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**A NEW INCLUSIVE ECONOMIC FUTURE FOR SOUTH AFRICA:
DELIVERING AN ACCELERATED ECONOMIC RECOVERY STRATEGY**

South Africa will only be able to materially improve the lives of all South Africans and deliver on the promise of 1994 if we are able to kick-start, and sustain, high levels of inclusive economic growth.

South Africa entered a technical recession last year and with the arrival of Covid-19 at the beginning of March 2020, it is clearly evident that the associated economic and social ramifications for South Africa are more severe than previously anticipated.

Business for South Africa (B4SA), established as business' response to the Covid-19 pandemic, expects GDP to decline by between 8% and 10% in 2020, recovering in the next two years to pre-Covid-19 levels, with muted growth thereafter. It forecasts a budget deficit of 13.3% for this fiscal year. Meanwhile, government debt is escalating to record levels in both absolute terms and as a percentage of GDP. In the absence of growth enhancing structural reforms, budget deficits are expected to remain high and government debt is expected to exceed 100% of GDP in 2023 (vs. 26% in 2008), as annual budget deficits remain above 13% of GDP.

It is B4SA's view that the nation has arrived at a fork in the road. Protecting the *status quo* with only marginal change locks in an accelerated downward trend, while a committed leadership willing to make difficult, though sometimes unpalatable choices focussed on appropriate policies, which enable investment and thus inclusive growth, can decisively improve the economic and social trajectory of the country.

The devastating impact of Covid-19 presents an opportunity to reimagine South Africa's future, one which we all have to grasp.

B4SA, representing the vast majority of South African business, working in partnership and supported by a number of business associations, including the Association for Savings and Investments South Africa, the Black Business Council, Banking Association of South Africa, Business Unity South Africa, Business Leadership South Africa, and the Minerals Council of South Africa, has adopted a multi-disciplinary approach for an accelerated economic recovery strategy. This harnesses South Africa's potential in the shortest possible time by leveraging all resources – across government, business, and civil society – to address the economic and social challenges which we face.

This unique collective can only succeed if all constituents work in unison to address our economic and social challenges.

It is B4SA's view that a coherent economic recovery strategy, which is clearly articulated as well as competently and efficiently implemented and led with visible urgency, will enable a new narrative to be established about South Africa's macro-economic potential and in so doing improve confidence, investment, inclusive growth and unemployment levels. The work prioritises 12 key initiatives, from a list of over 50, some of which can be launched immediately, across 11 high-impact sectors. B4SA has also identified 12 policy focus areas.

B4SA's detailed assessment identifies and addresses key issues and constraints, many of which predate this crisis, and which have now been exacerbated. It sets out recommendations and proposals

which business, government, labour and civil society can discuss and, potentially, implement as partners in order to reset South Africa's economic and social development path, and to enable the nation to enjoy a better future.

The Covid-19 crisis represents an opportunity for all stakeholders to consider what is required for the country to move ahead successfully and with conviction. This will require ruthless prioritisation and difficult decisions. A new social and economic compact must be forged in parallel, and a cohesive plan will need to be jointly developed and implemented by government, business and other social partners. Committed leadership is needed to drive decisions to conclusion with speed.

The B4SA **ACCELERATED ECONOMIC RECOVERY STRATEGY** is being put forward as the basis for an intensive process of engagement, which we hope will lead to increased trust between societal stakeholders, and to a new form of partnership between government and business in pursuit of shared challenges.

Covid-19: A fork in the road

The country faces a stark choice. The actions taken by leaders in the immediate future will set the country on one of two paths:

- *The Low Road - Giving up the gains made since 1994:* Absent decisive leadership and action, South Africa will not be able to escape the negative effects of policy uncertainty, corruption, lack of accountability, and lack of capacity, all of which were evident prior to the crisis. Growth is likely to be flat or negative for an extended period, leading to rising government indebtedness and increased unemployment. Government's ability to fund the deficit will be further curtailed and the attendant consequences of increasing poverty, rising crime rates, and declining health and education levels could lead to widespread societal instability.
- *The High Road - Committing to unavoidable, though difficult, decisions in the interest of the nation:* Decisive leadership and bold action, based on a data-driven, empirical and rational approach, could see South Africa capable of delivering economic growth in the order of 5% per annum, doubling GDP over the next 10 years and materially reducing unemployment, inequality and poverty in the process.

