BUSINESS FOR SA | COVID-19

Post COVID-19

A New Inclusive Economic Future for South Africa

Delivering an Accelerated Economic Recovery Strategy

10 July 2020

Introduction

Context

When Covid-19 arrived in the country at the beginning of March 2020, it was evident from the experience of other countries that this would have significant health, economic and social ramifications for South Africa. Government, fully supported by business and other societal stakeholders, took swift action and the resulting lock-down provided time to prepare the health care system for patient volumes which it was ill-equipped to handle, and to slow the spread of the virus.

Today, it is clear that the virus will continue to circulate through the population, with infection rates increasing significantly across the nation. We therefore need to develop protocols and mechanisms which allow the country to operate under these difficult conditions, carefully balancing health and safety considerations with the need for protecting livelihoods and ensuring economic growth.

The domestic economy was already in a precarious position prior to the advent of the Covid-19 crisis, which has merely exacerbated the economic and social consequences of corruption and the poor choices made over the last decade. South Africa has fallen behind its African and global competitors, as the country has failed to address its primary challenges of inequality, poverty, and unemployment.

Business for South Africa (B4SA) – A plan to kick-start growth inclusive economic growth

B4SA recognises that the nation will only be able to address these challenges, 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.

In recognition of the gravity of the present situation, B4SA was constituted to mobilise business' capabilities in response to the Covid-19 crisis and to assist government in addressing the associated ramifications for the economy and society at large. Secondly, B4SA sought to formulate an integrated accelerated economic recovery strategy which harnesses South Africa's potential in the shortest possible time by leveraging all resources – across government, business, and civil society – to address the economic challenges we face.

This document summarises and integrates a large body of work performed over the last two months, aimed at addressing these issues, many of which predate this crisis, and which have now been exacerbated. It aims to set out recommendations and proposals which business and government can work on jointly as partners in order to reset South Africa's economic and social development path, to enable the nation to enjoy a better future.

Specifically, the work has synthesised and prioritised 12 key projects and initiatives, from a list of over 50, some of which can be launched immediately and others progressively, across 10 high-impact sectors. There have also been 12 policy focus areas identified, which could increase GDP by over R1 trillion (tn), generate 1.5 million (m) jobs, and increase tax revenues by R100 billion (bn) per annum. In addition, we have identified 15 immediate actions that will improve consumer and business confidence and that do not require government policy changes to implement. We need decisive leadership, together with appropriate capacity and expertise, to implement these immediate actions.

A new social and economic compact for South Africa
South Africa's economic situation is precarious. GDP is expected to decline by between 8.3% and 10% in 2020, recovering steadily in 2021 and 2022 with muted economic growth thereafter. B4SA forecasts a budget deficit of 13.3% in the current fiscal year, with government debt escalating to record levels in absolute terms and as a percentage of GDP. In the absence of growth enhancing structural reforms, budget deficits are anticipated to remain elevated and Debt:GDP is expected to exceed 100% in 2023 (vs. 28% in 2008). Continuing along the path of the last decade will lead to accelerating economic decline, material job losses, and ultimately a lower standard of living for our citizens, even after the coronavirus crisis has been resolved.

Taking decisive rather than incremental action now will allow the country to return to growth, delivering material employment gains, reduced inequality, and ensure a better quality of life for all citizens. The national response to Covid-19 has demonstrated that there is an opportunity to harness the goodwill of all groups in society which, when combined with the skills and financial resources of the business community, can help to reset the country's economic and social path.

Ensuring Broad-Based Black Economic Empowerment (B-BBEE) delivers sustainable transformation
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 need for committed leadership and ruthless prioritisation
Forging this social and economic compact will take time – a commodity which the country no longer has. Immediate rational, pragmatic choices must guide our actions and as a nation we must acknowledge our constraints. Most importantly, we have limited access to both financial and human capital and must compete for capital with other countries also struggling with the impact of Covid-19. It is therefore of paramount importance that we prioritise ruthlessly and deploy resources so as to secure the greatest impact in the shortest possible time.

