

Structural Reform: Slow but Steady 29 April 2021

South Africa has now been in a 'demographic recession' for six years because the population grew faster than the economy. Our population growth is 1,6% pa (allowing for one immigrant every 2,5 minutes). Since 2015, economic growth has not kept pace with that number. The latest figures from the South African Reserve Bank show that by the end of 2020, per capita incomes were 11% lower in constant terms than at the end of 2014 – a six-year lag.

At this stage economists expect growth of around 3,5% for 2021, more than double population growth of 1,6%. (This is provided there is no Covid-19 or other catastrophic development.) But, say the sceptics, the growth is merely a bounce back from Covid-19. It will take until deep into the 2020s to get back to where we were. That is, of course, correct. But in life you start where you are, not where you wish you were. To say that the bounce back does not matter is a bit like saying after a six-year drought that the rain does not matter – it will only matter once all the rain that did not fall in six years has first fallen!

Where the sceptics are right is what will happen after 2021. Can 3% growth be maintained? In December, I wrote that 'Growth figures beyond 2021 will fully depend on how much structural reform we undertake...'

It is now some five months later, and we can draw some conclusions about structural reform. We have had one serious setback but have also seen some real progress on structural reform, particularly in the important network industries.

Setbacks and progress

The setback was the High Court decision to interdict the release of spectrum, on application by Telkom and e.tv. Naturally, the decision is being appealed and the matter is now in the hands of the courts. Digital migration has in the meantime started (in the Free State in March and in the Northern Cape in April). That will open the way to release the 700 MHz and 800 MHz spectrum which is needed for 5G. Political and commercial pressure for spectrum release is very strong and the setback will certainly not be permanent.

In the meantime, private companies are marching ahead. MTN is investing R300 million in a new fibre service to cater for under-serviced neighbourhoods. Unused 2G spectrum combined with new technology make this possible. MTN aims to start roll out in May and have 600 000 subscribers by the end of the year. Remgro subsidiary, Vumatel, is expanding its fibre network and has reached the critical mass where it can expand into lower living-standard-measure areas like Vosloorus, Mitchell's Plain and Soweto. In December, we reported that Google and a Facebook consortium are building new undersea cables to South Africa. The Google cable has 20 times more network capacity than the last cable installed in 2012 and will become operational this year. The 37 000km Facebook-consortium cable will encircle Africa and come into operation in 2022.

Progress is also apparent in two other critical network industries: energy and port infrastructure.

Energy

Energy minister Gwede Mantashe recently announced seven preferred bidders for 2 000 MW of 'emergency' power. He simultaneously opened 'Bid Window 5' for 2 600 MW, to be submitted by 4 August. Combined, the two processes will contribute 4 600 MW to South Africa's energy generation capacity, almost plugging the 5 000 MW generation deficit that is causing load shedding.

Bids for a further 7 613 MW are to be released in the next 12 months. We can therefore look forward to 12 213 MW being procured in 2021 and 2022, with construction and connection to the grid to follow from 2021 through to 2030. This is a multi-year programme and a huge boost for investment.

Furthermore, changes to legislation have been published to allow production of up to 10 MW without obtaining a licence from the energy regulator, NERSA. Currently, generation above 1 MW requires jumping through cumbersome licensing hoops. The CSIR estimates that between 2 000 MW and 5 000 MW can be installed in this way. If they are only half right, and they normally are, load shedding can be resolved much more quickly.

In the energy field too, private companies are marching ahead. A company, Earth & Wire, has been launched to buy power from a portfolio of renewable energy plants and sell it directly to private customers. Tommy Garner from Earth & Wire says it has signed partnership agreements with landowners of 365 000 ha in five provinces where renewable energy plants can be developed. Simultaneously, the company are signing power purchase agreements with buyers. Earth & Wire will start supplying the first customer in early 2022. The company has Eskom's support to use the state utility's transmission lines for transporting the power from producer to consumer, paying Eskom a fee for using the grid while helping Eskom to supply power to the nation. A win-win outcome.

These will not be the first private power agreements. BMW in Rosslyn is currently supplied by a private renewable producer. Amazon is procuring power from an independent power producer (IPP) for its new head office in Cape Town. Sasol has also invited bids to buy 900 MW from private producers.

These welcome developments are sadly overshadowed by 1 200 MW that has been allocated to three 'power ships' for a 20-year period. The rationale for 20-year contracts for what is supposed to be a stop-gap measure, has not been fully explained yet. It is causing much controversy. Together with load shedding it adds to the emotions around Eskom and electricity which both obscure and undermine the overall progress made. The Karpowerships-transaction may be challenged on environmental grounds, but we will see.

Harbours...

Transnet has announced a call for bids from the private sector to build and operate a new container harbour in the Durban port. It will be a R100 billion investment over ten years. Restoring efficiency and productivity in Durban can only benefit the country. This is a major announcement. It will also serve as a role model for a struggling Cape Town harbour.

On an entirely different scale, which will not register in the national numbers but is equally important, R100 million is being spent in this budget year to upgrade ten small fishing harbours on the Cape South and West Coasts. Many harbours have been neglected for years, resulting in degradation and failing infrastructure. In one harbour, for example, 19 sunken ships were removed at a cost of R4,5 million. Small change, but it makes the harbour functional again, helping local fisheries and small businesses and creating jobs.

... and rural bridges

Like the small harbours programme, the Welisizwe programme to construct 41 rural bridges across several provinces will not move the country's investment to GDP ratio, but it is certainly making rural lives easier. The project is being undertaken by the Army Engineering Corps, government and a private company manufacturing modular bridges. 496 engineering students are employed in the programme, 52% of whom are female.

It's all about investment

The structural reforms outlined above will release constraints on the economy and also bring investment. As a percentage of GDP investment has declined for a decade now to a low of 17,9% in 2019. That was pre-Covid-19; in 2020 it went further down to 15,8%. The structural reforms outlined above will increase investment and, importantly, boost confidence.

Political fights in the ANC

Confidence will also be boosted by ongoing progress in politics. President Ramaphosa scored a big victory when the ANC's NEC decided that Ace Magashule and others who have been charged with corruption should step aside. This follows Parliament's decision that the Public Protector should be investigated. Julius Malema, with his keen political nous, described the two developments as 'Ramaphosa 2, Ace 0'. The NEC also made short shrift of the radical economic transformation (RET) faction's activities inside the ANC, and Carl Niehaus had to cancel planned RET meetings.

In an unrelated but politically significant development, the SABC retrenched 20% of its staff at the end of March. Earlier Magashule issued a call from Luthuli House that the SABC should not retrench. Several communication ministers, including the incumbent, have consistently said the SABC should not retrench. Now 20% of the staff are gone. The politics of it all is clear: the balance of forces keeps on shifting, even if a knockout blow has not been landed yet. It bodes well for structural reform too.

So what?

- The commitment of the Ramaphosa government to reignite growth through structural reform is coming more and more into focus.
- It coincides with ongoing private sector investment in energy and spectrum, and soon infrastructure.
- The setback in spectrum will not be permanent and in the meantime the private sector is investing.
- This progress is despite the political infighting in the ANC.
- Because of structural reform being undertaken now, bounce-back 2021 may very well be followed by more years in which economic growth will trump population growth, reversing the six-year decline we had.