Opportunities for joint action to kick-start economic growth

The immediate imperative is to kick-start inclusive economic growth by restoring confidence, attracting investment, and implementing projects which will lead to near-term employment gains, and which then support inclusive growth over the medium and long-term. B4SA has analysed key sectors with respect to an immediate and near term economic and employment contribution, as well as future growth potential. This has resulted in a ranking of the top 11 high-impact sector focus areas, which comprise 49 subsectors.

For each of these high-impact areas, we considered the critical enablers and success factors which are prerequisites for activating employment and reducing poverty and inequality. The following themes have been identified as priorities:

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| (1) Policy consistency | (5) State Owned Enterprises (SOE) restructuring, optimisation or exit |
| (2) Regulatory reform | (6) Energy industrialisation strategy |
| (3) Addressing crime, corruption and undoing state capture | (7) Economic transformation and B-BBEE |
| (4) Infrastructure investment | (8) Addressing skills shortages |
| | (9) Investing for modernisation |

We distilled and prioritised the initiatives identified in each sector into a list of 12 priority initiatives, which are seen to have the largest effect on economic growth, job creation, and increasing the tax base. Addressing these top 12 actionable initiatives across the 11 high impact industrial focus areas, together with key policy interventions, represents an opportunity to increase GDP by R1 trillion, create up to 1.5 million jobs, and increase tax revenues by R100 billion per annum. Each initiative comprises several specific projects or opportunities for actions, which will unlock underlying economic benefits, have a high degree of overlap with the 18 Strategic Integrated Projects (SIPs), which are the focus of the Presidential Infrastructure Coordinating Committee (PICC). B4SA's 12 initiatives are:

Projects & Initiatives	Specific Projects / Opportunities	GDP impact ⁽¹⁾	Jobs ⁽¹⁾
Secure and affordable electricity supply	<ul style="list-style-type: none"> Address Eskom operating and capital structure / update IRP Embrace Gas economy: Revise IRP gas to power targets, enable extension of Pande-Temane, invest in LNG imports 	up to R177bn capex	88,000 created 248,000 protected
Fast-track Green economy	<ul style="list-style-type: none"> Accelerate renewables deployment via REIPP5 and REIPP6 Launch Green stimulus and national green funding strategy 	up to \$83bn of green funding	500,000 Indirect
Implement Transnet's road to rail strategy	<ul style="list-style-type: none"> Address debottlenecking issues to grow rail volumes Expand Saldanha railway capacity Private concession Lephalale-Maputo line 	Transport R66bn p.a.	Transport 19,000 p.a.
Ports expansion	<ul style="list-style-type: none"> Improve competitiveness relative to global peers Expand capacity for agriculture & mining 	-	Mining 70,000 by 2024
Road infrastructure	<ul style="list-style-type: none"> Complete BRT implementation Clarify role of minibus taxis within public transport 	Construction up to R100bn p.a.	Construction up to 100,000 p.a.
Full Spectrum utilisation	<ul style="list-style-type: none"> Digital migration, permanent allocation, network sharing "Use it or lease it", Rapid Deployment Plan, WOAN licences 	Telecomms R15 - 20bn p.a.	Telecomms >55-65,000 p.a.
E-learning & digital health platforms	<ul style="list-style-type: none"> Ensure more affordable connectivity Increase access and financial inclusion 	Tourism R17-34bn p.a.	Tourism 70-120,000 p.a.
E-commerce acceleration	<ul style="list-style-type: none"> More powerful and less costly systems Migration of Govt & SMMEs to Digital 		
Water infrastructure	<ul style="list-style-type: none"> Complete delayed projects /coordinate with sectors 	Agriculture R10 - 15bn p.a.	Agriculture 60-80,000 p.a.
Maximise commercial agricultural output	<ul style="list-style-type: none"> Cannabis industrialisation: has wide industrial product use Improve access to finance and enabling infrastructure 		
Import replacement focus	<ul style="list-style-type: none"> Target high value sectors and new wild-card products Develop regional trading corridors 	Manufacturing R21-35bn p.a.	Manufacturing 28-70,000 p.a.
Increased financial inclusion and lower cost of capital	<ul style="list-style-type: none"> Enable acceleration of digital financial services ecosystem, establish new challenger banks Funds targeting SMMEs, agriculture and Green economy 	~R50-90bn p.a. from steady state	220-470,000 from steady state

A recurring conclusion across most sectors is that infrastructure is a key enabler which must be addressed with urgency if businesses are to deliver inclusive growth. A constructive, effective policy framework is required to support and sustain growth.

