competitive advantage post COVID-19
   - Address social requirements including housing, water and public transportation

3. Revisit policy and regulatory inhibitors
   - Alignment within Government is critical
   - Speed of implementation is key

4. Refine and extend trade / exports
   - Target sectors with greatest export potential
   - Weak ZAR likely to provide new opportunities

5. Extend fiscal support and incentives to accelerate growth

6. Align with government on new role of state organs and SOEs

7. Align with labour on conducive regulation

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**Reimagine SA**

**Impact of COVID-19**

**Key Challenges**

**Shared Vision**

**Key Risk Factors**

**Partnership**
SA’s future economic strategy urgently requires a new social and economic compact, among all role players, to deliver inclusive growth and transformation.

Based on the documents seen from various stakeholders there is already broad alignment.

A wide range of ideas and proposals have been tabled from across society with extensive overlap.

Creation of a Joint Reconstruction Task Team to coordinate and agree priority actions across sectors and implement far-reaching reforms.

Sector sub-committees to focus on implementation of key initiatives and evaluation of outcomes versus objectives.

Refine and enhance interventions.

Key Topics for Discussion

Section 2

Actionable initiatives to drive investment, job creation and inclusive growth

1. An opportunity to reimagine the South African economy and reset the trajectory

2. Actionable initiatives to drive investment, job creation and inclusive growth

3. Funding, cost of capital and fiscal considerations

4. Working together to ensure an accelerated economic recovery and a shared national vision

5. Sector and policy analysis underpinning actionable initiatives
Overview of the work done by B4SA

1. B4SA assembled a team of industry experts to analyse challenges and consider potential opportunities.

2. Focus has been on sectors and projects with strong multipliers that can scale quickly to create jobs and GDP growth.

3. We have identified key challenges that inhibit investment and priority actions to accelerate inclusive growth and job creation.

4. Regulatory obstacles and policy interventions have been identified that require Government action to unlock.

5. Funding key projects is critical given limited capital availability and reduced foreign investment support.

“We must do whatever it takes to limit the damage to our society and people and get our economy back onto a path of recovery”

President Ramaphosa
We have considered every industry sector and focused on sectors with strong multipliers that can scale quickly to create jobs and growth.

Combining the effects of these factors is what constitutes a high impact industry sector.

**Sectors**

**Current impact**
- GDP contribution
- GDP output multiplier
- Employment multiplier
- Trade size
- Market growth rate
- Export growth rate
- GDP input multiplier
- Employment multiplier
- Structural advantage

**Growth potential**

**Section 5 provides the 49 subsectors included in high impact areas**

**Complete sector ranking pre-COVID**

<table>
<thead>
<tr>
<th>Sectors</th>
<th>Attractiveness score</th>
<th>Ranking</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tourism</td>
<td>0.57</td>
<td>1</td>
</tr>
<tr>
<td>Citrus Fruit</td>
<td>0.50</td>
<td>2</td>
</tr>
<tr>
<td>Building &amp; Construction</td>
<td>0.49</td>
<td>3</td>
</tr>
<tr>
<td>Trade</td>
<td>0.49</td>
<td>4</td>
</tr>
<tr>
<td>Forestry</td>
<td>0.49</td>
<td>5</td>
</tr>
<tr>
<td>Meat, Fish, Fruit, Vegetables, Oils and Fat Products</td>
<td>0.39</td>
<td>6</td>
</tr>
<tr>
<td>Dairy products</td>
<td>0.37</td>
<td>7</td>
</tr>
<tr>
<td>Grain Mill, Bakery and Animal Food Products</td>
<td>0.37</td>
<td>8</td>
</tr>
<tr>
<td>Vegetable</td>
<td>0.37</td>
<td>9</td>
</tr>
<tr>
<td>Real Estate</td>
<td>0.36</td>
<td>10</td>
</tr>
<tr>
<td>Fishing</td>
<td>0.36</td>
<td>11</td>
</tr>
<tr>
<td>Accommodation</td>
<td>0.35</td>
<td>12</td>
</tr>
<tr>
<td>Communication</td>
<td>0.35</td>
<td>13</td>
</tr>
<tr>
<td>Wood and Wood Products</td>
<td>0.34</td>
<td>14</td>
</tr>
<tr>
<td>Water</td>
<td>0.34</td>
<td>15</td>
</tr>
<tr>
<td>Livestock</td>
<td>0.34</td>
<td>16</td>
</tr>
<tr>
<td>Transport</td>
<td>0.33</td>
<td>17</td>
</tr>
<tr>
<td>Non-Metals Metal Products</td>
<td>0.33</td>
<td>18</td>
</tr>
<tr>
<td>Paper and Paper Products</td>
<td>0.33</td>
<td>19</td>
</tr>
<tr>
<td>Deciduous Fruit</td>
<td>0.33</td>
<td>20</td>
</tr>
<tr>
<td>Game</td>
<td>0.33</td>
<td>21</td>
</tr>
<tr>
<td>Poultry</td>
<td>0.33</td>
<td>22</td>
</tr>
<tr>
<td>Natural gas</td>
<td>0.33</td>
<td>23</td>
</tr>
<tr>
<td>Subtropical Fruit</td>
<td>0.33</td>
<td>24</td>
</tr>
<tr>
<td>Other Agriculture</td>
<td>0.33</td>
<td>25</td>
</tr>
<tr>
<td>Other food products</td>
<td>0.33</td>
<td>26</td>
</tr>
<tr>
<td>Dairy</td>
<td>0.33</td>
<td>27</td>
</tr>
<tr>
<td>Furniture</td>
<td>0.32</td>
<td>28</td>
</tr>
<tr>
<td>Other Fabricated Metal Products</td>
<td>0.32</td>
<td>29</td>
</tr>
<tr>
<td>Machinery &amp; Equipment</td>
<td>0.32</td>
<td>30</td>
</tr>
<tr>
<td>Electricity</td>
<td>0.32</td>
<td>31</td>
</tr>
<tr>
<td>Textiles, Clothing, Leather Products and Footwear</td>
<td>0.31</td>
<td>32</td>
</tr>
<tr>
<td>Electrical Machinery &amp; Apparatus</td>
<td>0.30</td>
<td>33</td>
</tr>
<tr>
<td>Finance &amp; Insurance</td>
<td>0.30</td>
<td>34</td>
</tr>
<tr>
<td>Structural Metal Products</td>
<td>0.30</td>
<td>35</td>
</tr>
<tr>
<td>Publishing and Printing</td>
<td>0.30</td>
<td>36</td>
</tr>
<tr>
<td>Business Services</td>
<td>0.30</td>
<td>37</td>
</tr>
<tr>
<td>Other Manufacturing &amp; Recycling</td>
<td>0.29</td>
<td>38</td>
</tr>
<tr>
<td>Beverages and Tobacco products</td>
<td>0.29</td>
<td>39</td>
</tr>
<tr>
<td>Chemicals &amp; Chemical Products (incl Plastic Products)</td>
<td>0.29</td>
<td>40</td>
</tr>
<tr>
<td>Pharmaceuticals</td>
<td>0.29</td>
<td>41</td>
</tr>
<tr>
<td>Cereal and Crop</td>
<td>0.29</td>
<td>42</td>
</tr>
<tr>
<td>Community, Social and Personal Services</td>
<td>0.28</td>
<td>43</td>
</tr>
<tr>
<td>Basic Metal Products</td>
<td>0.28</td>
<td>44</td>
</tr>
<tr>
<td>Rubber Products</td>
<td>0.28</td>
<td>45</td>
</tr>
<tr>
<td>Coal and Lignite</td>
<td>0.28</td>
<td>46</td>
</tr>
<tr>
<td>Other Mining</td>
<td>0.25</td>
<td>47</td>
</tr>
<tr>
<td>Manufacturing of Transport Equipment</td>
<td>0.25</td>
<td>48</td>
</tr>
<tr>
<td>Communication, Medical and other Electronic Equipment</td>
<td>0.25</td>
<td>49</td>
</tr>
<tr>
<td>Gold</td>
<td>0.22</td>
<td>50</td>
</tr>
<tr>
<td>Palladium</td>
<td>0.19</td>
<td>51</td>
</tr>
</tbody>
</table>

Red font: Denotes subsectors that fall outside the focus areas (aside from SMMEs)
There is a high degree of convergence between the issues identified by Government and the priority actions proposed by the B4SA sector analysis.

**Methodology & Approach**

**Critical enablers** ➔ **Critical success factors** ➔ **Activators of employment**

**Identified priorities across all economic sectors**
- Policy consistency
- Regulatory reform
- Crime & corruption
- Infrastructure investment
- SOE optimisation
- Energy industrialisation strategy
- Economic transformation and B-BBEE
- Skills shortages
- Modernisation investment

**High level of convergence**

**There is a high degree of alignment between:**
- The National Development Plan
- Supplementary Budget Review 2020
- National Treasury economic reform paper
- Presidential Economic Advisory Council
- Industrial Policy Action Plan
- Integrated Resource Plan
- SARB industry analysis
- Objectives of the Investment Envoys
- Various South African scenario plans (including Indlulamithi)

**B4SA Specific interventions and actions per industry**

1. Key sector objectives
2. Identify key challenges
3. Consider key priority actions
4. Roadmap & Plans
Key sector interdependencies overlap with the Jobs Summit and timing for implementation fits with the revised Budget and the Jobs Summit outcomes

### Activators of employment

<table>
<thead>
<tr>
<th>No.</th>
<th>Initiative</th>
<th>Sectors</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Immediate Job Retention (Economy-wide)</td>
<td>SMMEs / Retail, All Sectors</td>
</tr>
<tr>
<td>2.</td>
<td>Digital Economy</td>
<td>Telecomms, SMMEs / Retail</td>
</tr>
<tr>
<td>3.</td>
<td>Enhanced Localisation</td>
<td>Manufacturing, All Sectors</td>
</tr>
<tr>
<td>4.</td>
<td>Unlocking Agriculture</td>
<td>Agriculture, Wholesale &amp; Retail</td>
</tr>
<tr>
<td>5.</td>
<td>Revitalising the Built Environment</td>
<td>Construction, Tourism &amp; Leisure</td>
</tr>
</tbody>
</table>

### Critical enablers

<table>
<thead>
<tr>
<th>No.</th>
<th>Initiative</th>
<th>Sectors</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Energy Security and Green Energy Transition</td>
<td>Energy &amp; Mining, SMMEs</td>
</tr>
<tr>
<td>2.</td>
<td>Transport Logistics</td>
<td>Transport &amp; Mining, SMMEs</td>
</tr>
<tr>
<td>3.</td>
<td>ICT Connectivity (incl. Spectrum and Broadband)</td>
<td>Telecomms, SMMEs</td>
</tr>
<tr>
<td>4.</td>
<td>Access to Finance</td>
<td>Financial Services, SMMEs / Retail</td>
</tr>
<tr>
<td>5.</td>
<td>Skills Development</td>
<td>All Sectors, SMMEs</td>
</tr>
</tbody>
</table>
Top 12 projects and initiatives across all network industries to drive investment, job preservation and creation, economic capacity and inclusive growth

<table>
<thead>
<tr>
<th>Job enablers &amp; activators</th>
<th>Projects &amp; Initiatives</th>
<th>Specific Projects / Opportunities</th>
<th>Sector Drivers</th>
<th>GDP impact(1)</th>
<th>Jobs(1)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Energy Security and Green Energy Transition</td>
<td>Secure and affordable electricity supply</td>
<td>• Address Eskom operating and capital structure / update IRP &lt;br&gt; • Embrace Gas economy: Revise IRP gas to power targets, enable extension of Pande-Temane, invest in LNG imports</td>
<td>Energy, Construction, Mining, Manufacturing, Water</td>
<td>up to R177bn capex</td>
<td>88,000</td>
</tr>
<tr>
<td>Transport &amp; Logistics</td>
<td>Fast-track Green economy</td>
<td>• Accelerate renewables deployment via REIPP5 and REIPP6 &lt;br&gt; Launch Green stimulus and national green funding strategy</td>
<td>Energy, Construction, SMMEs</td>
<td>up to $83bn of green funding</td>
<td>70,000 by 2024</td>
</tr>
<tr>
<td>ICT Connectivity</td>
<td>Implement Transnet’s road to rail strategy</td>
<td>• Address debottlenecking issues to grow rail volumes &lt;br&gt; • Expand Saldanha railway capacity &lt;br&gt; • Private concession Lephalale-Maputo line</td>
<td>Transport, Mining, Construction, Manufacturing</td>
<td>Transport R66bn p.a.</td>
<td>Mining 19,000 p.a.</td>
</tr>
<tr>
<td></td>
<td>Ports expansion</td>
<td>• Improve competitiveness relative to global peers &lt;br&gt; • Expand capacity for agriculture &amp; mining</td>
<td>Transport, Mining, Construction</td>
<td>Construction up to R100bn p.a.</td>
<td>Construction up to 100,000 p.a.</td>
</tr>
<tr>
<td></td>
<td>Road infrastructure</td>
<td>• Complete BRT implementation &lt;br&gt; • Clarify role of minibus taxis within public transport</td>
<td>Transport, Construction, SMMEs</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>ICT Connectivity</td>
<td>Full Spectrum utilisation</td>
<td>• Digital migration, permanent allocation, network sharing &lt;br&gt; “Use it or lease it”, Rapid Deployment Plan, WOAN licences</td>
<td>Telecommunications, Tourism, SMMEs</td>
<td>Telecomms R15 - 20bn p.a.</td>
<td>Telecomms &gt;55-65,000 p.a.</td>
</tr>
<tr>
<td>ICT Connectivity</td>
<td>E-learning &amp; digital health platforms</td>
<td>• Ensure more affordable connectivity &lt;br&gt; • Increase access and financial inclusion</td>
<td>Telecommunications, Education, Healthcare, SMMEs</td>
<td>Tourism R17-34bn p.a.</td>
<td>Tourism 70-120,000 p.a.</td>
</tr>
<tr>
<td>ICT Connectivity</td>
<td>E-commerce acceleration</td>
<td>• More powerful and less costly systems &lt;br&gt; • Migration of Govt &amp; SMMEs to Digital</td>
<td>Telecommunications, Financial Services, SMMEs, Tourism</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Unlocking Agriculture</td>
<td>Water infrastructure</td>
<td>• Complete delayed projects /coordinate with sectors</td>
<td>Agriculture, Construction, Mining</td>
<td>Agriculture R10 - 15bn p.a.</td>
<td>Agriculture 60-80,000 p.a.</td>
</tr>
<tr>
<td>Enhanced Localisation</td>
<td>Maximise commercial agricultural output</td>
<td>• Cannabis industrialisation: has wide industrial product use &lt;br&gt; • Improve access to finance and enabling infrastructure</td>
<td>Agriculture, SMMEs</td>
<td>Manufacturing R21-35bn p.a.</td>
<td>Manufacturing 28-70,000 p.a.</td>
</tr>
<tr>
<td>Access to Finance</td>
<td>Import replacement focus</td>
<td>• Target high value sectors and new wild-card products &lt;br&gt; Develop regional trading corridors</td>
<td>Manufacturing, Transport, SMMEs</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Access to Finance</td>
<td>Increased financial inclusion and lower cost of capital</td>
<td>• Enable acceleration of digital financial services ecosystem, establish new challenger banks &lt;br&gt; • Funds targeting SMMEs, agriculture and Green economy</td>
<td>Financial Services, Telecommunications, SMMEs</td>
<td>~R50-90bn p.a. from steady state</td>
<td>220-470,000 p.a. from steady state</td>
</tr>
</tbody>
</table>

(1) Based on statistics sourced from the key “enabled” sector (refer to the “job enablers and activators” column)
There is a high level of overlap between Government and the private sector’s infrastructure priorities, however it requires focus and a viable funding plan.

### Strategic Integrated Projects (SIPs)

1. Unlocking the Northern Mineral Belt with Waterberg as the catalyst
2. Durban - Free State Gauteng Logistics and Industrial Corridor
3. South Eastern node & corridor development
4. Unlocking economic opportunities in North West Province
5. Saldanha-Northern Cape Development Corridor
6. Integrated Municipal Infrastructure Project
7. Integrated Urban Space and Public Transport Programme
8. Green Energy in support of the South African economy
9. Electricity Generation to support socio-economic development
10. Electricity Transmission and Distribution for all
11. Agri-Logistics and Rural Infrastructure
12. Revitalisation of public hospitals and other health facilities
13. National school build programme
14. Higher Education Infrastructure
15. Expanding access to communication technology
16. SKA & MeerKat
17. Regional Integration for African cooperation and development
18. Water and Sanitation Infrastructure Master Plan

### MTEF infrastructure spend (2021 to 2022): R815bn

<table>
<thead>
<tr>
<th>Sector/Project</th>
<th>SOEs</th>
<th>Provincial Government</th>
<th>Local Government</th>
<th>Public Entities</th>
<th>National Departments</th>
<th>PPPs</th>
<th>Administration</th>
<th>Health</th>
<th>Other Social</th>
<th>Other services</th>
<th>Education</th>
<th>Human Settlements</th>
<th>Water &amp; Sanitation</th>
<th>Energy</th>
<th>Transport</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Electricity transmission, dist.</td>
<td>314</td>
<td>197</td>
<td>177</td>
<td>59</td>
<td>50</td>
<td>18</td>
<td>18</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>R150bn</td>
<td>R314bn</td>
</tr>
</tbody>
</table>

~85% of total MTEF spend

Transport and energy account for >50% of the total MTEF

1. The Presidential Infrastructure Coordinating Committee (“PICC”) and the Investment and Infrastructure Office (“IIO”) have developed 18 priority SIPs.
2. These focus on, *inter alia*:
   - Electricity transmission, distribution & generation
   - Integrated public transport
   - Water and sanitation infrastructure
   - Urban infrastructure and living standards
   - Agriculture and Agri-logistics projects
   - Educational infrastructure
   - Regional integration for African cooperation
3. There is substantial overlap between SIPs and the work of SIDSSA on the one hand, and the priorities identified by B4SA on the other, with considerable scope to cooperate on implementation and funding.