These choices will require difficult trade-offs and sacrifices by all stakeholders as important initiatives in some areas will need to be deferred or scaled back. However, difficult choices must be made now because we must start designing and implementing appropriate steps to accelerate economic transformation, while the aforementioned compact is still being formed. In B4SA's view, these choices must prioritise the kick-starting of an accelerated and sustained economic recovery, as it is only through higher economic growth that we will be able to create sufficient new jobs and strengthen the fiscus.

Growth will require both domestic and significant international investment, and this investment will only be value-creating and job-rich if it is sustained. Domestic savings are insufficient to fund the investment required to deliver the necessary level of economic growth, and therefore substantial capital will have to be found internationally, where South Africa must compete with other emerging markets and ensure it is a globally attractive investment destination.

Competing for this capital at an appropriate cost requires us to hold all stakeholders in the country to higher external standards. This means improving South Africa's position on key global rankings, including the World Bank's Ease of Doing Business index and the World Economic Forum's Global Competitiveness Report. It is these external rankings which we have to accept as a measure of our success in reshaping the national narrative and the sentiment towards the nation as a place to invest and do business. Agreeing on the set of coherent actions we need to take to improve SA's position in these rankings is of paramount importance as this will build local and international confidence and trust in South Africa, which will in turn drive new investment and growth in our economy.

Near-term steps to address unemployment

Although significant progress can be made over a relatively short timeframe, employment opportunities will initially only grow at a slow pace as the primary source of new jobs, SMMEs, will take time to recover and grow. It is therefore necessary to take additional steps to offset the job losses which had started to take hold across the economy before Covid-19 necessitated the economic lock-down.

These steps must involve a partnership between the private sector and government on large scale "Projects and Initiatives" capable of creating jobs in the short term, and which also support sustained economic growth going forward. The State will be the sponsor of many, though not all, of these projects, in particular where they relate to infrastructure investment. However, given the current fiscal constraints, it will be necessary to prepare and package these so that they are attractive for domestic and foreign capital, in order to allow the government to obtain maximum leverage from its limited financial resources.

Conclusion

It is only on the basis of a coherent economic recovery strategy, clearly articulated and implemented competently, efficiently, and led with visible urgency, that we will be able to establish a new narrative about South Africa at a macro-economic level. This document sets out B4SA's proposals to government in this regard and comprises six main sections, namely:

(1) the economic analysis carried out by B4SA which highlights the dire economic and social circumstances the country is in;
(2) the choices the nation faces, and the implications for our citizens;
(3) the immediate actionable opportunities identified by the sector analysis;
(4) policy recommendations and the immediate steps government can take to create the appropriate enabling environment, based on which business can invest;
(5) funding considerations and how we can work together to target international investment; and
(6) the need for all stakeholder groups to work together in a coherent manner to ensure that the accelerated economic recovery envisaged herein is delivered and, importantly, takes hold on a sustainable basis.

How we got here: A lost decade capped by a crisis

Changing circumstances marked by familiar issues

Over the last 10+ years the country's economy has grown at a rate significantly below its potential. Over this period, policy uncertainty and inadequate policy choices, the underperformance or failure of key SOEs, persistent power shortages and a failure to address corruption and maladministration in the public and private sector, as well as at a societal level, have resulted in misallocation of scarce resources and sapped business and consumer confidence, which is now at an all-time low.

This has reduced investment in the economy and curtailed employment, with GDP contracting in several quarters over the last two years, and the country entering a technical recession at the end of 2019. The fiscus has become increasingly constrained, with negative revisions to the budget deficit which is now forecasted to reach a record 13.3% in the current financial year, and debt climbing to record levels in absolute terms and as a percentage of GDP.

As a consequence, the country is no longer considered investment grade and is now nearing a level of indebtedness beyond which countries' economic growth rates have generally been shown to decrease materially. Increased borrowing costs constrain government's room to stimulate the economy through transfer payments or investment, while monetary policy is already accommodative and cannot stimulate growth on a sustainable basis.

South Africa was facing a crisis of confidence and a steep economic decline prior to the Covid-19 crisis. The economic effects of the lock down have exacerbated the underlying trend and, although a smaller decline in GDP was originally forecasted for Q2 of 2020 than the first quarter, the lockdown is estimated to result in a contraction of 30% for the quarter, with business and consumer confidence at record lows.