Policy choice and implementation

Enabling economic growth at the required level and attracting domestic and foreign investors, requires new thinking on policy development and implementation by government. In particular, these must focus on the ease of doing business (currently ranked 84th out of 190, from 35th in 2008, in the World Bank's Ease of Doing Business index), education, sustainable economic transformation, and innovation and entrepreneurship to improve the nations' overall competitiveness (currently ranked 60th out of 141 globally by the WEF).

Addressing increasing levels of inequality, i.e. ensuring that the benefits from future economic growth translate into a more prosperous life for every South African, is a necessary condition for creating the political and societal stability needed to make strong economic growth sustainable over the long term.

It is therefore necessary to establish a policy framework which appropriately incorporates the objectives of sustained economic growth, job creation and economic transformation. Business, labour and civil society must build partnerships to ensure a transformation culture that demonstrates the economic value of diversity. Policy consistency and the simplification of the B-BBEE Codes is essential, particularly in relation to SMMEs.

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) remains critical. The current legislation is overly complex and results in a transactional approach to compliance, rather than a culture of transformation within business. Any recovery strategy should include a review of all policies and legislation to ensure that they are fit for purpose.

The sectoral work carried out by B4SA has identified and considered policies across 12 clusters, split into driving investment, and improving the business environment. The 12 key policy focus areas are detailed in the table below. Each of these is supported by detailed work and recommended implementation steps. The policy focus areas are all interrelated and require simultaneous action.

Policy focus area	Key issues	Policy certainty	Inclusive growth
Tackle crime & corruption	<ul style="list-style-type: none"> Corrupt procurement practices particularly within SOEs Need to support SMMEs impacted by crime 	-	✓
Improve ease of doing business	<ul style="list-style-type: none"> Support business start-ups and entrepreneurship Reduce red tape and constraining regulations 	-	✓
Mobilise large scale infrastructure projects	<ul style="list-style-type: none"> Reprioritisation of Government's infrastructure portfolio Appropriate PPP frameworks, expand export capacity 	✓	✓
SOE reform and rationalisation	<ul style="list-style-type: none"> Clarity regarding State subsidies, Eskom unbundling, PPP framework and retention of systemically important SOEs 	✓	✓
Clarity on land reform	<ul style="list-style-type: none"> Property right certainty s25 and expropriation act resolution Uncertainty has a negative multiplier effect on investment 	✓	✓
Education and skills development	<ul style="list-style-type: none"> Limits the development and application of technologies Barrier to entrepreneurial activity and technical expertise 	-	✓
Review trade policies	<ul style="list-style-type: none"> Incentivise strategic value chains by realigning trade policies, prioritising manufacturing 	✓	✓
Labour law reform	<ul style="list-style-type: none"> Expanded public works programme, selective amendments for SMMEs, restrictions on bargaining council extensions 	✓	✓
Simplify mining investment regulation	<ul style="list-style-type: none"> Comprehensive review and rewrite of the MPRDA including consolidation of charter into the MPRDA Increasingly expensive supply of electricity 	✓	✓
Align national energy strategy across all sectors	<ul style="list-style-type: none"> Electricity: Unblock/optimize 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 	✓	✓
Telecomms: maximise connectivity	<ul style="list-style-type: none"> Digital migration, complete spectrum auction and finalise Rapid Deployment Policy 	✓	✓
Financial inclusion and fiscal support	<ul style="list-style-type: none"> Infrastructure funding and financial inclusion Barriers to competition to be reduced to enable new entrants, whilst maintaining soundness of financial system 	-	✓

B4SA is encouraged by government's recent efforts in some of these areas, such as the increased focus on African trade in the context of the African Continental Free Trade Area (AfCFTA), and the establishment of the SOE advisory council. B4SA also welcomes other government actions, such as strengthening the capacity of the South African Revenue Service. B4SA will also continue working with

existing successful public-private partnerships such as the Public-Private Growth Initiative (PPGI) and the Investment and Infrastructure Office in the Presidency, as well as the Technical Assistance and Mentorship Development (TAMDEV) project focused on creating skills capacity within the State.