The Sustainable Infrastructure Development Symposium of South Africa (“SIDSSA”) on 23 June

Investing in infrastructure for shared prosperity: now, next and beyond.
The Top 12 policy interventions to help create greater certainty and enable more inclusive growth

<table>
<thead>
<tr>
<th>Policy focus area</th>
<th>Key issues</th>
<th>Key benefits <em>(aside from jobs, GDP and tax benefits)</em></th>
<th>Policy certainty</th>
<th>Inclusive growth</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1 Tackle crime &amp; corruption</strong></td>
<td>• Corrupt procurement practices particularly within SOEs</td>
<td>• Improved economic competitiveness, builds confidence</td>
<td>-</td>
<td>✓</td>
</tr>
<tr>
<td></td>
<td>• Need to support SMMEs impacted by crime</td>
<td>• Generate more job opportunities per unit of invested capital, support increased local procurement, improved efficiency increases the capacity of the economy</td>
<td>-</td>
<td>✓</td>
</tr>
<tr>
<td><strong>2 Improve ease of doing business</strong></td>
<td>• Support business start-ups and entrepreneurship</td>
<td>• Long-term, predictable pipeline of bankable projects, absorbs low-skill base employees</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td></td>
<td>• Reduce red tape and constraining regulations</td>
<td>• Generate more job opportunities per unit of invested capital, support increased local procurement, improved efficiency increases the capacity of the economy</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td><strong>3 Mobilise large scale infrastructure projects</strong></td>
<td>• Reprioritisation of Government’s infrastructure portfolio</td>
<td>• Reduce the burden on the State resources, improve competitiveness fundamentals, incl. competitive energy supply</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td></td>
<td>• Appropriate PPP frameworks, expand export capacity</td>
<td>• Long-term, predictable pipeline of bankable projects, absorbs low-skill base employees</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td><strong>4 SOE reform and rationalisation</strong></td>
<td>• Clarity regarding State subsidies, Eskom unbundling, PPP framework and retention of systemically important SOEs</td>
<td>• Reduce the burden on the State resources, improve competitiveness fundamentals, incl. competitive energy supply</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td></td>
<td>• Property right certainty s25 and expropriation act resolution</td>
<td>• Greater certainty attracts investment and lowers the cost of doing business</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td><strong>5 Education and skills development</strong></td>
<td>• Limits the development and application of technologies</td>
<td>• Improved labour force capabilities, bolster much needed entrepreneurial and technical skills</td>
<td>-</td>
<td>✓</td>
</tr>
<tr>
<td></td>
<td>• Barrier to entrepreneurial activity and technical expertise</td>
<td>• Improved labour force capabilities, bolster much needed entrepreneurial and technical skills</td>
<td>-</td>
<td>✓</td>
</tr>
<tr>
<td><strong>6 Review trade policies</strong></td>
<td>• Incentivise strategic value chains by realigning trade policies, prioritising manufacturing</td>
<td>• Improved labour force capabilities, bolster much needed entrepreneurial and technical skills</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td><strong>7 Labour law reform</strong></td>
<td>• Expanded public works programme, selective amendments for SMMEs, restrictions on bargaining council extensions</td>
<td>• Improved employer / employee relations based on fairness, a more efficient labour system focused on decent work</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td><strong>8 Simplify mining investment regulation</strong></td>
<td>• Comprehensive review and rewrite of the MPRDA including consolidation of Charter into the MPRDA</td>
<td>• Grow portfolio of projects with increased exploration, implement projects in the pipeline and from exploration</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td></td>
<td>• Increasingly expensive supply of electricity</td>
<td>• Affordable and reliable energy, transition to a lower carbon energy mix, potential to catalyse large scale investment</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td><strong>9 Align national energy strategy across all sectors</strong></td>
<td>• <strong>Electricity:</strong> Unblock/optimise key regulatory processes to transition to lower carbon generation mix</td>
<td>• Affordable and reliable energy, transition to a lower carbon energy mix, potential to catalyse large scale investment</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td></td>
<td>• Gas: Secure supply for the short, medium &amp; long term</td>
<td>• Affordable and reliable energy, transition to a lower carbon energy mix, potential to catalyse large scale investment</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td></td>
<td>• <strong>Liquid Fuels:</strong> Align on strategic industry plan of action</td>
<td>• Affordable and reliable energy, transition to a lower carbon energy mix, potential to catalyse large scale investment</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td><strong>10 Telecomms: maximise connectivity</strong></td>
<td>• Digital migration, complete spectrum auction and finalise Rapid Deployment Policy</td>
<td>• Maximise population access to connectivity</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td></td>
<td>• Infrastructure funding and financial inclusion</td>
<td>• Infrastructure investment will drive growth and jobs, deeper and more meaningful financial inclusion</td>
<td>-</td>
<td>✓</td>
</tr>
<tr>
<td></td>
<td>• Barriers to competition to be reduced to enable new entrants, whilst maintaining soundness of financial system</td>
<td>• Infrastructure investment will drive growth and jobs, deeper and more meaningful financial inclusion</td>
<td>-</td>
<td>✓</td>
</tr>
</tbody>
</table>

The creation of a Task Force by sector will enable the acceleration of key interventions
### Industry Summary: An opportunity to generate up to 1.5 million jobs, increase GDP by over R1 trillion and increase tax revenues by R100bn per annum (1/2)

#### SMMEs, Township and Rural Economy

**Impact of Covid-19**
- Loss of 330-440k jobs in SMMEs
- Up to 700k job losses informal sector

**Challenges**
- Costly and difficult regulatory framework
- Skills
- Access to credit
- Crime and corruption

**Interventions**
- Industry wide fin. services approach
- Reduce red tape and accelerate growth
- Pay SMMEs on time & support local buying
- Help SMMEs pivot

**Benefits if interventions successful**
- Over 1 million protected
- Catalyst for driving GDP growth
- N/A

#### Energy & Water

**Impact of Covid-19**
- 10-40% drop in demand until 2021
- Loss of 164-248k jobs across Elect., Gas and Liquid

**Challenges**
- Policy uncertainty & effectiveness
- Supply challenges & price increases
- High carbon energy mix & need for just transition

**Interventions**
- **Water**: completion of delayed projects
- **Electricity**: Optimise key regulatory processes to transition to lower carbon generation mix
- **Gas**: Secure supply for the short, medium & long term
- **Liquid Fuels**: Align on strategic industry plan of action

**Benefits if interventions successful**
- ~164-248k protected
- ~88k created Up to 500k from Green stimulus initiatives
- ~R177bn (in capex deployed)
- N/A

#### Mining

**Impact of Covid-19**
- 20-30% drop in 2020 output
- 30,000 jobs at risk

**Challenges**
- Regulatory uncertainty
- Unreliable energy supply

**Interventions**
- Comprehensive regulatory reform package
- Permit self/3rd part generation & fix Eskom supply

**Benefits if interventions successful**
- ~70k
- ~R30bn
- ~R10bn

#### Construction

**Impact of Covid-19**
- 50-60% jobs vulnerable, ~20% at risk

**Challenges**
- Sector in decline before Covid19
- No clear pipeline of work to re-invigorate the sector

**Interventions**
- Re-prioritisation of Govt infrastructure portfolio
- Bring in private sector funding
- Change contracting and procurement to be more collaborative

**Benefits if interventions successful**
- 100k p.a.
- R100bn p.a.
- R15-20bn p.a.

#### Manufacturing

**Impact of Covid-19**
- 20 – 40% drop in output
- 140k – 240k jobs at risk

**Challenges**
- Energy, Infrastructure
- Business Environment
- Skills and collaboration

**Interventions**
- Improvement in fundamental competitiveness;
- Quick capture of untapped export markets;
- Improved co-ordination and prioritisation of strategic value chains

**Benefits if interventions successful**
- 28K - 70k p.a.
- R6-10bn p.a.

**Notes:**
1. Direct mining employment. 2. Includes direct and indirect employment uplift by 2024. 3. High-level estimate based on industry revenue uplift by 2024. Excludes economic multipliers. 4. High-level 2024 estimate excluding multipliers.
Industry Summary: An opportunity to generate up to 1.5 million jobs, increase GDP by over R1 trillion and increase tax revenues by R100bn per annum (2/2)

<table>
<thead>
<tr>
<th>Impact of Covid-19</th>
<th>Challenges</th>
<th>Interventions</th>
<th>Benefits if interventions successful</th>
</tr>
</thead>
</table>
| Transport         | • Infrastructure  
|                   | • Private sector participation  
|                   | • Tariff & policies          | • Reduce costs, improve infrastructure  
|                   | • Private sector participation  
|                   | • Rail concession & policy   | Up to ~19k\(^1\) p.a.  
|                   |                          | Up to ~R66bn\(^2\) p.a.  
|                   |                          | Up to ~R28bn\(^2\) p.a.  
|                   | Relatively protected from job loss. However, highlighted the infrastructural constraints across the sector (including logistics and water) | • Availability of financing  
|                   | • Access to new markets  
|                   | • Slow transformation         | • Invest in infrastructure, boost global trade  
|                   |                          | • Improve access to financing  
|                   |                          | • Ensure commercial growth     | 60-80k p.a.  
|                   |                          | R3-4bn p.a.  
| Agriculture       | • Lack of bankable infrastructure pipeline  
|                   | • Inadequate financial inclusion  
|                   | • Increasing regulatory burden  
|                   | • Limited new entrants into the sector | • Extending relief beyond short term  
|                   |                          | • Increase efficiency & reduce cost  
|                   |                          | • Acceleration of digital financial services ecosystem and inclusion through 4IR  
|                   |                          | • Enable long term growth | ~220-470k p.a. from steady state\(^1\)  
|                   |                          | ~R50-90bn p.a. from steady state\(^1\)  
|                   |                          | R50bn short-term  
|                   |                          | Return to pre-crisis level of ~R50bn over next 5-years+  
| Financial Services| • Lack of RDP and spectrum allocation limitations in capabilities at DCDT/ICASA | • Finalisation of RDP  
|                   |                          | • Allocate spectrum, complete digital migration  
|                   |                          | • Enhance capabilities and governance at ICASA/DCDT | 55-65k p.a.  
|                   |                          | R15-20bn p.a.  
|                   |                          | 4-6bn p.a.  
| Telecommunications| Weak demand given consumer and business income pressure. Demand is expected to be subdued in the medium term | • Lack of demand  
|                   | • Lack of resilience in industry | • Help stakeholders survive the crisis  
|                   |                          | • Prepare to restart industry,  
|                   |                          | • Increased focused on domestic tourism | 170-240k\(^4\)  
|                   |                          | R37-54bn\(^4\)  
|                   |                          | R850m – 2.5bn\(^4\)  
| Tourism & Leisure | 4-8bn USD GDP  
|                   | 280-490k jobs            |                          |  

Notes: 1. Jobs refers to formal sector jobs. Figures may be significantly higher if informal jobs are accounted for. 2. GDP and Tax Revenue effects from interventions are cumulative over the period 2021 – 2030; 3. Steady state expected to be reached in 2025, thereafter the figures are annualised. 4. Potential 2020 uplift from sector reopening

Key Initiatives  
- Manageable  
- Less significant  
- Significant  
- Challenging
Key takeaways from the detailed sector analysis: Infrastructure investment and policy initiatives are critical, but require partnership to ensure implementation

1. Mobilise Infrastructure investment
   - Infrastructure investment is a key enabler for all network industries if they are to deliver accelerated growth
     - **Energy**: reliable supply is a key challenge and substantial opportunities exist from deregulating generating capability
     - **Water**: implement delayed projects, ensure prioritisation of new projects and embrace private sector investment
     - **Road & Rail**: debottlenecking and expansion can unlock SMME opportunities and new revenues in mining and manufacturing
     - **Public transport**: strategies to improve public transport and reduce congestion of minibus taxis are critical post COVID-19
     - **Ports**: expansion in capacity for agriculture and mining is key, combined with steps to improve global competitiveness
     - **Telecomms**: An urgent process to accelerate analog to digital migration and ensure full spectrum utilisation is critical
   - A clear pipeline of bankable PPP opportunities is critical to creating jobs and accelerating growth

2. Policy initiatives to enable growth
   - Business and consumer confidence is at its lowest levels since 1994, to ensure inclusive growth we must:
     - **Social infrastructure projects**: public sector to engage private sector on health, water and sanitation and housing projects
     - **Implement key initiatives**: Green energy transition, ICT connectivity, Digital education, MPRDA, eVisas
     - **Simplify key policies**: ease of doing business, land reform/property rights, labour law reform, regional trade expansion
     - **Tackle crime & corruption**: must urgently implement a zero tolerance policy with meaningful consequences
     - **Fiscal discipline**: SA must demonstrate it can reduce the public sector wage bill, address corruption and ensure more efficient use of resources through improving state capacity
   - Policy certainty is critical to attract new investment and SA has to compete with other emerging markets

3. Partnership with a focus on job creation and funding
   - To ensure inclusive growth and transformation in a constrained funding environment, will require:
     - **Public Private Partnership**: Government does not have the funding or the skills to implement all the required changes
     - **Focus on implementation**: Serious and meaningful change is urgently required with visible evidence of key actions
     - **Job creation & skills development**: build on existing initiatives such as YES and encourage partnerships with SMMEs
     - **SOE optimisation**: increased partnership to address funding and skills shortages and irregular and wasteful expenditure
     - **Tax incentives**: targeted at job creation and investment growth, with an emphasis on long term tax generation
   - Working together to tackle key challenges is the only way that SA can overcome the current challenges
Key takeaways: We need to integrate and synthesise existing initiatives to ensure implementation of national projects and greater capacitation of the public sector.

### Selective Government / Business Initiatives

**Government Infrastructure Initiatives**
- Presidential Infrastructure Coordinating Committee ("PICC")
- Investment and Infrastructure Office ("IIO")
- Public Private Growth Initiative ("PPGI")
- Sustainable Infrastructure Development Symposium of South Africa ("SIDSSA")
- Strategic Integrated Projects ("SIPS")

**Capacitating the State**
- National Business Initiative ("NBI")
- Technical Assistance, Mentorship and Development ("TAMDEV")

**Education & Skills Development**
- Ikusasa Student Financial Aid Plan ("ISFAP")
- Youth Employment Service ("YES")
- Sector Education and Training Authorities ("SETAs")
- Technical and Vocational Education and Training ("TVET") colleges

### Key Takeaways

**Key Takeaways**

- B4SA fully supports the IIO which provides a single entry point to coordinate private and public sector involvement in infrastructure.
- A clear pipeline of bankable PPP opportunities is critical to creating jobs and accelerating growth across network industries.
- Government does not have the funding capacity or the skills and capability to implement all the envisaged projects.
- Prioritising projects and ensuring partnership between the public and private sector is key to successful implementation.

**Business is keen to assist with an accelerated roll out and implementation programme**

We need to build on the most successful initiatives and consolidate them.

- ISFAP has been highly successful funding disadvantage students in high demand skills and should be expanded.
- YES has made good progress facilitating SA’s youth to gain work experience - need to find opportunities for greater full time jobs.
- Need to boost and redesign TVETs/SETAs to address poor governance, low relevance of industry skills and lack of innovation.
Key Topics for Discussion

Section 3

Funding, cost of capital and fiscal considerations

1. An opportunity to reimagine the South African economy and reset the trajectory

2. Immediate actionable initiatives to drive investment, job creation and inclusive growth

3. **Funding, cost of capital and fiscal considerations**

4. Working together to ensure an accelerated economic recovery and a shared national vision

5. Sector and policy analysis underpinning actionable initiatives
Global liquidity and funding will be increasingly constrained, placing pressure on SA’s fiscus

1. SA entered the crisis in a recessionary environment. COVID-19 will amplify the lower GDP outlook and, as a result, a materially higher budget deficit and debt:GDP

2. Aggregate funding requirement is estimated to be R3.4tn over three years, of which R2.4tn is public sector (including SOEs)

3. Traditional SA based funding sources will be insufficient, as a result a substantive portion will need to be sourced internationally, constrained by SA’s sub-investment grade

4. SA will be competing for capital against all other emerging markets and public and private sector coordination will be a critical enabler

5. Fiscal discipline, regulatory certainty, market stability and well structured viable infrastructure projects are imperatives to attract capital and funding at a reasonable cost

COVID-19 will increase global demand for funding for which emerging markets will compete

Unsustainable government finances set a high cost of capital which could render projects unviable

Public and private sector cooperation is critical to making South Africa globally competitive
### Macro economy: Consolidated funding requirement in the public and private sectors

#### Public Sector

- **Status quo ante**
  - Significant funding requirement in the **public sector** as budget deficits widen and SOE revenues shrink
  - Government facilitated lending to SMMEs by virtue of the R200bn guarantee, with a high probability of an incremental requirement to sustain SMMEs
  - No provision has been made for a rescue of **large business**, many of which have incremental access to liquidity in the near term. In the longer term, working capital funding requirements will depend on the shape of the economic recovery
  - The private sector can contribute meaningfully to inclusive economic growth and transformation through funding of SMMEs and infrastructure development, thus reducing the public sector funding requirement

- **Anticipated 3y requirement pre Covid-19**
  - The Feb’20 budget anticipated a **3 year public sector funding requirement of R1.3tn**\(^1\), comprising of R1.1tn by national government and R0.2tn by local government / SOEs
  - The budget incorporated an anticipated capitalisation of certain SOEs, to enable the redemption of existing debt and an additional R0.2tn to fund operational requirements

- **Revised outlook**
  - The revised budget is likely to show an increased budget deficit due to lower tax revenues and increased expenditure, some of which relates to R500bn rescue package
  - We anticipate a total **3 year public sector funding requirement of c.R2.4tn**\(^1\). The requirement can reduce if private business can contribute to infrastructure development

#### Private Sector

- **Status quo ante**
  - Total public sector debt amounts to c.R4tn, comprising of R3.2tr national government and R0.8tr local government / SOE debt
  - In addition, **contingent liabilities amounted to c.R0.6tn**, excluding contingencies related to SOE funding

- **Anticipated 3y requirement pre Covid-19**
  - Total loans by SA financial institutions to the non-financial private sector (incl. households) amounts to R3.9tn, including R3.3tn\(^2\) bank funding and R0.6tn by the savings industry
  - Corporates held significant **liquidity buffers of c.R1tn**

- **Revised outlook**
  - Credit growth in FY’19 was **muted at 4.2%** in a subdued economy
  - There was an expectation of continued muted credit growth as the economy entered a recession
  - Prior financial crises indicate that demand for credit increases due to liquidity constraints
  - Early indications of an increased demand for credit for working capital purposes, constrained by lenders’ risk appetite. **Infrastructure investment** would increase demand. Lending to SMMEs supported by R200bn guarantee. **Total 3 year requirement is estimated at R11tn**

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\(^1\) Excluding refinance of national government debt that is due for redemption

\(^2\) Comprising 72% of total loans and advances of (R4.6tn)
Macro economy: Given the medium term economic outlook, fiscal discipline and structural reforms are national imperatives

**GDP growth outlook**

Expected to decline by 8.3 – 10.6%

Sustainable GDP growth of at least 4% p.a.