A decline of this magnitude has wiped out the limited gains in GDP achieved over the last five years and resets the growth path to a much lower level. Growth was already substantially below the level required to reduce unemployment in a meaningful manner and well below the targets in the National Development Plan. Critically, over 1.1m jobs have been lost over the last three months, which will not be recovered in the near term.

From 1994 to 2008, South Africa thrived. Strong GDP growth allowed debt levels to be steadily reduced and enabled the country to obtain an investment grade credit rating, which supported a thirtyfold increase in foreign direct investment to $12bn per annum, and tax revenues increasing by 550%. However, that growth was not inclusive and disparities across society have increased over the last decade, as we failed to address the challenges of unemployment, inequality and poverty head-on.

Over the last ten years, Debt:GDP has more than doubled, the country's credit rating is now lower than it was in 1994, and foreign direct investment has declined materially in the face of policy uncertainty, rising crime rates, insufficient labour market flexibility, a lack of government transparency, and the near failure of the public education system, in particular with respect to primary and high school education.

The country's competitive position

South Africa ranks *last* in the WEF's maths and science league table and, despite spending more money per capita than many developed countries, delivers education outcomes which see only 50% of pupils, after five years of education, being able to complete simple calculations, and only 50% of students ever reaching matric.

The nation ranked 32nd worldwide on the World Bank's Ease of Doing Business index ten years ago, but has lost 52 points since then, and now ranks 84th. Not surprisingly, government's effectiveness rating (as measured by the World Bank) has declined meaningfully, as crime rates and unemployment have steadily risen. Similarly, South Africa's ranking in the WEF's Global Competitiveness Report has steadily declined, and falls outside the top 100 nations in security, labour market flexibility and government adaptability to change.

A need to restore business and consumer confidence

Not only has business confidence declined to record lows, but the trust of ordinary South Africans in government's ability to keep them safe or to deliver basic services and administrative functions for its citizens has fallen on a broad basis.

The Covid-19 crisis has crystallised the urgent need for significant economic reform

As a nation, we have underperformed and slipped in many of these rankings. It is therefore of paramount importance to forge agreement on the steps to be taken to reverse this and to improve the nation's standing, as this will restore confidence and trust, attract international and local investment, spur growth, and create employment.

B4SA believes that this crisis represents an opportunity for societal and economic renewal which South Africa must grasp.

Covid-19: A fork in the road

An opportunity to reset and accelerate the economic and social trajectory for South Africa
In as much as the foregoing data may be dire, we must acknowledge these issues as a nation, and address them in a coherent manner, both at the macro and micro economic level. The status quo cannot be allowed to prevail if we are to resolve the inequalities that persist and reverse the economic outcomes highlighted in the preceding section in order to improve the lives of all South Africans.

The country faces a stark choice. The effects of Covid-19 will eventually subside, but the nation's social and economic trajectory had been set prior to the current crisis, and will therefore persist, even if we see a short-term increase in growth on a relative basis after such a deep economic contraction. 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 pernicious effects of policy uncertainty, corruption, lack of accountability, and a lack of capacity which were all evident prior to the crisis. These will continue to depress growth and they may become so entrenched that they lock in a negative growth trajectory for the next decade.

A strategy of pursuing only incremental marginal change, or continuing to defer unpalatable choices through inaction, will lead to materially worse lives for all South Africans. Economic growth will likely be flat or negative for an extended period, resulting from a further deterioration in business confidence and curtailed domestic and foreign investment.

This will lead to unsustainable levels of government indebtedness and significant further increases in 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 are likely to lead to widespread civil unrest.

The High Road: Committing to difficult decisions in the interest of the nation
If, however, the country's leadership makes the right strategic choices over the near term and takes decisive and bold action, based on a data-driven, empirical and rational approach, then South Africa may be capable of delivering economic growth of 5% per annum or more, to potentially double GDP over the next 10 years and materially reducing unemployment, inequality and poverty in the process.

As indicated in the preceding sections, we suggest that targeting improvements in South Africa's ranking on objective, external benchmarks is an appropriate frame of reference for determining the necessary actions which must be urgently taken. Substantial changes over short periods of time are possible, as the example of Saudi Arabia's 30-point improvement in the World Bank's Ease of Doing Business rankings over the last year has shown.