Funding the economic recovery plan

Significant funding is required in both the public and private sectors as the economy recovers off a low base. B4SA's work indicates a baseline total funding requirement of approximately R3.4 trillion over the next three years. Included in the funding requirement is R2.4 trillion of anticipated public sector budget deficits over three years, R1.1 trillion more than the medium-term projections in the February 2020 budget. This estimate does not account for potential rescue funds for large corporates or an unforeseen worsening financial situation at SOEs.

B4SA therefore believes that public sector debt could increase from R4 trillion to more than R6.4 trillion over three years, whilst the economy is anticipated to recover to 2019 levels over the same period. The funding need cannot be met by domestic sources, nor is it possible for the South African Reserve Bank (SARB) to address the shortfall in a responsible and sustainable manner through monetary measures.

Public and private cooperation: The private sector can fund, develop and operate economic infrastructure in a regulated competitive environment, to reduce the strain on the fiscus and SOEs without increasing the cost to the consumer. This would result in faster and more sustainable economic growth, resulting in the public sector funding requirement shrinking to R1.9 trillion over three years and the budget deficit normalising at 3.5% in 2025.

South Africa must compete globally for investment: More than \$10 trillion of capital is theoretically available in international markets from Sovereign Wealth Funds (SWFs), Development Finance Institutions (DFIs) and alternative asset managers, outside traditional Global Emerging Market (GEM) debt and equity investors. Most of these alternative sources of foreign capital will only consider South Africa if we provide a more compelling investment case.

Government and business must work together to address the key concerns of foreign investors holistically as the nation competes with other emerging markets as an investment destination. Direct investment in infrastructure could crowd in local and foreign investors, if structured to yield an appropriate risk-adjusted return. New thinking on investment product design and changes to financial regulation in South Africa could mobilise incremental local investment, and ESG funding could be sourced internationally if there is a firm commitment to environmental and social transformation.

Conclusion: Inclusive growth, employment, and a new shared national vision

B4SA's extensive body of work underscores the need for urgent, coherent actions which can materially improve the economic and employment trajectory. The work summarised in the B4SA economic recovery strategy seeks to support government in this process – we see the proposals presented as a basis for an intensive engagement and to a new form of partnership between government and business in pursuit of these challenges.

The basis for such a partnership might be a number of task teams, constituted jointly by experts from the public and private sector, with decision makers from key role players across society. Each team should focus on one of the high impact priority areas, along with a team considering key policy interventions in the areas highlighted. Wherever suitable structures exist, these need to be reinforced

and integrated into this process to avoid duplication and to ensure a holistic approach to the implementation of an accelerated economic recovery strategy.

This process would necessarily be iterative and will require firm and brave leadership. We suggest that the overarching structure into which these teams align reports to the President, and that the output of the work should ultimately also feed into a forum which integrates the work with the inputs from a diverse range of societal stakeholders into a new inclusive economic future for South Africa.

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ABOUT BUSINESS FOR SOUTH AFRICA

Business for South Africa (B4SA) was formed to support the Government in its response to managing and alleviating the risks of the Coronavirus (COVID-19) pandemic on South Africa, and its people. The B4SA COVID-19 initiative is being supported by a coalition of volunteer resources from across the South African business community, including leading professional services firms, law firms and communication specialists. This support is structured and facilitated from within an established Programme Management Office (PMO - <https://www.businessforsa.org/project-management-office>), which has the capability to coordinate activities between foundational working groups: Health, Labour, Economic Intervention, Civil Society, Legal/Regulatory/Tax, as well as Communication. These groups all have numerous workstreams with activities being implemented in a structured and considered manner. These groups are further underpinned by a comprehensive risk assessment and mitigation plan.