**Estimated Budget Deficit and Debt: GDP Scenarios**

<table>
<thead>
<tr>
<th>Scenario</th>
<th>2020/21</th>
<th>2021/22</th>
<th>2022/23</th>
<th>2023/24</th>
<th>2024/25</th>
</tr>
</thead>
<tbody>
<tr>
<td>Budget deficit pre Covid (R'bn)</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Annual</td>
<td>454</td>
<td>432</td>
<td>423</td>
<td>444</td>
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<tr>
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<td>1,309</td>
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<td></td>
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<tr>
<td>Reform</td>
<td>289</td>
<td>412</td>
<td>437</td>
<td>314</td>
<td>41</td>
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<tr>
<td>Baseline</td>
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<td>662</td>
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<tr>
<td>Reform</td>
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<td></td>
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<tr>
<td>Reform</td>
<td>13.3%</td>
<td>10.8%</td>
<td>8.3%</td>
<td>5.9%</td>
<td>3.5%</td>
</tr>
<tr>
<td>Baseline</td>
<td>13.3%</td>
<td>14.2%</td>
<td>13.6%</td>
<td>14.0%</td>
<td>14.2%</td>
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<tr>
<td>Total Debt as % of GDP</td>
<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reform</td>
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<td>92.2%</td>
<td>94.6%</td>
<td>94.4%</td>
</tr>
<tr>
<td>Baseline</td>
<td>82.0%</td>
<td>90.3%</td>
<td>97.9%</td>
<td>106.7%</td>
<td>115.1%</td>
</tr>
</tbody>
</table>

- The baseline projections assume GDP to contract by 9.6% in 2020, with a recovery off a lower base in 2021 and 2022 and muted growth thereafter.
- The baseline projects the economy to recover to pre Covid-19 levels within 3 years, with an upside scenario of 2 years and a downside scenario of 5 years, depending on the spread of the virus.
- A combination of lower GDP growth and lower tax collection post COVID-19, will result in unsustainable fiscal strain. In the absence of structural reforms:
  - Budget deficit will remain above 13% of GDP (Deficit of 6.6% in 1994 and surplus of 1% in 2008).
  - Debt will continue to increase, exceeding 100% in 2023 (49% in 1994 an 28% in 2008). Total government debt (including SOEs) could exceed R8tn by 2025.
  - Private and public sector cooperation and public sector structural reforms will reduce the strain on the fiscus, and increase GDP growth, thus stabilising public finances and reducing funding cost over time. The budget deficit could normalise at 3.5% in 2025.

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**Required reforms: assumptions**

- Virtuous circle pursuant to fiscal discipline of reduced debt and increased investment resulting in lower cost of funding, increased growth and higher tax revenues.
  - **Zero-based** budgeting by National Treasury.
  - **Most expenditure items growing slower than inflation**, except for investment in infrastructure to stimulate economic growth.
  - Consistent **reduction in the real wage bill** for Government over the entire period.
  - **Reduction** in the funding requirements of local government and SOEs.
  - Achieving long term real sustainable economic growth of at least 4% per annum.
  - No increases in tax rates, but improvement in tax collections through higher growth and improved administration.

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1. Medium term outlook per Feb’20 budget
2. Excluding refinancing of debt that are due for redemption (R220tn and R385tn over 3 and 5 years respectively)
### Fiscal Policy considerations: Levers for stimulating recovery while rebuilding fiscal sustainability

<table>
<thead>
<tr>
<th>Economic Recovery initiatives</th>
<th>Fiscal Sustainability initiatives</th>
</tr>
</thead>
</table>
| **1 Fiscal and monetary policy coordination** | ✓ **Statutory reform of unsustainable liabilities**  
  - Ensure financing channels remain open and liquid  
  - Maintain long-term market confidence in fiscal discipline  
  - Ensure adequate funding of relief and recovery measures |
| **2 Investment in improved living standards** | ✓ **Continue investment in SARS capacity and tax modernisation**  
  - Rebuild momentum of municipal infrastructure and housing investment  
  - Co-financing through FLISP and DFI funding: mobilise private finance for mixed use residential investment  
  - Accelerate settlement upgrading and neighbourhood development programmes |
| **3 SEZ developments: light manufacturing and job intensive industries** | ✓ **Consolidate public service employment and remuneration within affordable medium term limits**  
  - Broaden ETI to targeted industries and SEZ developments  
  - Strengthen partnerships between cities, local industry stakeholders, colleges/universities and workseeker support programmes |
| **4 Network industry investment** | ✓ **Continue institutional reform of government – towards fewer departments and agencies**  
  - Electricity, renewables and gas: accelerate IPP programmes  
  - Support telecoms modernisation & digital economy |

- **Successfully**
- **Not yet**

- **Funding**
- **Overview**
- **Macro Economy**
- **Policy**
- **Sources of Funding**
- **Enablers & Conclusions**

---

**Economic Recovery initiatives**

1. Fiscal and monetary policy coordination
   - Ensure financing channels remain open and liquid
   - Maintain long-term market confidence in fiscal discipline
   - Ensure adequate funding of relief and recovery measures

2. Investment in improved living standards
   - Rebuild momentum of municipal infrastructure and housing investment
   - Co-financing through FLISP and DFI funding: mobilise private finance for mixed use residential investment
   - Accelerate settlement upgrading and neighbourhood development programmes

3. SEZ developments: light manufacturing and job intensive industries
   - Broaden ETI to targeted industries and SEZ developments
   - Strengthen partnerships between cities, local industry stakeholders, colleges/universities and workseeker support programmes

4. Network industry investment
   - Electricity, renewables and gas: accelerate IPP programmes
   - Support telecoms modernisation & digital economy

---

**Fiscal Sustainability initiatives**

- ✓ Statutory reform of unsustainable liabilities
  - Compulsory third party insurance to replace Road Accident Fund
  - Law reform of medico-legal compensation

- ✓ Continue investment in SARS capacity and tax modernisation

- ✓ Consolidate public service employment and remuneration within affordable medium term limits

- ✓ Continue institutional reform of government – towards fewer departments and agencies

- ✓ SOC fiscal obligations
  - Network industry restructuring: towards regulated competition
  - Liquidate non-core, unprofitable and phase out funding guarantees
  - Managed procurement of independent producers

- ✓ Higher education and training reform
  - Strengthen TVET college funding through business partnerships

- ✓ Social security and health insurance
  - Build on UIF reform to phase in statutory social security funding
  - Strengthen public-private collaboration in health delivery and finance

- ✓ Strengthen government and municipal revenue management
  - Reconsider “dual municipality” architecture
Stock of invested domestic assets is c.R12tn\(^1\) ($700bn) in total, adjusting for overlap within and between savings and bank assets

- **Primary source of local funding to the public sector (bonds) and private sector (equity and loans), whilst providing significant liquidity to the banking industry**

- **Portfolios are fully invested and need to meet prudential requirements. Incremental funding capacity** subject to:
  - **Net inflows**: Inflows of R170bn in 2019 (c.2% of FUM). High probability of net outflows in the foreseeable future due to COVID-19 related job losses
  - **Rebalancing of portfolios**: recognising beneficiary rights, fiduciary duties and the need to maintain stability of the financial system. Current debt/equity split at c.50% is in line with OECD average

- **Infrastructure funding:**
  - Significant indirect investment via sovereign and SOE bonds (c.R1tn invested, excl. GEPF)
  - **Direct investment is attractive for long term portfolios** of Life Companies and Defined Benefit Retirement funds. Unlisted direct investment currently constitutes c.1.5% of portfolios (OECD average of 1.3%, 4.3% in funds that have mandates to invest directly)\(^2\)
  - **Incremental capacity** available if investment instruments are tradeable

- **Primary source of loans to the private sector and a significant financier of public sector debt**

- **Loan capacity**
  - Liquidity conditions are improving due to precautionary savings but credit capacity constrained due to impairments. Capacity facilitated by relaxation of liquidity and capital requirements as well as the SMME guarantee
  - Additional credit extension supported by well capitalised balance sheets but depends on profitability
  - Early indication of funding capacity of R350bn – R450bn p.a., majority of which could be available to the private sector as holdings in public sector securities exceed regulatory requirements
  - Potential for increased lending through prudent redeployment of investment in government bonds

- **Infrastructure funding**: Historically advanced the majority of risk funding to develop IPPs and other PPPs. Once de-risked, sold to regulated pools of savings

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1. Industry discussions; Regulatory filings; Team analysis
2. Annual Survey of Large Pension Funds and Public Pension Reserve Funds 2019
Global Emerging Market (GEM) investors as a financier of the public sector

1. In 2017, these investors funded the majority of the public sector deficit.
2. Since the beginning of the year, GEM investors have sold R64bn government bonds. Whilst holdings have reduced, foreign investors still hold c.31% of government bonds (c.R800bn) alongside c.R300bn of non-marketable instruments.

Global Emerging Market (GEM) investors as a financier of the private sector

1. The JSE has an aggregate market capitalisation of 16tn, including a number of large multi-nationals that have secondary listings on the JSE. The local registers of JSE listed companies have an aggregate market capitalisation of c.R6.5tn.
2. There has been significant net foreign selling of equities - R114bn in 2019 and R46bn since the beginning of the year. Foreign investors currently hold 39% of the shares on local registers (R2.6tn).

Ramifications of net selling by foreign investors

1. The increased holding by domestic financial institutions reduces the industry’s capacity to provide incremental recovery funding.
2. Increased demands on SARB to fund public sector deficits.

It is of critical importance to re-attract international investment, as it will:
1. reduce the reliance of the SA financial sector to fund the public sector budget deficit
2. free up the capacity to fund the recovery
3. address the escalating balance of payment deficit
There are large non-traditional pools of international capital with minimal exposure to SA, but access requires policy stability.

**International non-traditional funding pools could supplement traditional sources**

- **DFI & ECA**
  - International DFIs have significant capacity to contribute to the economic recovery. The R500bn rescue package includes R100bn funding from DFIs. Subject to fiscal discipline, additional capacity should be available to the public sector.
  - DFI and ECA funding can also be mobilised for investment in economic and social infrastructure.

- **Sovereign Wealth Funds**
  - Several net exporting sovereigns have invested surplus government funds in global income generating assets, with the aim of diversifying economies.
  - Bias towards balanced portfolios. **Ability to invest in infrastructure and private equity**
  - The impact of COVID-19 on domestic funding needs must still be determined.

- **Alternative asset classes**
  - Global AUM have increased by 15% p.a. over the last 15 years, now representing 26% of global asset allocation:
    - **Private Equity**: Global uninvested funds of $2.5tn as at December 2019. In SA, R171bn FUM in Dec’18 (private and public), including R30.1bn undrawn.
    - **Private credit**: Focus on high yield loans. c.14% of total credit, growing at 14% p.a.
    - **Infrastructure funds**: Inflow of $85bn in 2018. Total assets of $415bn.
    - **Mining Funds**: FUM of more than $30bn but less than 1% invested in South Africa.

- **Foreign direct investment**
  - FDI will increase capital availability to the extent that funding is sourced offshore.
  - There is an expectation that **foreign direct investment and M&A will slow down** in the wake of Covid-19, as corporates seek to consolidate existing positions.
  - In SA, FDI expansion coincided with periods of perceived political stability.

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1 Excluding undrawn contingent commitments by member countries.
Increased private sector participation in infrastructure development will reduce strain on fiscus, requiring close cooperation with local and international investors

**Funding requirement**
- In the absence of structural reforms, we estimate an aggregate funding requirement of c.R3.4tr over three years:
  - R2.4tr by the public sector, including local government and SOEs
  - An estimated requirement of c.R1tr by the private sector

**Funding sources**
- Traditional SA based funding sources will be insufficient to meet the requirements and significant funds will need to be sourced internationally
- In the wake of credit downgrades, there has been significant divestment of local bonds and equities by foreign investors, thus reducing funding availability in the local financial services industry to fund the recovery

**Funding enablers**
- Fiscal discipline: Reduce public sector debt burden, funding costs and currency volatility
- Optimise private sector investment in network infrastructure where SOEs currently have monopolies: The private sector can play a significant role in funding and operating of network infrastructure, including electricity, rail and ports
- Infrastructure investment: Attract private investment in network infrastructure development by providing investors with an appropriate risk adjusted return
- Regulatory certainty: Investment in fixed capital is directly correlated with regulatory certainty
- Private and public sector coordination: Maximise the private sector’s participation in infrastructure development by leveraging existing project pipeline and DFI funding commitments (IDC & DBSA in particular)
- A consolidation of state owned DFIs could reduce pressure on the fiscus if consolidated capital could alleviate Land Bank requirements
- Stability of financial markets: Prudent deployment of local funds to avoid contagion on the listed equity and bond markets and the value of investments
- Investment product design: Whilst direct investment in infrastructure projects is appropriate for certain long term portfolios, additional liquidity can be mobilised for investment in marketable securities
- Financial services regulation: Continually review capital and liquidity requirement relaxation, broaden scope of allowance for guarantees to banks by retirement savings beyond housing and allow for pension backed loans by retirement funds. ASISA is currently engaging with NT, SARS and the FSCA in this regard
- Commitment to environmental and social transformation: ESG investment is a key ingredient in asset allocation globally. ESG commitments could attract funding and/or funding support from institutions and DFIs

The public sector funding requirement could reduce significantly if private capital is invested in privately owned infrastructure

SA will be competing for capital against all other emerging markets

Paradigm shift required to address obstacles to investment over the last decade that resulted in slow growth, cost leakage and increasing debt
Key Topics for Discussion

Section 4

Working together to ensure an accelerated economic recovery and a shared national vision

1. An opportunity to reimagine the South African economy and reset the trajectory

2. Actionable initiatives to drive investment, job creation and inclusive growth

3. Funding, cost of capital and fiscal considerations

4. Working together to ensure an accelerated economic recovery and a shared national vision

5. Sector and policy analysis underpinning actionable initiatives
We must work together to ensure an accelerated economic recovery and a shared national vision

1. SA has wasted time and resources over the last decade, and given the impact of COVID-19 we must now work together and make compromises and sacrifices.

2. Leaders in all areas must focus on securing an accelerated economic recovery in the national interest, not just their own specific interest groups.

3. We urgently need a social and economic compact, a cohesive plan and bold leadership to implement rapid economic and inclusive growth and create a more equitable society.

4. Properly capacitated task teams (sector and policy) combining public and private sector experts reporting to the Presidency.

5. Short-term compromises will be required in order to achieve longer term strategic goals and objectives.

Business is ready to help address the economic challenges in South Africa working in partnership with Government, labour and communities.
Key steps to develop a plan, tackle SA’s challenges and introduce measures to prioritise policy initiatives

**A: Iterative steps to reimagine and reform the economic recovery**
- 1. Align with government on new role of state organs and SOEs
- 2. Develop and implement strategies to scale
- 3. Revisit policy and regulatory inhibitors
- 4. Refine and extend trade/exports
- 5. Extend fiscal support and incentives to accelerate growth
- 6. Align with labour on conducive regulation

**B: Key challenges that must be addressed to attract investment**
- Public vs Private finance & funding constraints
- Corruption & crime
- Innovation, entrepreneurship & education outcomes
- Inequality, Transformation & B-BBEE
- Inefficient and redundant SOEs
- State capability & capacity
- Policy certainty

**C: Key measures to assess prioritisation of policy initiatives**
- Investment impact
  - Supports private and public sector investment
- Jobs impact
  - Number of jobs created in the short and long term
- Fiscal impact
  - Impact on government expenditure and revenue
- Second round effects
  - Impact on the functioning of the rest of the economy
- B-BBEE/Inclusivity impact
  - Economic impact biased toward SMMEs and rural/poor as opposed to urban elites and established businesses

We must work together to agree a plan and key objectives
We must acknowledge and tackle the key issues
We must create a conducive enabling environment
Prioritize rigorously

Act quickly and decisively

Ensure dedicated & skilled project management

Maintain accountability

Monitor and evaluate

Change management

Political will

- A firm intention and commitment on the part of government entities is imperative to carry through the execution of priority interventions

Strong, dynamic leadership

- We need leaders with vision and foresight, that understand there will need to be trade-offs and recognise that South Africa is competing on a global stage

Act quickly and decisively

- Being quick and decisive on key interventions to allow stakeholders to take fast actions to materialise the desired change

Prioritize rigorously

- Must prioritise which interventions are important because concurrent programs may spread resources too thin and result in uncoordinated interventions

Ensure dedicated & skilled project management

- Successful implementation requires having enough people with the skills and motivation required to manage a fast-moving and often ambiguous challenges

Maintain accountability

- Key sectors should develop their own strategic accountabilities and work together to set clear and actionable targets that they take ownership of

Monitor and evaluate

- Social partners must be regularly updated on the progress of interventions through rigorous monitoring and evaluation methods

Change management

- A comprehensive change management plan is required to ensure that all stakeholder are kept informed regularly and sustainable impact is delivered
Proposed Next Steps: Alignment on approach following the revised Budget and in conjunction with the Jobs Summit via the creation a sector Task Teams

Post-COVID-19 Economic Reconstruction, Growth and Inclusivity Plan

Focus Areas

- Sector Priorities
- Policy Initiatives
- Funding Options
- Fiscal Stabilisation

Rapid Alignment between social partners

Refine and enhance interventions

Agreement on priorities → Implementation of initiatives → Monitoring and evaluation of outcomes

Creation of a Joint Reconstruction Task Team to coordinate and agree priority actions across sectors and implement far-reaching reforms

Sector sub-committees to focus on implementation of key initiatives and evaluation of outcomes versus objectives
This presentation provides a summary of the deep dive analysis performed by multiple teams across sectors.

1. B4SA assembled a team of industry experts to analyse challenges and consider potential opportunities by sector.

2. There are over 50 subsectors that were aggregated into 10 primary sectors, with a detailed presentation supporting each.

3. Separate teams analysed policy, innovation, education and labour considerations with detailed presentations on each.

4. Section 5 of this document provides a summary of the key conclusions, with sector and policy recommendations.

5. B4SA can make available the detailed materials as well as provide access to the sector teams for further discussion.

There are 10 separate detailed presentations for each sector analysed.

The conclusions have been summarised into four pages per sector in Section 5.