We can only achieve such gains by working in partnership to jointly determine how to harness all the country's resources in the most efficient and impactful way, in order to implement the chosen strategy. This will require focus, political will, and strong leadership. Visible steps to improve government effectiveness, to root out corruption and maladministration in society, and to establish coherent, stable and constructive policies will restore business confidence, spur innovation, mobilise investment and drive job-rich economic growth.

The nation has thus arrived at a fork in the road. A strategy seeking to protect the status quo based on only marginal changes locks in an accelerated downward trajectory as a self-perpetuating negative feedback loop takes hold. Alternatively, committed leadership, willing to make difficult, though sometimes unpalatable, choices focussed on putting in place appropriate policies which enable investment and thus inclusive growth, can decisively improve the economic and social trajectory of the country.

Opportunities for joint action to kick-start economic growth

What government and business must do for South Africa

There has been an ongoing dialogue between the key stakeholders in our society over many years. Business and government have cooperated in various forums, and there has been continued engagement at a sector and industry association level, as well as between various civil society groups and business and government. A reconstituted Nedlac may well offer a potential structure for such co-operation.

Given the urgency of resetting South Africa's economic and social trajectory as a consequence of the Covid-19 crisis, B4SA has sought to bring a fresh perspective to the underlying analyses by consolidating, supplementing and integrating this work over the last two months.

There have been several credible plans developed by government over the past 10 years, including the National Development Plan, but implementation of these has been lacking. The absence of a capable state and inadequate alignment between the social partners has, *inter alia*, complicated implementation of the necessary reforms. As B4SA, it is our hope that a partnership between the public and private sector can be forged to develop an accelerated economic recovery strategy which incorporates the recommendations made in this document, and which addresses the aforementioned shortfalls in capacity and alignment between the various societal stakeholders.

The immediate objective of the proposals summarised herein 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.

Sectoral analyses: Prioritised focus areas and initiatives

To formulate these proposals and recommendations, each sector was analysed with respect to its immediate and near term economic and employment contribution, as well as its future growth potential, resulting in a ranking of the top ten high impact sectors, which comprise 49 subsectors. The sector deep dives cover: SMMEs, Townships & the Rural Economy, Energy & Water, Mining, Construction, Manufacturing, Transport, Agriculture, Wholesale & Retail, Financial Services, Telecommunications, and Tourism & Leisure.

For each of these high impact areas, we have considered the critical enablers and success factors which are prerequisites for activating employment and reducing poverty and inequality, all of which broadly align with the items identified in the Jobs Summit. These typically span multiple sectors and are thus highly interdependent.

The results of these analyses are also congruent with the focus areas identified in the National Development Plan as well as publications by National Treasury, the South African Reserve Bank (SARB), the Presidential Economic Advisory Council, IPAP and various individual industry analyses, and they are consistent across all sectors where the following themes have been identified as priorities:

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

We have distilled and prioritised the initiatives identified in each sector into a list of 12 priority Projects and Initiatives (see below), which have the largest effect on economic growth, job creation, and increasing the tax base. Each initiative comprises several specific projects or opportunities for actions which will unlock the underlying economic benefits, with a high degree of overlap with the 18 Strategic Integrated Projects ("SIPs") that are the focus of the Presidential Infrastructure Coordinating Committee ("PICC").

Projects & Initiatives	Specific Projects / Opportunities	GDP impact(1)	Jobs(1)
Secure and affordable electricity supply	• 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* ***500,000*** *Indirect*
Fast-track Green economy	• Accelerate renewables deployment via REIPP5 and REIPP6 • Launch Green stimulus and national green funding strategy	*up to **$83bn** of green funding*	
Implement Transnet's road to rail strategy	• 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	• Improve competitiveness relative to global peers • Expand capacity for agriculture & mining	-	Mining **70,000** by 2024
Road infrastructure	• 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	• Digital migration, permanent allocation, network sharing • "Use it or lease it", Rapid Deployment Plan, WOAN licences	Telecomms **R15 - 20bn** p.a. Tourism **R17-34bn** p.a	Telecomms **>55-65,000** p.a. Tourism **70-120,000** p.a
E-learning & digital health platforms	• Ensure more affordable connectivity • Increase access and financial inclusion		
E-commerce acceleration	• More powerful and less costly systems • Migration of Govt & SMMEs to Digital		
Water infrastructure	• Complete delayed projects /coordinate with sectors	Agriculture **R10 - 15bn** p.a.	Agriculture **60-80,000** p.a.
Maximise commercial agricultural output	• Cannabis industrialisation: has wide industrial product use • Improve access to finance and enabling infrastructure		
Import replacement focus	• 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	• 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