In addition there is an Appendix to this document providing supporting material to the four page summaries.
Sectors and subsectors in more detail: Focusing on sectors with strong multipliers to create jobs and GDP growth

<table>
<thead>
<tr>
<th>High impact industry focus areas...</th>
<th>....comprise ~50 subsectors</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 SMMEs (multi-sector) &amp; Township / Rural</td>
<td>Gold, Coal and lignite, Platinum, Ferrochrome, Natural gas, Other mining</td>
</tr>
<tr>
<td>2 Energy &amp; Water</td>
<td>Electricity, Water</td>
</tr>
<tr>
<td>3 Mining</td>
<td>Building and construction</td>
</tr>
<tr>
<td>4 Construction</td>
<td>Rail, Roads, Ports, Aviation</td>
</tr>
<tr>
<td>5 Manufacturing</td>
<td>Citrus Fruit, Deciduous Fruit, Subtropical Fruit, Vegetable, Livestock, Game, Dairy, Forestry, Fishing, Cereal and Crop, Poultry, Other Agriculture, Trade</td>
</tr>
<tr>
<td>7 Agriculture, Wholesale &amp; Retail</td>
<td>Cover all the sectors, including the subsectors below which are not included in the focus areas: Business services, Community, Social and Personal Services, Real estate</td>
</tr>
<tr>
<td>8 Financial Services</td>
<td>Business services, Community, Social and Personal Services, Real estate</td>
</tr>
<tr>
<td>9 Telecommunications</td>
<td>Community, Social and Personal Services, Real estate</td>
</tr>
<tr>
<td>10 Tourism &amp; Leisure</td>
<td>Community, Social and Personal Services, Real estate</td>
</tr>
</tbody>
</table>
Overview of the sector analysis: Each team has produced a detailed analysis of the key challenges and priority actions to develop a roadmap

- Each sector team has produced a detailed report that has been reviewed by experienced sector leaders
- This presentation summarizes the key findings of each report based on a 4 page template as outlined below
- Additional appendices (per sector) are summarized in a separate document that focuses on the detailed sector findings

Overview of the sector:
- Key sector considerations
- Market analysis
- Sector resilience
- Impact on jobs
- Challenges
- Mitigations
- Opportunities

Key challenges:
- Key constraints
- Structural challenges
- Exacerbated by the pandemic

Plan of Action:
- Short term plan
- Medium term plan
- Long term plan

Overview of the sector:
- Key sector objectives
- Sector and market analysis
- Impact of COVID-19

Challenges:
- What are the structural challenges facing this industry
- How will it be impacted by COVID-19

Priority Actions:
- Sector initiatives that should be prioritised
- Benefits of proposed actions

Roadmap:
- Implementation plan
- Paving the way forward

Prioritised Actions:
- What should be prioritised and why
- Implementing the correct actions & yields
- What is the job potential
- What is the potential GDP uplift
- What are the fiscal benefits
Key Topics for Discussion

Section 5

Policy and sector analysis underpinning the actionable initiatives

1. An opportunity to reimagine the South African economy and reset the trajectory

2. Immediate actionable initiatives to drive investment, job creation and inclusive growth

3. Funding, cost of capital and fiscal considerations

4. Working together to ensure an accelerated economic recovery and a shared national vision

5. Policy and sector analysis underpinning the actionable initiatives
A stable and constructive policy environment is critical for driving inclusive growth

1. **Innovation & Entrepreneurship**
   - Diversifying the economy with a focus on innovation and entrepreneurship

2. **Education**
   - A fundamental and fast transformation of education is needed in order to build the nation with a focus on workforce upskilling

3. **Policy revision and certainty**
   - Policy obstacles need urgent resolution and should be combined with a vigorous anti-corruption agenda

4. **Economic transformation**
   - Implementing sustainable interventions that seek to broaden and deepen economic benefit and participation

There is an opportunity for national innovation and renewal, but we must work together to address the fundamental issues head-on if we are to achieve inclusive growth.
Focus on diversifying the economy with particular attention on Innovation and Entrepreneurship

To improve the Innovation ecosystem, SA should focus on three areas (based on Total Entrepreneurship Activity)

1. **Increase Startup skills**
   Focus on education, increase ease of starting a business, employment training, shift from informal to formal, introduce wage subsidies

2. **Introduce non-traditional financial mechanisms**
   Examples include Fintech platforms, standardized non-traditional credit scoring, support for non-bank lending, crowd funding*)

3. **Technology as an enabler**
   Embrace digital technology, increase employment and insourcing via demand driven digital skill training, increase digital inclusion, build digital platforms
   All these increase SA’s future potential to leverage 4IR and will further enhance competitiveness.

* Could be met by creating a funding a platform to create alignment and demand across the innovation ecosystem

Greater alignment required across the Innovation and Entrepreneurship ecosystems

1. **Create greater alignment**
   Across all players in the ecosystem by using a centralised open source database

2. **Focus on creating demand**
   By pivoting demand from a push model to one that is driven by Government and/or private companies

3. **Reduce duplication**
   Multiple players offer similar services and many are below the required professional level

4. **Introduce incentives across the ecosystem** e.g. higher tax reductions for corporates who invest/procure services, tax breaks for innovation investments and no tax for players at early stages of innovation

By focusing on these three areas
SA could *increase GDP by $80bn*
A fundamental and fast transformation of education with a focus on workforce upskilling

| 1 | Provide lifelong learning pathways/reinvent the skills learning cycle |
|   | • Allow for constant recredentialising thereby enabling proactive adaptability to crises, major events and climate change |
|   | • Review of the skills development levy to restore its original purpose viz. to encourage work-based learning |
|   | • Provide degree apprenticeships, alternative ladders of qualifications vs university degrees, create trade-to-management pathways through part-time study and longer paths or experience-based pathways to management to ensure strong skills base |

| 2 | Business involvement in the development of skills programmes |
|   | • Will assist to develop curriculum which responds to business’ needs and build relevant skills |
|   | • Broadening the scope of ISFAP, which has a student throughput of 94% by providing students with a clear career path in skills occupations that are in high demand |

| 3 | Reassess funding models for universities |
|   | • Differentiate universities and their funding models - allow fast track courses, elite programmes, as well as developing universities |
|   | • Make universities accountable for the quality of their outputs e.g. relevance and employment of graduates, with appropriate bridging programmes where necessary |
|   | • Provide support to institutions that are poorly equipped, but with prescribed performance criteria |

| 4 | Redesign TVETs/SETAs |
|   | • Boost and redesign TVETs/SETAs to address poor governance, low relevance of industry skills and lack of innovation |

| 5 | Create a competitive market for private skills providers |
|   | • Bypass national institutions that are delaying progress by allowing international qualifications that can be delivered by public private consortia or private institutions |
|   | • Provide public funding to private skills providers to increase the supply and drive better quality and accountability |

| 6 | Borrow from successful models in other countries |
|   | • Follow examples in Japan, Korea, Vietnam and Singapore who successfully adapted existing models |
|   | • They implemented policies, planning and processes which ensured that education systems were tightly and relentlessly aligned to economic growth, with appropriate support from business |

| 7 | Support material and immediate growth in digital education |
|   | • Need to supply high levels of connectivity and cheap data |
|   | • For those trapped in the digital divide, provide multiple physical learning locations with connectivity |

| 8 | Improve supply and quality of instructors |
|   | • Emphasis on instructors with workplace experience or support for existing staff with such experience |

The disruption of education during the pandemic provides a catalyst to reimagine education, and correct existing inequalities to provide quality education to all. This will allow a generation of learners to reach their potential and, therefore, contribute to South Africa’s economic and social prospects. Improvements in our skills systems is reliant on better outcomes in our schooling system.
Policy obstacles need urgent resolution and should be combined with a vigorous anti-corruption agenda

Inclusive growth will be driven by investment, jobs, improving economic capacity and a bias towards the rural and poor to ensure Broader Black Economic Empowerment

**Key policy theme clusters**

<table>
<thead>
<tr>
<th>Investment</th>
<th>Business environment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fiscal stabilisation</td>
<td>Employment incentives – ETI, EPWP</td>
</tr>
<tr>
<td>Large infrastructure PPPs</td>
<td>Cutting red tape – registrations/tax compliance/visas</td>
</tr>
<tr>
<td>IPP/SSRG/Utility scale</td>
<td>Property rights and policy certainty</td>
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<tr>
<td>Spectrum auctions</td>
<td>Lower costs of data/comms</td>
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<tr>
<td>Mining/O&amp;G policy certainty</td>
<td>Energy stability</td>
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<tr>
<td>SOE reform</td>
<td>Labour law reform – particularly for SMMEs</td>
</tr>
</tbody>
</table>

**Proposals broadly align with NT’s economic reform paper, SONA commitments, the IPAP and the IRP. Consideration to be given to:**

1. How social partners should drive recovery agenda given the number of policy initiatives currently underway e.g. PEAC, sectoral initiatives, Investment Envoys, NPC
2. Creating capacity to rapidly turn policy objectives into white papers

*Economic Transformation, Inclusive Growth, Competitiveness: A Contribution Towards a Growth Agenda for the South African Economy*
### Proposed policy interventions should have a positive impact on attracting investment and creating job

<table>
<thead>
<tr>
<th>Policy interventions (numbers correlate to Top 12 initiatives)</th>
<th>Investment impact</th>
<th>Jobs impact</th>
<th>Fiscal impact</th>
<th>Second round effects</th>
<th>Inclusivity impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Tackle crime &amp; corruption</td>
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<tr>
<td>2. Improve ease of doing business</td>
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<td>3. Reduce red tape</td>
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<td>4. Large scale infrastructure projects</td>
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<td>5. Infra: expanded public works programme</td>
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<td>6. SOE reform</td>
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<td>7. Clarity on land reform – s25 and expropriation act resolution</td>
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<td>8. Skills: You employment tax incentives</td>
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<td>9. Labour law reform</td>
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<td>10. Review trade policies</td>
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<td>11. Simplify mining regulation</td>
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<td>12. Energy: Round 5 IPP programme</td>
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<tr>
<td>13. Energy: Free red tape for other energy generation (small, medium large scale)</td>
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<tr>
<td>14. Energy: Industrialisation strategy (increase local content requirements)</td>
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<tr>
<td>15. Energy: Eskom restructuring &amp; unbundling</td>
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<tr>
<td>16. Energy: Oil &amp; gas bill revisions</td>
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<tr>
<td>17. Telecomms: Maximise connectivity</td>
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<tr>
<td>18. Financial inclusion: Regional financial services hub</td>
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</tbody>
</table>

### Rating scale to measure impact

- **Positive high**
- **Positive medium**
- **Positive low**
- **Negative low**
- **Negative medium**

### Policies can be assessed in terms of:

- **Investment impact**: Supports private and public sector investment
- **Jobs impact**: Number of jobs created in the short and long term
- **Fiscal impact**: Impact on government expenditure and revenue
- **Second round effects**: Impact on the functioning of the rest of the economy
- **B-BBEE / Inclusivity impact**: Economic impact biased toward SMMEs and rural/poor

---

1. Business is committed to advancing the agenda for decent work and ensuring workers are treated fairly and with dignity. We also recognise that some labour laws may have had unintended consequences on employment and economic growth and believe they can be amended without undermining dignity in employment and the agenda for decent work.
Economic Transformation can be achieved through sustainable interventions to accelerate the quality of education and skills development for black people, employment creation (particularly among the black youth) and large scale black enterprise development, including:

1. **Inculcating a transformative culture** within businesses and building social cohesion
2. **Large scale enterprise development**, focused on expanding opportunities and removing regulatory and other exclusionary practices that are barriers for emerging black enterprises
3. **Quality and demand-led education and skills development** which requires enhanced support for basic education and a significant review of the current institutional skills structure so that skills development is informed by current and future business needs
4. **Clear blockages to employment**, with systemic interventions to promote sustainable youth job creation
5. **Review of the efficacy of existing regulation and policies** in achieving sustainable economic transformation and B-BBEE

There is a need for full and equitable participation by a broad base of black people in the South African economy, with an emphasis on those that are most disadvantaged (black women, youth, people with disabilities and people from poor households, township economies or rural areas).
The Wholesale & Retail sector is a key employer and enables the delivery of a range of products and services across all other sectors.

### The SA Retail Market Contributions

- The largest employer in the economy creating 2.9 million jobs
  - c.82% (2.4m) are direct jobs in retailing with a further 0.5m jobs from indirect and wholesale roles
  - Represents 22% of formal employment (the largest private sector employer)
- Total revenue of R900bn per year (14% of GDP)
  - 60% formal and 40% informal sector
- Sector includes most of the largest food and clothing retailers in Africa

### Key role the sector plays

- Key driver of overall economic productivity (efficiency of supply chains; replenishment; economies of scale etc)
- Capital investment in new stores and infrastructure as well as strong logistics infrastructure
- Physical stores as a driver of other local investment and increasing investment in digitisation
- A major and growing employer of people
- Primary route for acquiring skills and achieving social mobility
- Major supporter of SMMEs as new and growing suppliers and as service providers to the entire sector
- Contributor to health and wellness through improved physical access to modern and safe stores selling fresh nutritional products, pharmaceuticals, etc.

### Key Challenges

- Clothing, general merchandising and services sector was hard hit by the lockdown provisions, impacting SMMEs
- Reform of competition policy is key: An over-zealous and anti-market approach from the Competition Commission is emerging which is an increasing impediment to growth and new investment
Overview of the SMME sector and implications of COVID-19

### Key Sector Objectives

- The SMME sector includes many different types of businesses, from the micro informal economy which are largely subsistence based, to the larger formal small and medium sized businesses.
- The larger SMMEs employ more people than the smaller, micro enterprises.
- Hence our recommendations for improving SMME sustainability and stimulating entrepreneurship differ according to SMME segments – there is no ‘one size fits all’ solution.

### Categories

<table>
<thead>
<tr>
<th>Category</th>
<th>Criteria</th>
<th>Analysis</th>
<th>Rationale</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sector and market analysis</td>
<td>Resilience</td>
<td>- Many of the informal sector micro-enterprises continue to stay afloat – many have been able to adapt very quickly and are largely outside of the regulatory net</td>
<td></td>
</tr>
<tr>
<td></td>
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<td>- A large percentage of formal sector SMMEs are in the trade and accommodation sector, which will take a while to recover, those in the communications sector are best placed for future growth</td>
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</tr>
<tr>
<td></td>
<td></td>
<td>- Formal SMMEs are struggling – no savings buffer and consumer spending has dried up (StatsSA survey – over 55% of SMMEs don’t have cash flow to survive post July 2020)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Job creation potential</td>
<td></td>
<td>- Digital skills is an important area for job and SMME creation – in 2019 LinkedIn had 209,000 job openings on their platform, most of which would require some digital skill (there is a mismatch between job seekers skills and demand)</td>
</tr>
</tbody>
</table>
| Impact of Covid-19           | Job losses   | - In the next 3-12 months, between 380k and 440k formal sector SMME jobs will be lost or are at risk, and a further 600k to 700k informal sector SMME jobs are at risk | - ~70% of job losses were due to business closures and lack of customers (StatsSA)  
- Financial assistance is insufficient: 30 - 50% of SMMEs applied for government relief; 68% who applied were unsuccessful (due to conditions of the scheme), DSBD’s SEFA funding window is now closed, and 71% of SMMEs require further funding post lockdown  
- As at 27 June, R10.6bn has been lent to 7,496 business under the Loan Guarantee Scheme  
- Rise in liquidations (up 10.7% in 2019 over 2018 and up 53% in the first quarter of 2020) |                                                                                                                                                                                                            |
|                              | Supply and Demand |  | - The extended lockdown has had and will continue to have a negative impact on SMMEs, particularly given the contraction in consumer and business spend  
- Not all government departments (national, regional, local), SOEs and businesses are paying SMMEs on time |                                                                                                                                                                                                            |
|                              | Infrastructure |  | - SMMEs require access to cheap and reliable electricity and connectivity, as well as reasonably priced credit facilities  
- The regulatory environment is burdensome and costly for SMMEs – we need to identify policies to accelerate SMME growth (identify opportunities) |                                                                                                                                                                                                            |
Key challenges: The SMME industry faces 4 main structural constraints

Costly and difficult regulatory framework

- The regulatory environment is burdensome and costly for SMMEs – we need to identify policies to accelerate SMME growth (identify opportunities), and review and simplify certain regulatory implementation challenges (elements of the Labour, B-BBEE, tax and IP laws) that are onerous to SMMEs
- World Bank Ease of Doing Business - difficulty in starting a business went from 53 (almost top quartile) to 139 (bottom quartile) between 2008 and 2020
- WEF Global Competitiveness index which places SA at 89th in terms of burden of government regulation

Skills

- A lack of digital skills is a critical barrier to SMME creation and expansion – and results in many jobs and successful tech SMMEs being off-shored
- Many SMMEs lack marketing, sales and financial management skills
- In the medium term, an entrepreneurial mindset needs to be fostered in schools

Access to Credit & Markets

- Access to appropriately priced public and private sector credit with fewer onerous qualifications is a key challenge across the SMME segments
- Augmenting the non-bank lender offerings in South Africa is critical for liquidity injection into the SMME sector
- It’s difficult for SMMEs to provide products and services to large corporates – particularly given often onerous payment terms and a lack of appropriate supplier credit and credit guarantee insurance

Crime and corruption

- Crime has been listed as a matter of concern for SMME owners
- Procurement corruption (in terms of awarding of contracts and payment of invoices) is also an ongoing matter
Priority Actions: Addressing constraints and opportunities

**Industry wide financial services approach**
- Support additional lending to SMMEs via banks and non-bank lenders (simplify application process, use appropriate measures to assess credit-worthiness)
- Develop access to funding, digital platforms for ecommerce and credit facilities through an industry wide financial services approach

**Reduce red tape and accelerate growth**
- Identify and amend or simplify the top regulatory implementation challenges to SMME growth (elements of the Labour, B-BBEE, tax and IP laws) to ensure SMME cost and ease of doing business is lowered
- South Africa should focus on materially improving its position in the World Bank Ease of Doing Business Index
- Revisit the Regulatory Impact Assessment (RIA) Act to ensure all new legislation takes account of small business constraints

**Pay SMMEs on time and support local buying**
- SMMEs working capital constraints are exacerbated by late payments (by government departments, SOEs and business)
- Tariffs for inferior imports and incentivise local buying

**Help SMMEs Pivot**
- Assist world-class small and medium sized businesses capitalise on areas of possible competitive advantage
- Business model adaptation – and export acceleration
- Develop and onshore digital skills and jobs - software, AI, digital skills via centres of excellence
Roadmap: Immediate interventions required to foster SMME industry recovery

### Act Now

**Immediate**

- **Up to 6 Months**
  - Support additional lending to SMMEs - simplify application process, use appropriate measures to assess credit-worthiness and augment non-bank lending (micro loans to informal entrepreneurs, purchase order finance to formal SMMEs, etc)
  - Engage with non-bank lenders and banks to understand levers to increase liquidity injections
  - Pay SMMEs on time – critical for cash flow

### Plan Now

**Medium Term**

- **6 - 24 Months**
  - Reduce red tape
  - Identify and amend or simplify the top regulatory implementation challenges to SMME growth (elements of the Labour, B-BBEE, tax and IP laws) to ensure SMME cost and ease of doing business is lowered
  - Revisit the Regulatory Impact Assessment (RIA) Act to ensure all new legislation takes account of small business constraints

### Longer Term

- **2 - 5 Years**
  - Assist world-class small and medium sized businesses to capitalise on areas of possible competitive advantage
  - Aim to materially improve South Africa’s position in the World Bank Ease of Doing Business index and the WEF Global Competitiveness Index
  - Business model adaptation – and export acceleration
  - Develop and onshore digital skills and jobs - software, AI, digital skills via centres of excellence

Remove red tape for SMMEs
Overview of the Energy & Water sectors and implications of COVID-19

### Key Sector Objectives

- **Economically viable and reliable energy** to the end consumer (industrial, commercial and private consumers)
- **Potential to act as a catalyst for growth** (in the broader economy and trigger large scale investment)
- **Transition to a lower carbon energy mix**
- **An appropriately capitalised and more efficient Eskom that is no longer a burden on the tax payer**
- **Opportunities to improve water utilisation and long term water security**

### Impact of Covid-19

<table>
<thead>
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<tr>
<td>Sector and market analysis</td>
<td>Resilience</td>
<td>• Eskom reduction in cash generation for April alone of ~R2.5bn due to COVID-19, full impact still to be assessed</td>
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</tr>
<tr>
<td></td>
<td>Security</td>
<td>• Liquid fuels value chain severely impacted due to complete shut down during April and continued suppressed demand for product (specifically jet fuel)</td>
<td>• Investments in energy sector highly uncertain due to lack of policy certainty and delay in key regulatory and commercial processes</td>
</tr>
<tr>
<td></td>
<td>Job creation potential</td>
<td>• Up to ~72k jobs in the electricity sector with capex spend of ~R157bn</td>
<td>• Lack of historical investment in water infrastructure has impacted rural communities</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• At least ~1k jobs in the gas sector with capex spend of ~R4-11bn</td>
<td>• Stymied demand growth will further contribute to uncertainty</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Up to 15k jobs in liquid fuels sector with capex spend of ~R9bn</td>
<td></td>
</tr>
<tr>
<td>Impact of Covid-19</td>
<td>Job loss</td>
<td>• &gt;82k jobs at risk in broader economy due role of electricity as an enabler</td>
<td>• Electricity supply-demand balance at risk, demand has picked up to &gt;80% of pre-COVID levels during Level 4, large risk of load-shedding prior to lockdown if additional supply not secured</td>
</tr>
<tr>
<td></td>
<td>Supply and Demand</td>
<td>• Up to ~66k jobs at risk if current supply decline (from Pande-Temane) not mitigated</td>
<td>• Jet fuel likely to experience a long term significant reduction in demand</td>
</tr>
<tr>
<td></td>
<td>Infrastructure</td>
<td>• Up to ~ 80k jobs at risk in the Liquid Fuels Sector (refinery operations only considered)</td>
<td>• Downtime during COVID-19 used as an opportunity to perform maintenance in both liquid fuels and electricity sector</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Up to ~ 80k jobs at risk in the Liquid Fuels Sector (refinery operations only considered)</td>
<td>• Liquid fuels supply under significant strain as demand for diesel ramps up but this is a short term anomaly that the industry is capacitated to deal with</td>
</tr>
</tbody>
</table>
Key challenges: The Energy sector faces 6 main structural constraints

Policy Uncertainty & Effectiveness
- Gaps on key policy considerations e.g. IEP not updated since 2016, lack of Gas Master Plan
- Misalignment of relevant key policies
- Key policy decisions stalled e.g. Clean Fuels II, self generation
- Lack of clarity on key policy matters e.g. how SA will transition to a lower carbon economy
- Water supply and sanitation policies need to be revisited

Regulatory Process Inefficiency
- Complex, multi-stakeholder processes that result in long lead times e.g. finalisation of IRP
- One-size-fits-all, suboptimal processes stall implementation e.g. generating licence process same for Medupi-scale plant, REIPPPP project and self generation project

Supply Challenges
- Limited regional cooperation to unlock gas supply potential
- Continued deterioration of Eskom plant availability and Load-Shedding (when demand was at Pre-COVID-19 levels)
- Looming Pande-Temane gas supply decline from 2024 onwards
- Potential global supply-side competitiveness issues in long-term

Unpredictable Price Increases
- > 8% tariff increases over the last 5 years for commercial and industrial users (2014-2018)
- Additional R27 billion to be absorbed following court decision in March 2020
- Further uncertainty on energy commodity pricing also linked to COVID-19

High Carbon Energy Mix
- >80% Coal-based electricity generation mix - becoming increasingly uncompetitive and difficult to fund
- Strong push from investors and shareholders to move to lower carbon feedstock
- SA committed to climate mitigation in line with Paris agreement

Need for a Just Transition
Need for a social and economic compact that mitigates the risk of job losses as South Africa migrates to a lower carbon energy mix
Key challenges: Water Services sector challenges and response

Challenges

- COVID-19 increasing challenges to water sector facing multiple stresses
- Increasing water demand but decreasing functionality of existing infrastructure
- Backlog in provision of critical new water infrastructure (e.g. Lesotho Highlands Phase 2)
- Inadequate technical capacity across government to provide sustainable services
- Financial constraints to meet capex and opex needs
- Increasing threat to water security
- Declining water quality
- R33 billion pa capital investment needed for 10 years to achieve water security
- Corruption in sector

Focus Support Areas

- Private sector investment (capex and opex):
  - Blended finance models
  - PPPs tailored to the needs of the water sector
  - Direct support in water provision
- Skills development:
  - Expand and fast track Technical Assistance, Mentorship and Development (TAMDEV) initiative support to water service authorities
  - Integrate operations and maintenance support into initiatives

Constraints

- Limited stakeholder acceptance of private sector participation in sector
- Inefficient water licensing regime and unimplementable licence conditions
- Regulatory constraints to water reuse/recycling and efficiency
- No ring fencing of municipal funding/grants to guarantee loan payments and for PPPs
- Onerous and lengthy PPP process

Need for a Stronger Partnership

Need for a social and economic compact to improve water infrastructure, water quality and capacity to deliver water services
Priority Actions: Cross-cutting interventions enable economic recovery in energy sector and broader economy

- Launch Green Stimulus and national green funding strategy
- Align national energy strategy across all key policies and plans

- Up to $83B more in international funding accessible
- On average 18bps cheaper for Green Bonds versus Vanilla Bonds
- Up to 500k direct jobs unlocked in green investments
- Mitigate transition risk of >R1.8T to ensure long term economic prosperity

These cross-cutting interventions are critical to unlock stated jobs impact and CAPEX deployment in the energy sector

Priority Actions: Up to 64-82k jobs can be protected and up to 72k new jobs created within next 3-5 years

Key enabler

Address Eskom operating and capital structure
Update IRP via revised update process and in line with IEP
Enable short-term negotiated pricing and reform overall tariff landscape
Fast-track renewables deployment via REIPPPP Round 5
Provide policy certainty and regulatory clarity on self-generation
Align G2P targets to updated demand projections

Accelerate unbundling to enable expansion of IPP programme and allow for improved operational performance
Creates single-source of truth of SA energy landscape reflecting latest tech. trends
Provide immediate relief to eligible businesses, build competitive industry tariff landscape
Accelerates deployment of RE as per IRP and build of local supply chains
Enables private sector and municipalities to ensure reliable and affordable energy supply
Creates certainty on expected gas demand from power sector to drive investments in gas

Full potential 2021-2025

Up to 64-82k jobs protected
Up to 72k jobs created
Up to R157bn in Capex deployed

Heavily documented outside this analysis – Focus of B4SA assessment is on priority interventions outside Eskom

**Roadmap:** All cross-cutting and priority interventions require action in the short-term to ensure success

### Immediate: Up to 6 Months
- Develop transparent IRP planning processes
- Kick-off IRP update process – role of nuclear and gas
- Finalise ST negotiated pricing agreement policy
- Fast-track processing of existing applications
- Finalise RFP, fast-track selection of Round 5 preferred bidders
- Prepare next REIPPPP Rounds incl. fast track Round 6 and future rounds
- Streamline review process and accelerate processing time
- Adjust regulatory framework, incl. review private sector recommendations on regulatory and administrative process
- Improve efficiency of related administrative processes and build capacity of responsible authorities
- Start procurement of “No-regret” G2P capacity
- Initiate process to revise IRP and G2P targets
- Launch Green Stimulus strategy
- Create green financing strategy to unlock funding
- Remove barriers and develop project pipeline
- Pre-requisite: Ensure policy clarity and regulatory certainty on key enablers e.g. through unbundled and independent transmission entity and economically viable compensation model for Eskom
- Pre-requisite: Capacitate/align NERSA & DMRE

### Immediate relief to businesses through improved affordability of supply

### Mitigated supply risk, adjusted regulatory frameworks, & holistic energy planning

### Plan Now
- Update IRP according to revised process and in line with IEP and other energy plans as well as NDCs
- Ensure adherence to plans across government
- Develop transparent and standard NPA application process
- Reform industry tariff landscape
- Develop alternative, efficient procurement process
- Continue roll-out of renewables as per IRP and growth of local industry
- Draft RFP and begin bidding process for G2P procurement
- Execute green stimulus and green funding strategy incl. continued development of project pipeline

### Longer Term: 2-5 years
- Draft RFP, fast-track selection of Round 5 preferred bidders
- Prepare next REIPPPP Rounds incl. fast track Round 6 and future rounds
- Continue roll-out of renewables as per IRP and growth of local industry
- Start procurement of “No-regret” G2P capacity
- Initiate process to revise IRP and G2P targets
- Launch Green Stimulus strategy
- Create green financing strategy to unlock funding
- Remove barriers and develop project pipeline
- Pre-requisite: Ensure policy clarity and regulatory certainty on key enablers e.g. through unbundled and independent transmission entity and economically viable compensation model for Eskom
- Pre-requisite: Capacitate/align NERSA & DMRE

### Competitive tariff landscape, conducive and comprehensive regulatory landscape

**Note:** ST = Short-term; NPA = negotiated pricing agreement; G2P = Gas to power
Priority Actions: The considered priority actions build the basis for gas supply security in the short- and long-term.

1. Enable upstream exploration in South Africa and assess Mozambique supply to secure long-term supply.


Full potential
2021 - 2025 (excl. last intervention)

- Only considered: Jobs created from FSRU deployment.
- Overall job creation impact estimated to be much higher.

Min. 1k jobs created
Up to 66k jobs protected
$250-700mn (~R4-11bn) Capex deployed
**Roadmap:** Immediate action required to provide to ensure security of short- and long-term gas supply

### Act Now

**Immediate**

- Up to 6 Months
  - Set-up multi-stakeholder forum and working group
  - Develop point of view to inform update of IEP on gas
  - Kick-off engagement with Mozambican government to lay foundation for bilateral "win-win" agreement
  - Decide on optimal location of LNG hub and instruct IPP office to start procurement of min. 1 GW G2P capacity
  - Clarify role of SOEs and how LNG price will be regulated
  - Set-up task team to drive alignment on action plan amongst all key stakeholders (e.g. TNPA, NERSA, PR1 etc.)
  - Expedite finalization of UPRDB2 under consultation of multi-stakeholder forum (including IOC3’s) to ensure alignment and policy clarity

### Plan Now

**Medium Term**

- 6 - 24 Months
  - Multi-stakeholder forum to drive alignment and decision making on policy matters when needed at a minimum, ensure alignment between Gas Bill, PPGI Gas Sector Master Plan and DTIC Gas Master Plan to develop ‘single source of truth and an aligned national response
  - Establish bilateral agreement with Mozambican government for remaining Pande-Temane reserves (with consideration to Matola)
  - Agree on pricing structure for new supply
  - Drive strategy finalization and deployment incl. coordination of investment and LNG infrastructure development

**Longer Term**

- 2 - 5 Years
  - Sign-off bilateral agreement
  - Drive strategy implementation
  - Drive strategy implementation
  - Develop long-term supply strategy and concrete plan of action based on finalised IEP
  - Engage in bi-lateral negotiations with Mozambican government on long-term supply options
  - Investigate farm-out strategies
  - Execute plan of action

### Secure short-term gas supply

### Secure mid-term gas supply

### Build regulatory, commercial and physical infrastructure for long-term gas supply

---

1. Ports Regulator 2. Upstream Petroleum Resources Development Act 3. International Oil Companies
Priority Actions: Addressing constraints and opportunities could set up the industry for long-term

Short-term industry support
- Determine value chain segments needing direct, targeted support
- DMRE and industry stakeholders to work closely together

Strategic stocks policy and plan
- Reassess requirements, locations and options for additional storage
- Finalise strategic stocks policy & implementation plan, coordinate implementation with NERSA

Biofuels industry way forward
- Validate feasibility studies on 1st, 2nd and 3rd generation biofuels
- Take decision on whether biofuels should be introduced as liquid fuels energy alternative

Clean Fuels II upgrades way forward
- Understand socio-economic linkages and mechanisms for supporting upgrades
- Take decision on whether and how (mechanisms & timeframe) refinery upgrades should be supported

Support mechanisms to grow LPG market
- Coordinate development of business case, incl. support mechanisms
- Take decision on how Government should support LPG market growth

Potential for local manufacturing base
- Conduct feasibility study for different product groups (incl. other industries)
- Take a decision whether / for which products a local manufacturing base should be supported to be built

Potential Uplift by 2025
- Up to 80-100k Jobs protected
- R9bn Capex required
- 15k jobs created

---

1. Not including jobs potentially created and capex potentially spent upon successful completion of feasibility studies and decision to push respective topic forward where required
**Roadmap:** Interventions short term to support industry survival, mid/long term to support strategic decision making

### Act Now

**Immediate**
*Up to 6 Months*

- Allow industry to work with Government to coordinate security of supply country-wide where possible in compliance with competition act
- Facilitate collaboration between industry and Government for early information sharing, to determine immediate support required and identify additional need for support in the coming months
- Engage with industry on proposed changes to regulatory frameworks

### Plan Now

**Medium Term**
*6 - 24 Months*

- Kick off (validation of) feasibility studies on potential for developing biofuels industry, supporting refinery Clean Fuels II upgrades, supporting LPG market growth and localisation of manufacturing base
- Make decisions based on outcome of feasibility studies on the way forward
- Where decisions already taken, develop strategic implementation plans and implement regulatory changes to attract industry investment

### Longer Term
*2 - 5 Years*

- Implement proposed next steps based on outcome of decisions from feasibility studies
- Realise implementation plans to grow industry and improve security of supply

---

**Feasibility studies and decision on way forward; set up regulatory frameworks incentivising industry investments**

**Collaboration between government and industry; targeted support for industry**

**Implement plans and unlock value of increased investment**
### Overview of the mining sector and implications of COVID-19

#### Key Sector Objectives
- **Ramp up production to pre-COVID level**
- **Ensure safety** of ongoing operations
- **Improve investment** environment
- **Unlock potential investments**

#### Impact of Covid-19

<table>
<thead>
<tr>
<th>Categories</th>
<th>Criteria</th>
<th>Analysis</th>
<th>Rationale</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sector and market analysis</strong></td>
<td>Resilience</td>
<td>• The industry will likely end 2020 with 20-30% reduced output</td>
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<td>Job loss</td>
<td>• The industry is in structural decline due to lack of expansion capex</td>
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<td>Supply and Demand</td>
<td>• In the short term, reforms can help stave off job losses</td>
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<td>Infrastructure</td>
<td>• Job growth is only a long term prospect once expansion capex resumes at scale</td>
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</tr>
</tbody>
</table>

#### Rationale
- **~30 000 jobs are at risk due to vulnerable operations losing production**
- **Demand dynamics remain viable for most South African operations**
- **Production is mostly capped due to supply caps in infrastructure and energy**
- **Medium term trends differ by commodity, but remain moderately optimistic**
- **Supply infrastructure has remained largely intact**
- **Service providers and supply chains are however highly affected by operations at risk**
- **Investments are considered to be highly insecure due to regulatory uncertainty**
- **Even if current uncertainties are addressed the possibility of future changes remain**
- **Fundamental reforms, including policy stability commitments, are required**
- **The industry will likely end 2020 with 20-30% reduced output**
- **Smaller firms and certain assets are under pressure**
- **Most of the industry expects to be fully operational by end 2020**
- **Investments are considered to be highly insecure due to regulatory uncertainty**
- **Even if current uncertainties are addressed the possibility of future changes remain**
- **Fundamental reforms, including policy stability commitments, are required**
- **The industry is in structural decline due to lack of expansion capex**
- **In the short term, reforms can help stave off job losses**
- **Job growth is only a long term prospect once expansion capex resumes at scale**
- **Demand dynamics remain viable for most South African operations**
- **Production is mostly capped due to supply caps in infrastructure and energy**
- **Medium term trends differ by commodity, but remain moderately optimistic**
- **Supply infrastructure has remained largely intact**
- **Service providers and supply chains are however highly affected by operations at risk**
Key challenges: The mining industry faces 6 main structural constraints

**Electricity Supply**
- Increasingly expensive supply
- Supply disruption, causing ~3% output losses in 2019

**Infrastructure Bottlenecks**
- Mn and Iron Ore production capped
- Exploration Coal production in Limpopo and Mpumalanga capped by rail constraints

**Regulatory Uncertainty**
- Uncertainties around the Charter
- Regulation by Charter is subjective and easily changeable

**Cost Competitiveness**
- High labour and electricity inputs
- Lack of modernisation

**Geological Complexity**
- Depleting ore bodies
- Deeper mines, with lower grades

**License to Operate**
- Tension with communities
- Poor labour relations
Priority Actions: Addressing constraints and opportunities could add ~70 000 jobs by 2024

**Regulatory Reform**
- Overhaul regulations for competitiveness
- Write regulatory requirements into law

**Industry Modernisation**
- Industry to invest in modernisation drive
- Government and Labour should support shift

**Reliable Energy Supply**
- Permit self/3rd party generation & fix Eskom supply
- Maximise Eskom Generation performance

**Infrastructure Development**
- Invest in rail & port capacity expansions
- Explore PPPs to facilitate development

**Community Investment**
- Allow pooling of investments across companies
- Jointly develop community plans & track progress

**Exploration Strategy**
- Improve Geomapping in key areas of SA
- Improve mapping and exploration strategy

**Gov-Industry Task Force**
- Establish task force for executional certainty
- Expedite highest-impact project execution

**Investment Promotion**
- Promote SA as investment destination
- Develop core narrative on mining in SA

**Potential Uplift by 2024**
- 70 000 Jobs by 2024
# Roadmap: Immediate interventions required to foster industry recovery

## Act Now

### Immediate

**Up to 6 Months**
- Industry-Government workshop to align on next steps
- Initiate regulatory reform process for more investment
- Agree on industry compact to outline roles for each stakeholder

## Plan Now

### Medium Term

**6 - 24 Months**
- Implement regulatory reform, including legislative changes
- Develop infrastructure PPPs to expand export capacity
- Fast-track high-potential projects, unlocking bottlenecks