We are encouraged that the Investment and Infrastructure Office (IIO) in the Presidency and the Public Private Growth Initiative (PPGI) are currently driving many of these Projects and Initiatives and are supportive of the various projects identified in the Sustainable Infrastructure Development Symposium of South Africa (SIDSSA). However, we note that funding and implementation of major national projects remains a challenge and presents an opportunity for the public and private sector to work together.

The integrated analyses carried out by B4SA indicate that addressing these top 12 Projects and Initiatives across the 10 high impact sectors, together with the 12 key policy interventions, represent an opportunity to increase GDP by Rand 1tn, create up to 1.5m jobs, and increase tax revenues by Rand 100bn per annum.

The importance of targeted infrastructure investment

A recurring conclusion across nearly all sectors is that infrastructure is a key enabler which must be addressed with urgency if businesses are to deliver inclusive growth. Some of these have been discussed widely, such as ensuring security and competitiveness of energy supply and increasing rail and port capacity which will support exports across multiple sectors.

Others are less evident but equally important, such as the need to establish and/or expand effective public transport, not only to reduce crowding in minibuses but also to lower the cost of transport for the poorest members of society. Similarly, securing water supply and fixing waste-water infrastructure will not only support industrial users and agriculture, but should also free up funding for municipalities over the longer term.

Crucially, infrastructure projects in these areas need to be structured and prepared appropriately to be suitable for blended finance, drawing principally on private capital and limiting government's direct contribution, or indirect exposure, to only those risks which the private sector is unable to underwrite and manage. This requires a new approach, and a move away from traditional Public-Private Partnership (PPP) models, which all too often left governments with more of the project risks than necessary.

To accomplish this, projects need to be conceptualised, prepared and structured – technically and financially – jointly between industry and government, and they need to be managed through implementation, and in operation, to the same level of efficiency as is most often attained in the private sector if we are to attract significant outside capital. We are encouraged by the recent Sustainable Infrastructure Development Symposium of South Africa (SIDSSA) and the work on establishing the Infrastructure Fund, the Strategic Infrastructure Projects (SIPs), and the announcements related to the Presidential Infrastructure Coordinating Commission (PICC) and the Infrastructure Investment Office (IIO). We need to work together to integrate and synthesise these initiatives to ensure implementation of infrastructure projects and greater capacitation of the public sector.

The second conclusion to be drawn from the in-depth analyses is that a constructive, effective policy framework is required to support and sustain economic growth and to attract necessary international and local capital. Public and private sector can, and should, cooperate in this regard as these complex issues can only be resolved through a partnership approach. This is discussed further in the next section.

Policy choice and implementation
The need for constructive and stable policies, implemented competently

Context
Enabling economic growth at the required level, and building a new narrative for South Africa, which sets us apart from our competitors and attracts foreign and local investors, requires new thinking in respect of policy development and implementation by government.

Both economic growth and the new social and economic compact referred to in prior sections can only take hold if supported by appropriate, constructive policies. In particular, these must focus on the ease of doing business, education, sustainable economic transformation, and innovation and entrepreneurship as these will improve the nations' overall competitiveness (currently ranked 60th out of 141 globally by the WEF).

The key drivers of this low ranking are security (135th position), rigid labour markets (111th, 134th, and 123rd place in terms of flexibility, wage determination, hiring of foreign experts), transparency (62nd), government adaptability to change (100th), inhibitors to business dynamism (60th), education outcomes (126th), and a dearth of highly skilled employees (one engineer per 3,200 people compared to between 1:130 to 1:450 for leading markets).