### Longer Term

**2 - 5 Years**
- Grow portfolio of potential projects with increased exploration
- Sustainably grow the industry overall with sustained higher levels of capex
- Deliver real impact for communities through collaboration at local level

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**Aligned industry and Government strategy**

**Systematically implement plans in constant alignment**

**Unlock value of increased investment; ~ 70 000 jobs by 2024**
<table>
<thead>
<tr>
<th>Key Sector Objectives</th>
<th>Categories</th>
<th>Criteria</th>
<th>Analysis</th>
<th>Rationale</th>
</tr>
</thead>
</table>
| Restart the construction sector in SA on a more sustainable, productive and job-accretive basis | Sector and market analysis | Resilience | - Industry hard-hit by shutdown  
- Chronic cash flow / liquidity issues plague the industry, hampering ability to withstand current shock | |
| | Security | - Ongoing intimidation at construction sites by local crime syndicates that threaten contractors in return for kickbacks | |
| | Job creation potential | - Industry has lost ~300-400k jobs in the last five years  
- Potential to create > 100k jobs per annum in low and semi-skilled categories | |
| Impact of Covid-19 | Job losses | - Historical trend has been about 100k jobs lost per year over the last five years  
- We estimate a further 20% of jobs could be lost due to Covid19  
- Up to 60% of jobs vulnerable as a result of Covid19 (lost or reduced pay) | |
| | Supply and Demand | - Supply side has atrophied due to a lack of a robust demand pipeline  
- With Covid19, demand has all but dried up during lockdown  
- Sluggish post-Covid economy will severely hamper recovery | |
| | Infrastructure | - Structural capacity lost as a result of Covid-19 shutdowns and bankruptcy  
- Site working conditions impacted by Covid-19 and will structurally reduce productivity in the sector | |
Key challenges: the construction industry faces 5 main structural constraints

Lack of ‘baseload’
- Industry does not function on a project-by-project basis
- Industry needs a clear pipeline of activity to invest in capabilities and technology
- Slow down in government infrastructure spending, despite high level expectations of ~R1T in investment has left the industry in dire straits

Lose-lose contracts
- Application of current procurement processes inadequately cater for skill and quality of work
- Current contracts and contracting processes typical in the industry result attempts to transfer risk in an unsustainable way
- Results in low or negative margins for contractors and late/overbudget projects for owners

Dire skills shortage
- Massive loss of skills in the industry over the last 5 years (>300k jobs lost in the last five years, significant retirement of experienced supervisors)
- Primary owner (government) has capacity gaps to innovate private sector participation models and innovative ways of designing and contracting work

Funding for infrastructure
- Government’s ability to fund the ‘baseload’ of infrastructure projects is limited
- Limited demand for private sector builds given sluggish growth
- Substantial private sector funding available, but structural gaps in procurement processes limit participation

Innovation & productivity
- Construction has some of the worst productivity in the economy
- Productivity has largely remained flat (or declined) over the last 30 years
- Limited uptake of technology to improve productivity because it requires cross-project investment which current project economics seldom allow
Priority Actions: Addressing constraints and opportunities could add 100k jobs, 100bn GDP p.a.

Pipeline
Re-prioritise government infrastructure build pipeline from national through to municipal level to unlock projects for private sector funding and investment

Procurement
Implement modern collaborative contracting methodologies for infrastructure builds

Skills
Set up national construction skills academy to rebuild front-line supervision and artisan capabilities

Innovation
Mandate common data platforms and base technologies such as 5D BIM to unlock construction productivity

Streamline
Streamline processes and approvals (e.g. environmental, water) and systems e.g. procurement

Estimated full Potential Annual Uplift
2021 - 2030

100k Jobs p.a.
R100b\(^1\) GDP p.a.

1: ~80% of this comes from unlocking more productive infrastructure
Roadmap: 4 interventions are required in the short term, 6 medium term and 5 long term

### Act Now

<table>
<thead>
<tr>
<th>Immediate</th>
<th>Medium Term</th>
<th>Longer Term</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Immediate</strong>&lt;br&gt;Up to 6 Months</td>
<td><strong>Medium Term</strong>&lt;br&gt;6 - 24 Months</td>
<td><strong>Longer Term</strong>&lt;br&gt;2 - 5 Years</td>
</tr>
<tr>
<td>• Pay contractors that are owed monies to support their liquidity</td>
<td>• Announce restructured and re-sequenced infrastructure build programme (unlocking up to R1tn in investment)</td>
<td>• Set up construction industry academies - ~100k capacity p.a. required</td>
</tr>
<tr>
<td>• Develop incentives for immediate construction works e.g. refurbishment of infrastructure that is not fully utilized as a result of Covid e.g. airports</td>
<td>• Align private sector on the key opportunities and secure private sector funding for most promising projects</td>
<td>• Continue to refine and streamline build programme – accelerate most profitable projects to ensure private sector participation</td>
</tr>
<tr>
<td>• Rapidly review the infrastructure portfolio to identify the most promising projects for private sector – national, provincial and municipal</td>
<td>• Streamline approval and permitting processes</td>
<td>• Streamline and standardize building codes and standards</td>
</tr>
<tr>
<td>• Leverage existing project preparation pipelines to get infrastructure projects to a point of bankability</td>
<td>• Start the revamp of the procurement and contracting processes</td>
<td>• Revamp higher education courses on engineering and construction to include modern construction methodologies</td>
</tr>
<tr>
<td></td>
<td>• Establish new minimum standards for innovation on infrastructure, e.g. common data platforms and 5D BIM</td>
<td>• Support export of prefabricated units (support for manufacturing) and engineering services</td>
</tr>
<tr>
<td></td>
<td>• Get the first wave of infrastructure design going</td>
<td></td>
</tr>
</tbody>
</table>

Immediate relief for construction sector and initial basis for longer term planning

Clarity on pipeline to enable rebuild of construction industry

Sustainable construction industry
Overview of the manufacturing sector and implications of COVID-19

### Key Sector Objectives

- **Improve fundamental competitiveness** of the manufacturing sector, focusing on priority value chains.
- **Capitalize on the manufacturing industry’s strong multiplier effects.**
- **Build resilience** and ensure business continuity for key subsectors.
- **Leverage geo-political position in order to strengthen growth in Africa.**
- **Look to develop “wildcards”** that improve competitiveness and minimize disruptions caused by dependencies on the global supply chain in light of COVID19.

### Impact of Covid-19

<table>
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<tr>
<th>Categories</th>
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<th>Impact</th>
<th>Rationale</th>
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</thead>
<tbody>
<tr>
<td><strong>Job loss</strong></td>
<td></td>
<td>⬜️</td>
<td>• 140k – 240k jobs (12% – 20% of existing jobs) are forecasted to be at risk without intervention due to the economic effects of COVID19 and lockdown</td>
</tr>
<tr>
<td><strong>GDP</strong></td>
<td></td>
<td>⬜️</td>
<td>• Total manufacturing value added to GDP is expected to drop between 20% - 40% due to supply disruptions and depressed demand (globally and locally)</td>
</tr>
<tr>
<td><strong>Business Continuity</strong></td>
<td></td>
<td>⬜️</td>
<td>• Manufacturing sectors reliant on imported inputs/feedstocks and downstream activities risk continuity issues due to global supply disruptions</td>
</tr>
<tr>
<td><strong>Competitiveness</strong></td>
<td></td>
<td>⬜️</td>
<td>• Need to strengthen South Africa’s competitiveness in the global manufacturing supply chains</td>
</tr>
<tr>
<td><strong>Supply &amp; Demand</strong></td>
<td></td>
<td>⬜️</td>
<td>• Should leverage manufacturing competitiveness across linkages with other sectors specifically mining, construction and agriculture</td>
</tr>
<tr>
<td><strong>Job creation potential</strong></td>
<td></td>
<td>⬜️</td>
<td>• The manufacturing sector is critical to South Africa developing resilience and security of supply for key products including healthcare equipment, pharmaceuticals and personal protective equipment</td>
</tr>
</tbody>
</table>

### Sector and market impact

- **Wildcards** are important opportunities for South African manufacturers to quickly identify and produce to improve competitiveness and minimize disruptions caused by dependencies on the global supply chain in light of COVID19.

### Legend:

- Low impact
- ⬜️ Moderate impact
- ⬜️ High impact
Key sector considerations

• SA has one of the world’s most disproportionate disease burdens, both infectious diseases and non-communicable diseases (NCDs) such as Diabetes, Hypertension etc.

• Security of supply (SOS) is key – COVID-19 has exposed South Africa’s SOS vulnerabilities

• The pharmaceutical sector has a rising trade imbalance
  • Pharma and medical devices are the 5th largest contributor to SA’s current account deficit

Key sector objectives

• Ensure medicines are sustainably available and accessible to entire population – strengthen local supplier and SMME chains

• Significant reduction in the sector trade deficit through localisation of production and local procurement instruments

• Leverage local volumes for export orientation

• Regulatory environment that enhances certainty and predictability to retain and attract investors

Specific areas of reform / intervention

• Implementation of local procurement (Designation) and localisation procurement policies

• Government tenders should be based on long term offtakes, rather than short term tenders that provide no certainty for local players and accelerate de-industrialisation

• SAHPRA should prioritise registration of locally produced products and expedite licensing of local production facilities as a way of retaining / attracting sector investment

• Access structures to be implemented to ensure broad access to new generation medicines such as Biologics
Key challenges: the manufacturing industry faces 5 main structural constraints

**Energy**
- The manufacturing sector is directly impacted by increasing energy costs and cost of interrupted supply
- South Africa has not fully utilised the benefit of natural gas at scale, specifically piped gas for heat-intensive manufacturing processes

**Infrastructure**
- Poor port efficiency and high costs significantly reduce competitiveness
- Unreliable, unsafe rail networks lead to over-reliance on more costly road-networks
- Inadequate transport infrastructure resulting in opportunity cost in Africa
- Ineffective municipal service delivery (specifically water and electricity)

**Business environment**
- An increasingly volatile currency results in unreliable business planning and poor financial returns
- Ineffective implementation of government policy decrease local and global investment in South African manufacturing
- Complexity of regulations and hurdles decrease business confidence and growth

**Skills & technology**
- South Africa is ranked 67 by the WEF future of production report for current and future labour-force capabilities
- The manufacturing sector lacks enabling technology skills base to quickly implement and benefit from advanced manufacturing
- Insufficient practical skills development through vocational / apprenticeship training programs

**Co-ordination**
- There is a lack of prioritization of strategic manufacturing value chains
- Trade and government policies are not aligned to maximising value in strategic value chains
- The private sector does not aggregate local demand through Group Procurement Organisations
Priority Actions: Addressing key constraints and opportunities could add 28K -70k jobs, 21 - 35bn GDP p.a.

Selected Game Changers:

1. Fundamental Competitiveness
   Prioritise fundamentals, including competitive energy supply, incentivizing strategic value chains and transport infrastructure, to enable global competitiveness across all sub-sectors

2. Transport Corridors
   Accelerate completion of existing network infrastructure and accelerate ‘corridor initiatives’ to improve South African competitiveness in Sub-Saharan Africa

3. National Procurement Organisation
   To ensure the sustainable supply of key inputs to high impact subsectors at competitive prices through expert sourcing and create a demand pull on wildcards through co-ordinated aggregation

4. Africa Trade Program
   Establish a focused program to accelerate exports of high priority subsectors to targeted African countries and ensure through program includes enablers of AfCFTA to expedite its rollout

5. Repurposing Wildcards
   Accelerate repurposing to wild card products\(^2\), which have a current import value of R271bn, supported by champions within industries, to ensure supply of critical products and promote localization of products in priority value chains (e.g. manufacturing and mining)

Full Potential Annual Uplift
2021 - 2025

28K -70k Jobs p.a.
21 - 35bn GDP p.a.
6 – 10bn Tax Rev\(^1\) p.a.

---

1. Based on tax-to-GDP ratio of 28

2. Wildcards are important opportunistic products for South African manufacturers to quickly identify and produce to improve competitiveness and minimize disruptions caused by dependencies on the global supply chain in light of COVID19
**Roadmap**: 2 interventions are required in the short term, 4 medium term and 3 long term

---

### Immediate
*Up to 6 Months*

- Accelerate repurposing and promotion of wild cards through
  - Aligning on wildcards across public and private sectors to ensure sufficient support
  - Sharing best-practice and appointing champions within industries to ensure supply of critical products and inputs
  - Marketing interventions (e.g., through Proudly South Africa) to boost demand locally

### Medium Term
*6 - 24 Months*

- Establish a Group Procurement Organisation to ensure the sustainable supply of key inputs to high impact subsectors at competitive prices and create a demand pull on wildcards
- Enhance catalytic interventions (e.g. NTIP1) to enable manufacturers to upgrade production facilities in line with future of production whilst simultaneously expanding into Africa with old equipment (“Tool –recycling”)
- Review trade policies in line with strategic value chains and develop financing frameworks to incentivise developed economies with low and negative interest rates to co-finance important South Africa capital project in the rest of Africa
- Establish a focused program to accelerate exports of high priority subsectors to targeted African countries and ensure expedited rollout of AfCFTA

### Longer Term
*2 - 5 Years*

- Accelerate completion of existing network infrastructure and accelerate ‘corridor initiatives’ to improve South African competitiveness in Sub-Saharan Africa
- Prioritise competitiveness fundamentals, including competitive energy supply, incentivizing strategic value chains and transport infrastructure, to enable global competitiveness across all sub-sectors
- Promote partnerships to develop turnkey solutions for large scale projects in Chemicals and Metals industries

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**Act Now**

**Plan Now**
Overview of the Transport sector and implications of COVID-19

Key Sector Objectives

- **Catalyse the growth of other economic sectors** by increasing the global competitiveness of South African industries
- **Increase access to the South African market** and to African markets
- **Provide a reliable, efficient, and cost effective service to other industries which keeps the cost of moving goods to a minimum**

Categories

- **Sector and market analysis**
  - Resilience
  - Security
  - Job creation potential

Impact of Covid-19

- **Job loss**
  - 42 000 – 72 000 formal transport sector jobs are at risk in 2020, primarily in the Road, Support and Auxiliary sectors
  - Jobs at risk are significantly higher when considering the informal sector
  - Air transportation under huge threat with multiple airlines in business rescue
- **Supply and Demand**
  - Transport plays a dual role by serving the demand of other sectors, and catalysing increased competitiveness through efficiency and cost improvements
  - The sector is highly dependent on the derived demand from other industries for its growth
- **Infrastructure**
  - Dramatic reductions in liquidity as a result of the financial impact of Covid-19 will delay the implementation of existing and new infrastructure projects, particularly large scale transport infrastructure

Criteria

- **Resilience**
  - The transport sector continues to operate in all scenarios to accommodate the base load of economic activity across all industry
  - However, the sector is highly dependent on the derived demand from other industries for its growth

- **Security**
  - Across all modes of transport, logistics operators and passengers face the threat of: theft, bribery and corruption, mishandled cargo, vandalism, mode specific risk
  - Existing security and safety challenges directionally cost the South African economy at least R177 billion each year through a combination of direct and indirect effects

- **Job creation potential**
  - Transport remains a crucial sector as it is well positioned to absorb the prevalent low-skill base in South Africa
  - There are significant opportunities to upskill and harness 4IR within all sub-sectors of Transport

Analysis

Rationale

- The transport sector continues to operate in all scenarios to accommodate the base load of economic activity across all industry
- However, the sector is highly dependent on the derived demand from other industries for its growth
- Across all modes of transport, logistics operators and passengers face the threat of: theft, bribery and corruption, mishandled cargo, vandalism, mode specific risk
- There are significant opportunities to upskill and harness 4IR within all sub-sectors of Transport
Key challenges: the Transport industry faces 5 main structural constraints

- Ageing & outdated infrastructure
  - Limited rural road network and outdated road infrastructure limit the movement of goods.
  - Dilapidated rail infrastructure and a disused rural network limit the options for industry to move products around the country and to ports. This causes an overreliance on the overburdened road network.
  - Over reliance on road transport infrastructure results in additional transport costs and accelerated deterioration of infrastructure.

- Lack of Private Sector participation
  - Existing PPP and private sector participation (“PSP”) frameworks for the Transport sector contain unnecessary complexity and are not tailored to specific sub-sectors reducing their effectiveness and the appeal for private players to engage with government projects.
  - Lack of technical expertise in PPP and PSP management limits the effectiveness of private-public projects which could boost the efficiency of transportation services.

- Uncompetitive tariff & pricing systems
  - The landlord port authority should be independent of Transnet.
  - Port prices and tariffs are opaque and do not differentiate based on port operations.
  - The fuel and road accident fund levies increase operational costs and limit growth opportunities.
  - Lack of harmonisation between standards and pricing across SADC.

- Absence of critical policies
  - Absence of multiple key policies constrains competition, limits private sector participation, and allows inefficiencies to develop.
  - Absent policies and regulation include:
    - Single transport economic regulator
    - PSP frameworks
    - Separate Transnet accounting divisions
    - National rail policy
    - Corporatization of ports
    - Performance based standards
    - Updated public transport subsidies

- Significant skills shortage
  - Workforce requires significant upskilling and limits the development and application of technologies.
  - 50% of the labour force had less than a secondary education in 2019, more than 12% had less than a primary education.
  - Transport remains a crucial sector as it is well positioned to absorb the prevalent low-skill base in South Africa.
Priority Actions: Addressing constraints and opportunities could add ~190 000 jobs\(^1\), ~R665bn in GDP\(^2\), and ~R279bn in Tax Revenue\(^2\).

- **Drive a step-change in reliability and service**
  - Improve operational efficiencies across all modes.
  - Reduce the cost of moving goods around the country and to ports.

- **Increase private sector participation**
  - Address PSP and PPP framework limits in each sub-sector.
  - Create management and financial partnerships.

- **Implement rail concessions**
  - Improve transport support to key industries and transport corridors, such as secondary branch lines, that support manufacturing, agriculture, and mining.

- **Finalize and implement critical policy**
  - Drive towards regulation – e.g. standalone regulators for ports and rail – that will foster enhanced competition and transparency in the market.

- **Accelerate infrastructure development**
  - Develop new infrastructure and upgrade outdated infrastructure to alleviate network congestion, reduce cost, and improve national competitiveness.

---

1. Jobs refers to formal sector jobs. Figures may be significantly higher if informal jobs are accounted for.
2. Effects from interventions are cumulative over the period 2021 – 2030.

---

Full Potential Annual Uplift
2021 - 2030

- ~19 000 Jobs\(^1\) p.a.
- R66.5 bn GDP p.a.
- R27.9 bn Tax Rev p.a.
Roadmap: 3 interventions are required in the short term, 6 medium term and 3 long term

Act Now

Immediate

- Ensure a step-change in core rail network reliability through:
  - Improved operational efficiencies
  - Effective maintenance programs
- Reduce the cost of road transport services by balancing regulation towards performance driven standards and cost enhancing regulation for transporters.
- Drive operational efficiencies to reduce the cost of moving goods through ports e.g. performance driven compensation frameworks, introduction of transparent and reduced cargo fees.
- Accelerate investments in Smart Logistics to further drive efficiency and productivity in the sector

Create up to R224 billion in GDP$^1$ and 65 800 jobs$^2$

Plan Now

Medium Term

- Increase private sector participation for infrastructure development and operation by optimising the PSP process and creating management and financial partnerships
- Accelerate the establishment of an independent rail regulator to drive pricing and competitiveness
- Continue to drive towards a standalone National Ports Authority that will foster enhanced competition and transparency in the market
- Accelerate the development of inland port processing facilities to reduce congestion at sea ports and speed up inland border crossings
- Implement rail concession agreements to improve transport support to key industries and transport corridors such as secondary branch lines that support manufacturing, agricultural and mining
- Expedite the finalisation and approval of the public transport subsidy policy

Create up to R246 billion in GDP$^1$ and 70 300 jobs$^2$

Longer Term

- Create public private partnerships and optimise the participation process to accelerate infrastructure development through creation of management and financial partnerships
- Provide open access to the rail system to allow a more innovative and cost efficient multi-modal transport solution
- Optimise the integration of transport modes to ensure right of access and affordability

Create up to R195 billion in GDP$^1$ and 53 800 jobs$^2$

---

1. GDP and Job effects from interventions are cumulative over the period 2021–2030 2. Jobs refers to formal sector jobs. Figures may be significantly higher if informal jobs are accounted for.
Overview of the agriculture sector and implications of COVID-19

### Key Sector Objectives

**Contribute to GDP**
- The agriculture value chain can be an important contributor to GDP growth for developing markets

**Boost employment**
- Employment opportunities are created across the value chain, particularly in rural parts of the country

**Ensure food security and nutritional outcomes**
- Agricultural value chain is key to ensuring domestic and regional food security
- Sector responsible for ensuring nutritional outcomes in SA

### Categories

<table>
<thead>
<tr>
<th>Categories</th>
<th>Criteria</th>
<th>Analysis</th>
<th>Rationale</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sector and market analysis</td>
<td>Resilience</td>
<td>• Fairly resilient sector in the face of economic shocks: market-economy nature of the sector make resource allocation flexible based on factors of demand and supply; Export demand generally benefits from declining ZAR</td>
<td>Economic performance is fairly secure, however primary agriculture sector can be impacted by natural shocks (e.g. droughts and disease, which may impact output significantly), emphasising the need for investment in water infrastructure</td>
</tr>
<tr>
<td></td>
<td>Security</td>
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<tr>
<td></td>
<td>Job creation potential</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Impact of Covid-19</td>
<td>Job loss</td>
<td>• Sector relatively protected from job loss; initial trade restrictions (e.g. alcohol) as well as reduced demand of higher-value produce may result in negative economic consequences and thus may lead to job loss</td>
<td>Supply: Most sub-sector value-chains for both informal and formal markets remain intact; some concern around how COVID may impact operations of agro-processors. Demand: consumers likely to trade down for cheaper goods as impact of recession influences disposable income</td>
</tr>
<tr>
<td></td>
<td>Supply and Demand</td>
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<tr>
<td></td>
<td>Infrastructure</td>
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</tbody>
</table>

### Impact of Covid-19

- No significant impact on existing infrastructure, however situation has brought to light various infrastructural constraints across the sector (including logistics and water)
Key challenges: the agricultural industry faces 5 main structural constraints

Access to Finance
- Cyclical and capital intensive nature of agriculture means farmers have a critical need to access financing
- Financial sustainability of the Land Bank, and its ability to serve conflicting mandates (profit/commercial and development) under question
- Limited state funded agricultural insurance/relief available to protect farmers from the impact of recurring droughts

Land Reform
- Redistribution: Limited transfer of ownership, state support post transfer, beneficiary selection strategy
- Restitution: Limited institutional capacity and budget to process large backlog of claims
- Tenure rights: Lack of clarity and formalization of existing land rights in traditional areas
- Expropriation without compensation: A key inhibitor to future investment given uncertainties created

Water Infrastructure
- Delayed water infrastructure projects, limited strategic prioritization of new projects and limited private sector investment
- Weak or inefficient administrative processes (e.g. provisioning of water rights) and significant delays in execution of projects
- Impending impact of climate change on water availability and water supply gap will likely reduce available land for cultivation in key regions

Transport Infrastructure
- Lack of investment in port infrastructure at key ports in the country – constraining exports of high-value produce
- Existence of operational inefficiency at major agricultural export ports in SA
- Limited investment / lack of operational effectiveness of rail networks has driven up costs and caused shift to road transportation

Access to New Markets
- Limited institutional capacity to drive agricultural trade agendas, develop new agreements, enforce existing trade terms
- Lack of effective coordination and cooperation between the DAFF, DTI and Dirco, to formulate aligned and coherent trade strategies and drive through to conclusion
- Need to target new export opportunities in Sub-Saharan Africa
**Priority Actions:** Addressing constraints and opportunities could add 60-80k jobs, R10-15B GDP p.a., R3-4B in tax.

**Maximise commercial agricultural output**
Support and expand commercial primary agricultural sector to ensure regional food security and increase export earnings.

**Improve access to financing**
Ensure sustainability of existing institutions and enhanced access to affordable financing through blended finance premised on an open and competitive system.

**Investment in enabling infrastructure**
Prioritise maintenance and investment into logistics and water infrastructure projects, with an openness to PPPs for funding + management.

**Commitment to transformation**
Support agricultural transformation through solving land right issues, optimizing land reform, and emerging farmer interventions.

**Global trade optimisation**
Continue to establish international trade agreements to drive market-led growth, and support regional growth.

---

**Full Potential Annual Uplift 2021 - 2030**

- +60-80k Jobs p.a.
- R10-15B GDP p.a.
- +R3-4B Tax Rev p.a.
- +0-2% Nutrition p.a.

Reduction in prevalence of stunting.
Roadmap: 5 interventions are required in the short term, 5 medium term and 3 long term

<table>
<thead>
<tr>
<th>Act Now</th>
<th>Medium Term 6 - 24 Months</th>
<th>Plan Now</th>
<th>Longer Term 2 - 5 Years</th>
</tr>
</thead>
</table>
| **Immediate**  

Up to 6 Months

- Backstop emergency farm financing through commercial banks, and ensure sustainability of the Land Bank
- Reduce existing COVID-19 restrictions on farm service providers
- Assist processors with testing and PPE supplies in COVID-19 outbreaks
- Maintain open ports for exports
- Free up restrictions in informal distribution channel

<table>
<thead>
<tr>
<th></th>
<th><strong>Medium Term</strong> 6 - 24 Months</th>
<th></th>
<th><strong>Longer Term</strong> 2 - 5 Years</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Enhance capacity and address process inefficiencies to increase finalisation rate of restitution / labour tenant claims</td>
<td></td>
<td>Conclude key infrastructure maintenance/capacity projects for ports, water supply infrastructure and rail systems</td>
</tr>
<tr>
<td></td>
<td>Address key challenges in land redistribution programmes (beneficiary selection, post-distribution support, ownership rights)</td>
<td></td>
<td>Continued formalization of existing land tenure rights in traditional areas</td>
</tr>
<tr>
<td></td>
<td>Agree on future structure and funding model of the Land Bank to address conflict in mandate</td>
<td></td>
<td>Finalise new international trade agreements in new markets (e.g. East Asia) to drive export-led growth</td>
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<td></td>
<td>Re-energise and resource “buy local” campaigns, especially for higher quality calories (e.g. vegetables and fruits)</td>
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<tr>
<td></td>
<td>Review/revise incentives to further enable private sector involvement in development / infrastructure interventions</td>
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</tbody>
</table>

Ensure short term food security and prevent permanent loss of capacity  
Establish grounds for agri-business confidence and long-term investment  
Deliver on growth interventions and removal of key constraints
Overview of the Financial Services sector and implications of COVID-19

Key Sector Objectives

- Enable long-term growth by facilitating flow of capital to sustainable fiscal deficits and high impact, real economy opportunities
- Drive increased competition and innovation in the sector to achieve deeper, more meaningful financial inclusion by leveraging electronic payments, and reducing costs through digitisation and shared services
- Help to safeguard SMMEs (and protect jobs) and provide relief to households in the short-medium term

Categories

<table>
<thead>
<tr>
<th>Categories</th>
<th>Criteria</th>
<th>Analysis</th>
<th>Rationale</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pre-COVID sector and market analysis</td>
<td>Resilience</td>
<td>• Well positioned to absorb market shocks given substantial capital buffers (both CET 1 and SCR levels ~2 x minimum thresholds)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Security</td>
<td>• Financial performance is highly correlated with the broader economy</td>
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</tr>
<tr>
<td></td>
<td>Job creation potential</td>
<td>• Given high operational leverage (reflecting high fixed cost base), declines in revenue have a disproportional impact on profitability</td>
<td></td>
</tr>
<tr>
<td>Impact of COVID-19</td>
<td>Job loss</td>
<td>• The industry is committed to minimise job losses in the short term. However there are risks of job losses downstream (e.g. independent brokers and the impact of ongoing digital migration by customers)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Supply and Demand</td>
<td>• Over the medium-term, declines in profitability (see below) and ongoing client shifts to digital will necessitate cost optimisation which, where possible, will be done through reskilling, transfer to higher demand digital functions, etc.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Infrastructure</td>
<td>• Sharp declines in revenues and profitability expected in 2020, and depending on pace of economic recovery, potentially spilling over into 2021. In either scenario, recovery to pre-COVID levels is only expected beyond 2021</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>• Revenue after risk cost for the banking sector could fall by as much as ~35%, over the next two years, with a more optimistic scenario of ~15% decline in 2020 and a rebound in 2021</td>
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<td></td>
<td></td>
<td>• Gross written premiums in the insurance sector is expected to fall by ~10-20%</td>
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<tr>
<td></td>
<td></td>
<td>• Accelerate digital financial services ecosystem, including digital ID and digital payments (to help ensure no citizens are left behind in the 4IR)</td>
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</tr>
</tbody>
</table>
Key challenges: the Financial Services industry faces 4 main structural constraints

Enabling long-term economic growth

- Lack of bankable infrastructure pipeline
  - Inconsistent pipeline of bankable projects in recent years – constrains investment despite private capital being available and often eager to invest
  - Insufficient coordination between private and public sectors to identify and fund a broad range of network infrastructure development
  - Lack of pipeline has also made it difficult for institutions to invest in specialist skills required to execute projects

Unlocking sector vitality

- Lack of meaningful financial inclusion among SMMEs
  - Late payment of SMMEs by both government and big business
  - Limited access to credit for SMMEs, particularly smaller and informal businesses (often reflecting poor data availability and high business failure rates) – constrains growth of businesses and employment
  - Low penetration of electronic payments (80% of transactions by volume still cash-based), which contributes to credit access challenges (less data available on SMME finances)

Barriers to Competition

- Regulatory environment designed to ensure soundness of financial system and Basel compliance. Differentiated regulation may be appropriate for transaction only players such as e-money licensees
  - Limited flexibility for FinTech innovation (starting to be addressed through newly created FinTech innovation Hub)

Increasing regulatory burden

- Continuous increase in regulatory burden for incumbents (sector is facing new wave of regulation e.g. Basel IV, Conduct of Financial Institutions Bill, etc.)
  - Reduces space to lend (particularly into longer-term projects)
  - Adds to operating costs and absorbs scarce skills
  - Regulation of statutory liquid assets, sector rating and therefore cost of capital is aligned to that of the sovereign – meaning all sovereign downgrades directly impact broader cost of capital
Priority Actions: Addressing constraints and opportunities could add ~220k to 470k jobs, ~R50bn to 90bn GDP p.a.

Enable faster long term growth
- Create a long-term, predictable pipeline of infrastructure projects with appropriate risk/reward profiles.
- Develop regulated retail investment vehicles that can give retail investors access to longer-term, real economy opportunities (e.g. infrastructure).
- Phase out large government insurance schemes (e.g. RAF, Compensation Fund) that face financial and administrative challenges, unlocking fiscal capacity (there are large, growing contingent liabilities on government’s balance sheet arising from these entities).

Increase competition and financial inclusion
- Mandate the accelerated roll out of a digital financial services ecosystem, including digital ID and digital payments that can encourage greater adoption of electronic payments (and therefore enable access to credit for SMMEs).
- Reduce regulatory barriers to entry and innovation, whilst preserving financial soundness
  - Introduce tiered capital requirements, e-money licenses, and open banking legislation;
  - Expand recently introduced FinTech Innovation Hub
  - Encourage greater adoption of industry utilities
- Begin design and planning of a universal Digital ID

Extend relief to households and businesses over the medium term
- Continued engagement between BASA, NT and SARB, aimed at providing relief to households and SMMEs to support economic growth and job retention, including amendments to the SMME Loan Guarantee Scheme and potentially increase size of the programme.
- Continually review regulatory easement (LCR, SCR, capital buffers), include additional adjustments (notably to NSFR) and reconsider or delay new regulation (e.g. Basel IV, Conduct of Financial Institutions Bill, etc) to enable continued lending and debt restructuring.

Full Potential Annual Uplift 2021 - 2030
- ~220-470k Jobs, from steady state
- GDP ~50-90bn p.a. from steady state

Steady state expected to be achieved by 2025
Excludes impact of long-term capital unlock for investments elsewhere in the economy

A further ~800k jobs can be preserved over the next 2 years through measures to safeguard SMMEs
In addition, ~R50bn p.a. could be added to GDP over the next 2 years through consumption stimulus
**Roadmap:** Numerous interventions are required over time by government, regulators and the sector

### Act Now

**Immediate**

- Enable creation of regulated, closed-end, retail investment vehicles
- Amend SMME Loan Guarantee Scheme terms (to allow lenders flexibility to deviate from standard credit policies and to include alternative lenders)
- Continuously review regulatory easement (LCR, capital buffers, SCR, NSFR); reconsider or delay new regulation

### Plan Now

**Medium Term**

- Create long-term, predictable pipeline of bankable infrastructure projects; allow private funders to be involved in project governance
- Mandate implementation of real-time rapid payments platform (RPP)
- Introduce tiered capital requirements, e-money licenses, and open banking legislation; Expand on recently introduced FinTech Innovation Hub
- Relax restrictive provisions of the CSI pillar of BEE Codes, to allow for a viable bridge between corporate spend on SMMEs and commercial funding

### Longer Term

- Return of sovereign to investment grade rating to reduce cost of capital and boost investment, growth and jobs
- Legislate the use of universal digital IDs and drive implementation (supported by financial institutions)
- Phase out public insurance schemes e.g. the RAF
- Phase out use of cash in government to citizen and citizen to government transactions
- Consider interoperability of e-wallets

### Actions led by government / regulator

- Mobilise additional investment into real asset and private infrastructure opportunities by the regulated savings industry through the design of marketable securities
- Invest in and implement RPP; develop accompanying alternative digital payments applications
- Build the capabilities and capacity in the regulated savings industry to provide project funding

### Actions led by sector

- Facilitate accelerated (and additional) working capital loans to SMMEs (incl. through alternative lenders)
- Provide cash-flow support to SMME suppliers and loans to Independent Financial Advisors
- Assess opportunity to provide longer term cash-flow relief to customers

- Support roll out of Digital IDs and link to bank accounts / e-wallets
- Develop and leverage industry wide utilities (e.g. common KYC utilities in the banking sector)
- Design and distribute affordable insurance alternatives to current public insurance schemes e.g. 3rd party injury liability insurance products
Overview of the Telecommunications sector and implications of COVID-19

<table>
<thead>
<tr>
<th>Key Sector Objectives</th>
<th>Categories</th>
<th>Criteria</th>
<th>Analysis</th>
<th>Rationale</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maximise population access to connectivity</td>
<td>Sector and market analysis</td>
<td>Resilience</td>
<td>• Sector forms the basis of remote interactions and provides increasingly critical connectivity infrastructure required by other sectors and industries to function</td>
<td></td>
</tr>
<tr>
<td>Enable economic growth and development through connectivity</td>
<td>Sector and market analysis</td>
<td>Security</td>
<td>• Telcos have been able to continue operating largely uninterrupted by lockdown</td>
<td></td>
</tr>
<tr>
<td>• Enables new growth industries within and outside of traditional telco (e.g. IoT, Cloud)</td>
<td></td>
<td>Job creation potential</td>
<td>• The sector is reasonably stable with limited volatility in returns due to the mature nature of the market, however there are several factors which have caused shocks e.g. Competition Commission etc.</td>
<td></td>
</tr>
<tr>
<td>• Facilitates growing digital commerce and</td>
<td>Impact of Covid-19</td>
<td>Job loss</td>
<td>• Telco sector has a limited ability to create direct jobs but has significant potential to create jobs indirectly through enabling the growth and expansion of other industries</td>
<td></td>
</tr>
<tr>
<td>Realise social development goals</td>
<td>Impact of Covid-19</td>
<td>Supply and Demand</td>
<td>• Job losses in the sector likely to be limited as increased demand for connectivity will assist in protecting the sector’s economic output and workforce.</td>
<td></td>
</tr>
<tr>
<td>• Greater financial inclusion</td>
<td></td>
<td>Infrastructure</td>
<td>• However, some Telcos in weaker financial positions pre-pandemic will not be equally protected from job losses</td>
<td></td>
</tr>
<tr>
<td>• Expanded access to education platforms through e-learning</td>
<td></td>
<td></td>
<td>• Demand for data has increased significantly during the crisis (not all able to be monetised however), while that for voice services has declined through OTT substitution</td>
<td></td>
</tr>
<tr>
<td>• Improved access to healthcare through telehealth</td>
<td></td>
<td></td>
<td>• As consumer and business incomes come under significant pressure, demand is expected to be subdued in the medium term</td>
<td></td>
</tr>
</tbody>
</table>

Rationale:

• Sector forms the basis of remote interactions and provides increasingly critical connectivity infrastructure required by other sectors and industries to function
• Telcos have been able to continue operating largely uninterrupted by lockdown
• The sector is reasonably stable with limited volatility in returns due to the mature nature of the market, however there are several factors which have caused shocks e.g. Competition Commission etc.
• Telco sector has a limited ability to create direct jobs but has significant potential to create jobs indirectly through enabling the growth and expansion of other industries
• Job losses in the sector likely to be limited as increased demand for connectivity will assist in protecting the sector’s economic output and workforce.
• However, some Telcos in weaker financial positions pre-pandemic will not be equally protected from job losses
• Demand for data has increased significantly during the crisis (not all able to be monetised however), while that for voice services has declined through OTT substitution
• As consumer and business incomes come under significant pressure, demand is expected to be subdued in the medium term
• Increased connectivity demand has placed strain on existing network infrastructure
• Temp. Spectrum has been released assisting to alleviate pressure in mobile networks
• Weakened Rand has an adverse impact on cost of additional infrastructure investment
Key challenges: the telecommunications industry faces five main structural constraints

- **Infrastructure and spectrum deployment**
  - Lack of Rapid Deployment Policy (RDP) creates complexity and high costs for operators to roll out network
  - Under-allocation of spectrum increases capex cost and increases possible network congestion
  - Lack of HDS* and RDP as a driver of high data prices due to higher capex

- **Policy uncertainty**
  - Frequent changes in DCDT leadership has stalled policy implementation and created uncertainty in the industry
  - Lack of trust between industry, regulator and ministry hampers effective working relationship
  - Major policy changes prevented ICASA from auctioning HDS e.g. Policy on creation and licencing of WOAN

- **Institutional capacity**
  - ICASA could enhance its technical and private sector telco experience
  - This could improve effectiveness of decision making and build trust through industry representation
  - DCDT should focus on strengthening managerial and technical skills required to execute policy implementation

- **Regulatory and governance**
  - ICASA Council made up of 8 full time councilors without clearly defined roles in the Act
  - DCDT appointment of ICASA councilors creates a potential conflict of interest
  - ICASA relies on parliamentary allocations, independence could be enhanced through greater financial autonomy

- **Theft and vandalism**
  - Battery theft and vandalism remain a major challenge and increases costs for operators and users
  - Frequent incidences of theft also cause disruption in services for consumers
  - MTN has stated that in 2019 it spent more than R100M dealing with acts of theft and vandalism

Note: *HDS: High Demand Spectrum, DCDT: Department of Communications and Digital Technologies*
Priority Actions: Addressing constraints and opportunities could add 65K jobs, R20B GDP, and R6B in tax annually

- **Rapid Deployment Policy**: Enactment of RDP is needed to facilitate faster and cheaper roll out of network; critical to enabling 5G and continued investment in infrastructure.
- **Spectrum Allocation**: Spectrum allocation (incl. finalising digital migration and licencing of WOAN) is essential to unlocking network coverage/quality advancement.
- **Regulatory and Departmental Capacity**: Bolstering the skills and industry experience of ICASA and DCDT can improve institutional capacity to fulfil mandates.
- **Policy Stability and Governance**: Reduced turnover of leadership in DCDT and enhanced independence of ICASA important to drive policy stability, implementation continuity and build trust.