Policy choices drive growth
Policy choices have a material impact on economic growth over the long term, as small effects compound over decades. For example, total factor productivity is low, given the shortfalls in education, which have resulted in the country deriving negative benefits from its young workforce. Additionally, gains in productivity depend on competitive markets and, the effect of educational outcomes aside, these have been sub-par as a significant part of the South African economy is not open to adequate competition.

Approximately 40% of fixed capital stock in South Africa is owned by the government. In the absence of competitive forces, these assets have been underutilised, or left unutilised, resulting in poor service delivery to businesses and citizens. As a consequence, the private sector has had to find alternative solutions, all of which have imposed direct and indirect costs on society and lowered productivity growth in these sectors. In some areas, this has simply meant that South Africa is unable to compete effectively.

Specific actions (and in certain cases inaction) coupled with inadequate policy choices have contributed towards the economic outcomes which we now observe, including a worsening of inequality to levels below those of 1994, as per analyses from Statistics SA.

Addressing this 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 balances the objectives of sustained economic growth, job creation and economic transformation.

Education is a key component of addressing inequality, as ensuring an appropriate level of skills for school leavers, graduates and artisans is a pre-requisite for securing well-paying, stable jobs. It is also a necessary condition for attracting investment and establishing a strong manufacturing base in the country, along with industries of the future which will enable productivity gains and support exports going forward. Private and public sector support for programmes such as ISFAP, and the expansion of similar initiatives thus need to remain a focus area.

Government should work with business to enable a culture of transformation

To achieve greater economic transformation and ensure that B-BBEE legislation delivers on its objectives we need a collaborative partnership approach between all stakeholders with Government creating the enabling conditions for inclusive economic growth. 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. A mechanism to ensure transparent measurement of economic transformation and to assess progress on an annual basis is important, and the socio-economic regulatory impact assessment process should specifically assess the impact of B-BBEE legislation on economic development and SMMEs.

Business and government highly aligned on focus areas

The sectoral work carried out by B4SA has identified and considered policies across 12 thematic clusters, split into two groups related to (i) driving investment, and (ii) improving the business environment. Potential policy choices were assessed with respect to their impact on investment and job creation, the country's fiscal position, as well as secondary effects and how they might impact on the objective of delivering inclusive economic growth.

There is a high degree of thematic alignment with certain aspects of the government's approach. Specifically, it is evident, as recently pointed out by the Minister of Finance, that where and how government spends money should be open to intense deliberation given the need for large transfer payments, very real fiscal constraints, and widespread examples of wasteful and inefficient expenditure. Spending must be directed at the most vulnerable members of society, but it should also be balanced to ensure there is investment in future economic growth.

To ensure that sufficient funding is available at a competitive cost of capital to help those in need to improve their circumstances, it is necessary to ruthlessly pare back and/or restructure expenditure and programmes which are not delivering appropriate value to society. As one example, TVET and SETA spending does not deliver the necessary quantum and depth of skills required for the economy and this needs to be addressed urgently.

Infrastructure must be a focus in the context of enabling future economic growth while spurring near-term job growth. Actions in this regard must be paired with enabling policies which allow for the leveraging of private sector capital through blended finance approaches such that government's direct or indirect financial exposure can be minimised.

In order to increase total factor productivity, we need to introduce competition, and the role of State Owned Enterprises (SOEs) needs to be considered in this context and their performance must be evaluated against that which a competitive market would deliver for society.

The 12 key policy focus areas are detailed further in the table below. Each of these areas is supported by detailed work, on both policy formulation and recommended implementation steps. All of these areas are interrelated, and it is necessary to make material progress across all of these in the near future.

Policy focus area	Key issues	Policy certainty	Inclusive growth
Tackle crime & corruption	• Corrupt procurement practices particularly within SOEs • Need to support SMMEs impacted by crime	-	✓
Improve ease of doing business	• Support business start-ups and entrepreneurship • Reduce red tape and constraining regulations	-	✓
Mobilise large scale infrastructure projects	• Reprioritisation of Government's infrastructure portfolio • Appropriate PPP frameworks, expand export capacity	✓	✓
SOE reform and rationalisation	• Clarity regarding State subsidies, Eskom unbundling, PPP framework and retention of systemically important SOEs	✓	✓
Clarity on land reform	• Property right certainty s25 and expropriation act resolution • Uncertainty has a negative multiplier effect on investment	✓	✓
Education and skills development	• Limits the development and application of technologies • Barrier to entrepreneurial activity and technical expertise	-	✓
Review trade policies	• Incentivise strategic value chains by realigning trade policies, prioritising manufacturing	✓	✓
Labour law reform	• Expanded public works programme, selective amendments for SMMEs, restrictions on bargaining council extensions	✓	✓
Simplify mining investment regulation	• 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	• **Electricity:** Unblock/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	✓	✓
Telecomms: maximise connectivity	• Digital migration, complete spectrum auction and finalise Rapid Deployment Policy	✓	✓
Financial inclusion and fiscal support	• 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 AfCFTA, and the establishment of the SOE advisory council. The work of this council must now be supported and accelerated with urgency, and the relevance and systemic importance of individual SOEs in the context of a modern economy has to be evaluated closely. SOEs which are to be retained must operate effectively, be resourced appropriately in terms of both capital and skills, and the balance must be migrated off the state's balance sheet in a suitable manner.

We acknowledge and welcome other actions taken by government which have not been explicitly noted here but which are also important, in particular with respect to strengthening the capacity of key departments, such as the South African Revenue Service. A tax collection system based upon the principles of equity, transparency, effectiveness and accountability is essential to optimising tax revenue. Ensuring that revenue so collected is then distributed through the fiscus appropriately, and spent effectively, is an important component in restoring business and citizens' confidence. Ensuring that all parts of government operate effectively and efficiently is a precondition for restoring citizens' and business confidence. As business we are prepared to assist government in this regard through initiatives such as the NBI's TAMDEV.

Funding the economic recovery plan

Context

The slowdown in economic activity has had a significant impact on both public and private sector finances. GDP is expected to decline by between 8.3% and 10% in 2020, recovering steadily in 2021 and 2022 off a low base with muted growth thereafter. 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 ca. R3.4tn over the next three years, split between the public sector (R2.4tn) and the private sector (R1.0tn).

The R2.4tn estimated public sector budget deficit over the next three years is R1.1tn more than the medium-term projections in the February 2020 budget. This increase is ascribed to lower tax revenues and higher social costs, some of which have been accounted for in the R500bn rescue package. The estimate does not account for potential "rescue funds" for large corporates or an unforeseen worsening financial situation at State Owned Companies. This additional borrowing will see total public sector debt increase from R4tn to more than R6.4tn by 2023. As a consequence, in the absence of significant structural reforms, debt-to-GDP levels will increase to unsustainable levels and is likely to exceed 100% in 2023.

The remainder of the anticipated funding requirement is attributable to the private sector. R200bn was made available to SMMEs in the R500bn rescue package, but take-up of the assistance by businesses has been slow to date. Whilst corporates may have sufficient near-term liquidity, there is a high probability of a need to access additional working capital funding in the medium term to ensure survival.

Given the structure and size of South Africa's financial markets, this level of funding need cannot be met by domestic sources, nor is it possible for the SARB to address the shortfall in a responsible and sustainable manner through monetary measures. Increased foreign capital will therefore be required, which South Africa will have to compete for.

Public and private cooperation

In choosing policies, economic growth and sustainable job creation must be a priority, along with national projects (infrastructure or otherwise) which can deliver near-term employment gains. These steps will allow for a stabilisation of the country's finances and, together with regulatory stability in the financial sector, will begin to restore domestic confidence. In parallel, we must develop a credible medium-term plan which demonstrates fiscal discipline through a reduction in the public debt burden as a pre-requisite for shifting the international narrative about South Africa.

Crucially, the aforementioned funding requirement excludes funding required for significant expansion of spending on infrastructure, which has been well below the levels appropriate for the size and complexity South Africa's economy. The private sector has the ability to fund, develop and operate economic infrastructure in a regulated competitive environment, such that the strain on the fiscus and SOEs could be reduced 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 R1.7tn over three years and the budget deficit normalising at 3.5% in 2025.