**Full Potential Annual Uplift 2021 - 2030**

- +55-65k Jobs p.a.
- R15-20B GDP p.a.
- +R4-6B Tax Rev p.a.
Roadmap: Infrastructure and spectrum interventions are required in short term, with governance and regulatory changes longer term

---

**Act Now**

**Immediate**  
*Up to 6 Months*

- Resource ICASA with the financial and human capital to complete spectrum auction by Dec ‘20
- Re-energise digital migration process – analogue to digital still not completed
- Finalise Rapid Deployment Policy to hasten rollout of networks
- Incentivise telcos to continue assistance to business and consumers in short term
- Facilitate collaboration between state and operators to combat theft and vandalism of network infrastructure

**Plan Now**

**Medium Term**  
*6 - 24 Months*

- Implement Rapid Deployment Policy
- Complete digital migration of TV
- Create certainty in the market around spectrum policy and issue High Demand spectrum (Digital Dividend and 5G)
- Prioritise 5G use cases and sites and expedite rollout of high value services
- Review financial services regulation with view to promote access through mobile network operators
- Bolster technical skills and experience at ICASA and DCDT to enhance effectiveness

**Longer Term**  
*2 - 5 Years*

- Explore network/spectrum sharing plans with MNOs to deliver better last 1% coverage/quality
- Enact governance changes to ICASA Act to enhance independence
- Allow ICASA retention of licensing, other fees received to promote self-funding
- Full spectrum availability only possible once analogue to digital and digital to digital completed

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Ensure short term continuity of connectivity and minimize congestion

Reform regulatory environment to ensure longer term health of sector

Enable full potential growth through rapid implementation

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Policy & Sector  
Innovation  
Education  
Policy  
Transformation  
Sector Focus Area  

Telecomms
Overview of the tourism sector and implications of COVID-19

### Key Sector Objectives

- **Ensure an appropriate enabling environment** for tourism to flourish
- **Promote quality tourism products and services** across the country, with a diverse offering (Safari, cities, culture, adventure, beach & scenery) at all market levels
- **Promote the practice of responsible tourism** for the benefit of South Africa and for the enjoyment of all its residents and foreign visitors
- **Provide effective domestic and international marketing** of South Africa as a tourist destination
- **Support capability building and digitisation** in the sector
- **Create decent employment**, in particular in rural areas

### Categories

- **Sector and market analysis**
- **Impact of Covid-19**

### Criteria

- **Resilience**
- **Security**
- **Job creation potential**
- **Job loss**
- **Supply and Demand**
- **Infrastructure**

### Analysis

- **Resilience**
  - 83% of industry companies report no chance of surviving lockdown conditions for 6 months
  - 2/3 of employees put on unpaid leave or partial unpaid leave

- **Security**
  - N/A

- **Job creation potential**
  - Industry is facing severe job losses; focus for the foreseeable future will be to maintain/restore the jobs at risk during the current crisis rather than generate new ones

- **Job loss**
  - Expected loss of 500 - 600k tourism related jobs (direct)

- **Supply and Demand**
  - COVID-19 related travel restrictions have started hitting the sector since March with occupancy rates dropping to ~30-35%
  - Expected drop of R171,4bn to R195,5bn in tourism spend in the economy
  - High exposure of SMMEs to the sector

- **Infrastructure**
  - Further exposure if airlines put discontinue key routes beyond the short term

### Rationale

- 83% of industry companies report no chance of surviving lockdown conditions for 6 months
- 2/3 of employees put on unpaid leave or partial unpaid leave
- Industry is facing severe job losses; focus for the foreseeable future will be to maintain/restore the jobs at risk during the current crisis rather than generate new ones
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- High exposure of SMMEs to the sector
- Further exposure if airlines put discontinue key routes beyond the short term
Key challenges: the tourism industry faces 3 main structural constraints

Unprecedented drop in industry demand globally and in South Africa

- 95% of countries have travel restrictions in place affecting demand for tourism
- 70-80% near term erosion in travel revenue globally
- Hotel occupancy rate dropped to ~35% in March
- Expect R171,4bn to R195,5bn drop in industry spend
- 500 - 600k tourism related jobs expected to be lost

Extensive lock down period and lack of resiliency in industry

- Extensive lock down in South Africa combined with international border closure and lack of visibility on reopening
- Sector heavily dominated by SMEs and seasonal workers with limited financial resilience
- On average businesses currently achieving 5% of normal revenues
- 83% of companies state they have no chance of surviving current lockdown conditions for 6 months

Structural and short term changes in traveller needs

- High premium on flexibility and hygiene as new table stakes with >75% of travelers anxious about taking flights
- Shift towards domestic and regional tourism in period of uncertainty, benefitting more countries like China or Germany over South Africa
- Shorter booking lead times demanding a fully digital offering – not yet at par with SMEs in South Africa
Priority Actions: Addressing constraints and opportunities

Tourism public-private coordination structures
Supply continuity over next 6 months with liquidity relief measures
Stimulation of domestic trips (substitution of outbound) and regional trips (tourism bubble)
Staged reopening with protocols possibly adapted to asset classes and location
PPP fund to support collaborative offerings in the sector
Gaining fast market share on international restart via protocols and new source market approach

Potential 2020 uplift from domestic trips
- 70 - 120k Jobs
- ZAR17-24bn GDP
- ZAR 850m-2.5bn Tax Rev\(^1\) p.a.

Potential 2020 uplift from gradual international re-opening
- 100 – 120k Jobs
- ZAR20 - 30bn forex spend

1. From the 14% tourism VAT; and assuming 0% optional bed tax
Roadmap: 4 interventions are required in the short term, 4 medium term and 1 long term

### Immediate 1-2 Months
- Set up centralised coordinated structures to jointly coordinate the sector with both public and private actors
- Issue sustainable liquidity relief proportional to needs of sector (6 months+) to both employees and companies
  - Grants, fiscal relief, debt relief (e.g., Japan debt relief program) or equity-like structures to recapitalise
- Repurpose existing mechanisms from government to support the sector (e.g. Export Marketing and Investment Assistance scheme)
- Focus on domestic and regional tourism
  - Reopen sector pragmatically
  - Stimulate domestic demand with dedicated marketing and promotion campaigns (e.g. repurpose marketing budgets, open domestic flights)
  - Create “bubbles” with countries with similar epidemiologic profile (e.g, SADC neighbours following the Australia – New Zealand model)
- Incentivize protocol certifications to build consumer confidence, consider the WTTC stamp
- Gain international long haul market share earlier by ensuring readiness
  - Adopt international protocols and standards for airports and airlines
  - Target source markets depending on evolving sanitary situation and opening/closing of borders
  - Maintain international visibility with targeted marketing campaigns

### Medium Term 3-6 Months
- Leverage “down time” of sector to build better for the future
  - Support renovation of hotels and BnBs with dedicated measures and funds (e.g., interest free rates on renovations, slower write offs)
  - Encourage transition of workers from informal to formal economy across all types of support provided (e.g. use downtime for employee reskilling and upskilling for tourism digitisation)
- Encourage stronger sector offering coordination and promotion:
  - Set up a PPP fund to support coordination of joint sector “experiences” and packages in the SME sector (e.g., Visit Britain PPP fund)
  - Support sector digitisation, in particular for SMEs, for example, via a tourism exchange platform
- Leverage “unique situation” to tackle structural challenges of the sector that lacked political momentum historically
  - Review policies that are long term impediments to the sector (e.g., Open Sky)
  - eVisa system and Visa waivers
  - Unblock challenges – eg NPTR
- Set up new capabilities in government to collect real time data and reiterate perspective on tourism strategy every 3 months
  - Review sector governance model to improve collaboration between public and private players and deliver accordingly

### Longer Term 1-3 Years
- Review source market strategy in light of long term shifts in outbound markets
- Adapt product offering to long term requirements of travellers
- Review sector governance model and collaboration with private sector
Appendices
<table>
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<tr>
<th>Interventions</th>
<th>Investment impact</th>
<th>Jobs impact</th>
<th>Fiscal impact</th>
<th>Second round effects</th>
<th>Inclusivity impact</th>
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</thead>
<tbody>
<tr>
<td>Large scale infrastructure programme</td>
<td>Highly positive – if done in right PPP framework</td>
<td>Highly positive – short- to medium-term labour intensive construction</td>
<td>Medium positive – some infrastructure budgets can be substituted by PPPs, though some state funding for guarantees, etc</td>
<td>Highly positive – if done right infrastructure can improve economic efficiencies and capacity</td>
<td>Medium positive – infrastructure can be biased to serve areas with minimal economic activity – connecting areas to economic centres</td>
</tr>
<tr>
<td>Round #1 Auction of existing spectrum</td>
<td>Medium positive – network providers will expand network capacity for 5G</td>
<td>Medium positive – investment requires jobs, including low skilled construction phases</td>
<td>Highly positive – proceeds of up to R15bn for government</td>
<td>Highly positive – lower cost and increased availability of broadband improves economic efficiency</td>
<td>Medium positive – helps bridge digital divide. Allows for wider broadband access</td>
</tr>
<tr>
<td>Digital migration (scheduled for 2021)</td>
<td>Highly positive – large scale additional spectrum will trigger large investment by telcos</td>
<td>Medium positive – construction and telco employment growth</td>
<td>Highly positive – further auction proceeds</td>
<td>Highly positive – lower cost and increased availability of broadband improves economic efficiency</td>
<td>Medium positive – helps bridge digital divide. Allows for wider broadband access</td>
</tr>
<tr>
<td>Round 5 of IPP programme</td>
<td>Highly positive – IPPs invest large amounts into new energy plants</td>
<td>Medium positive – jobs created especially during construction. Bid requirements tilt this positively</td>
<td>Low positive – least cost energy available and likely also reduce average cost</td>
<td>Medium positive – will contribute to energy security</td>
<td>Highly positive – IPPs tend to be in rural areas with minimal economic activities. Socioeconomic programmes and employment impact</td>
</tr>
<tr>
<td>SOE reform</td>
<td>Medium positive – as part of an overall government fiscal improvement, good for confidence</td>
<td>Low negative – jobs will be lost in SOEs but more than gained in pvt sector. Transition will be painful</td>
<td>High positive – ending the state’s subsidies of SOEs would save billions</td>
<td>Medium positive – more efficient SOEs may procure less but also provide better services in high economic multiplier sectors</td>
<td>Low positive – higher efficiency will improve services in rural areas</td>
</tr>
</tbody>
</table>
## Proposed policy interventions (2/4)

<table>
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<tr>
<th>Key interventions</th>
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<tbody>
<tr>
<td>Free red tape for other energy generation (small, medium and large scale)</td>
<td>Medium positive – particularly SSEG and utility scale EG will trigger investment</td>
<td>Highly positive - Labour intensive installation particularly for small scale &lt;1MW and households</td>
<td>Low negative – potentially moving off grid will reduce Eskom revenue</td>
<td>Medium positive – higher energy security for the economy</td>
<td>Low positive – plants will tend to be at mines and other energy intensive users that are remote, so investment biased to rural areas</td>
</tr>
<tr>
<td>Energy industrialisation strategy (sparked by local content requirements)</td>
<td>Highly positive. Manufacturing in wind towers and solar components and household units could stimulate significant industrialisation</td>
<td>Medium positive. Manufacturing will include skilled and low skilled roles</td>
<td>Medium positive. Taxable new revenue, import substitution</td>
<td>Highly positive – potential to form an anchor industry with large multipliers into the economy</td>
<td>Medium positive – production will tend to be close to consumption which will be near IPP plants so rural bias</td>
</tr>
<tr>
<td>Eskom restructuring &amp; unbundling</td>
<td>Medium positive. Effect on business confidence in energy security will support investment decisions</td>
<td>Low negative. Restructuring will reduce jobs at Eskom, but increase jobs in IPPs and wider economy. Net positive but transition will be difficult</td>
<td>Medium positive. Will reduce Eskom liability</td>
<td>Medium positive. Set the framework for reduction in energy costs and therefore increase in industrialisation</td>
<td>Medium positive. Greater competition in distribution though risks rural areas are seen as too disbursed</td>
</tr>
<tr>
<td>Ease of doing business/Red tape</td>
<td>Low positive – supports business start ups and efficiencies but relatively little in actual investment decisions</td>
<td>Medium positive – particularly if red tape around employment is reduced</td>
<td>Medium positive – red tape consumes government resources</td>
<td>Highly positive – improving efficiency increases capacity of whole economy with multipliers</td>
<td>Low positive – rural/poor communities will derive benefit from easier engagement with state, but not relative to urban high income</td>
</tr>
</tbody>
</table>

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Positive high | Positive medium | Positive low | Negative low | Negative medium
## Proposed policy interventions (3/4)

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<tr>
<td>Property rights certainty – s25 resolution and expropriation act resolution</td>
<td>Highly positive – if property rights can be absolutely clear and backed by legislation and institutions</td>
<td>Low positive – investment expansion will drive employment uptake</td>
<td>Low positive – revenue on property taxes grows</td>
<td>Medium positive – greater contract certainty lowers cost of doing business</td>
<td>Highly positive – clear rights for rural tenants would be positive as would meaningful land reform in rural areas</td>
</tr>
<tr>
<td>Regional financial services hub</td>
<td>Medium positive – a clear strategy with reliable regulation will trigger investment and expansion by financial services businesses</td>
<td>Medium positive – employment intensity can be promoted particularly in support services like administration and BPO</td>
<td>Highly positive – will attract offshore activities into the tax net</td>
<td>Medium positive – improves regional connections and capacity for trade</td>
<td>Low positive – mostly neutral though growth will bias toward urban areas</td>
</tr>
<tr>
<td>Mining Charter/MPRDA conclusion</td>
<td>Highly positive – reliable regulatory framework, particularly if returns on investment are not disrupted, will trigger significant prospecting and investment</td>
<td>Highly positive – mining is relatively employment positive, particularly if employment is built into Charter requirements</td>
<td>Highly positive – mineral royalties and other taxes collected on increased output</td>
<td>Medium positive – supply chains into mining have long-term benefit</td>
<td>Highly positive – most development of mines will be in rural areas</td>
</tr>
<tr>
<td>Oil &amp; gas bill revisions</td>
<td>Highly positive – reliable regulatory framework, without distortionary free carry, will trigger large scale investment</td>
<td>Low positive – skills intensive particularly at exploration and development stage.</td>
<td>High positive – royalties and tax collection</td>
<td>Medium positive - Potential to spark gas-based low- cost energy and industrial uses</td>
<td>Low positive – mostly neutral but some spillovers from gas industrialisation</td>
</tr>
</tbody>
</table>
# Proposed policy interventions (4/4)

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<tr>
<td>Labour law reform – amendments for small business, restrictions on bargaining council extensions</td>
<td>Low positive – some business expansion will be supported</td>
<td>Highly positive – freeing up ease of employing will increase employment particularly among small businesses</td>
<td>Medium positive – increased employment and PAYE</td>
<td>Medium positive – multipliers as small business and employment grows</td>
<td>Medium positive – greater employment flexibility will grow employment in rural areas</td>
</tr>
<tr>
<td>Employment tax incentives for youth</td>
<td>Low positive – mostly neutral but some investment on the margin</td>
<td>Medium positive – does have small impact on critical youth sector. With adjustments, could be larger</td>
<td>Medium negative – subsidy has direct fiscal cost and does displace some PAYE revenue</td>
<td>Low positive - largely neutral with positive sentiment driver from increased youth employment</td>
<td>Medium positive – youth are disproportionately poor and rural</td>
</tr>
<tr>
<td>A new expanded public works programme</td>
<td>Low positive – mostly neutral but perception of dealing with unemployment will be positive</td>
<td>High positive – can easily employ large numbers of low-skilled workers. However, productivity of this employment must be watched</td>
<td>Medium negative – cost to fiscus, though can be offset if channeled into projects with positive multipliers</td>
<td>Low positive – largely neutral with positive sentiment driver from increased youth employment</td>
<td>High positive – if programmes are biased to rural and poor areas via employment impact but also public good of works outcomes.</td>
</tr>
</tbody>
</table>
Thank You

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