Efforts to identify and prioritise such projects are already under way (cf. SIDS, establishment of the Infrastructure Fund at the DBSA with a pipeline in excess of R650bn). Clearly, concerted and urgent effort across all arms of government, with strong leadership, is required to enable structuring these projects such that private sector funding can be leveraged optimally, and to attract domestic and foreign investors by shifting the narrative about South Africa. As such, B4SA welcomes the steps taken in respect of the PPGI, the focus on network industries, as well as the establishment of the Infrastructure Investment Office in the Presidency.

South Africa must compete globally for investment

Global Emerging Market investors have contributed significantly to SA's funding requirements since the dawn of democracy. Although foreigners still hold c.31% of government bonds and c.39% of the equity on the local registers of JSE listed companies, holdings have reduced significantly pursuant to credit downgrades and a lack of investor confidence. Foreign investors have sold R64bn of bonds in the first five months of 2020, with net sales of SA equities amounting to c.R46bn (R119bn sold in 2019). The recent uptick in interest by foreigners in emerging market bonds, including those of South Africa, is expected to prove temporary as it is driven solely by a "risk-on" sentiment and the wave of increased liquidity sparked by the Federal Reserve's actions in March and April 2020.

The withdrawal of external funding has very direct consequences. As mentioned above, the pool of domestic savings is too small to meet the funding requirements over the next three years, amounting to nearly 30% of the R12tn of domestic savings and investments. These funds are already invested and the potential for reallocation is very limited, risking contagion on markets and asset pricing.

Increasing economic pressure of such withdrawals has led to renewed demands on the SARB to fund government debt. The SARB's independence is one of the cornerstones of the policy framework that provides confidence to local and international investors. Debt monetisation by a central bank which is no longer deemed independent, whether legally or practically, will very quickly destroy the trust of foreign and local investors. The Governor of the SARB, in a recent lecture, indicated clearly and decisively that South Africa does not have "magic money" and the SARB will act responsibly in intervening in the markets.

South Africa therefore has to attract significant foreign investment from direct and portfolio investors, supplemented by alternative sources of foreign capital that currently have negligible exposure to South Africa. In excess of USD 10tn 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. However, most of these alternative sources of foreign capital are not focused on emerging markets and will only consider South Africa if we provide a more compelling investment case.

To attract the requisite funding at an appropriate cost of capital, it is important that government and business work together to address the key concerns of foreign investors holistically as the nation competes with other emerging markets as an investment destination. These focus areas are broadly similar to the initiatives discussed in the preceding sections in terms of priorities, although foreign investors apply a different lens to their decisions, with a focus on fiscal discipline, regulatory certainty and the stability of financial markets.

Direct investment in infrastructure could crowd in foreign and local investors, if structured to yield an appropriate risk adjusted return. In this regard, 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.

This requires us to prioritise steps which provide for transparent, sound policy making and clean governance, along with steps which ensure that such policies will then be implemented competently and in a well-coordinated manner. To this end, business and civil society have to support government in rebuilding its institutional capacity, and government must take steps to embed rigorous performance management processes in order to entrench competence and professionalism which is the cornerstone of any effective state, and the basis for trust between citizens, businesses and the government.

Working together to ensure an accelerated economic recovery

Inclusive growth, employment, and a new shared national vision
This document summarises an extensive body of work which underscores the need for urgent, coherent actions which can materially improve the economic and employment trajectory.

The Covid-19 crisis has exacerbated a negative downward spiral which was already well-entrenched prior to the crisis, as evidenced by the subdued economic growth over this period. Yet, the crisis also represents an opportunity for all stakeholders to consider what is required for the country to move successfully and with conviction into the future.

This will require strong leadership, ruthless prioritisation and difficult decisions. It will also require a new social compact, which must be forged in parallel, and a cohesive plan jointly developed and implemented by government, business and other social partners.

Committed leadership is needed to drive these decisions to conclusion with speed. It will not be possible for the nation to wait until this new social compact is forged. The work summarised herein seeks to support government in this process – we see the proposals presented here as a basis for an intensive process of engagement which we hope will lead to renewed trust between societal stakeholders, 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 herein. 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 deal for South Africa.