

ECONOMIC RECONSTRUCTION

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DRAFT 0

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Issues covered in this presentation

- Economic impact of COVID pandemic
- Mandate of the NEC to ETC
- Balance of Forces
- Hegemony of the developmental state
- What has been done so far?
- What needs to be done?
- Going back to basics of the RDP and NDP
- ANC leadership through social compacting
- Outline of sectoral interventions



Opening Remarks

- The Covid-19 shock is posing unprecedented challenges, the economic crisis entailed by the pandemic is unique in that it combines
 - health and economic shocks
 - deep supply shock - arising from wide-ranging and prolonged lockdowns of the economy by introducing measures such as **travel restrictions**, quarantines, community lockdowns, and school and **business closures**
 - consequent demand shocks – arising from a collapse in corporate investment plans, retrenchment of household spending, rapidly increasing unemployment
- Governments have focused on the provision of massive stabilisation packages, designed to flatten both, the contagion curve of the pandemic as well as the curve of economic meltdown, through
 - Monetary Policy Actions
 - Cash transfers,
 - Social Transfers
 - Grants,
 - Credit lines and
 - Guarantees from governments to households and firms.
- Globally, central banks have reverted to their original role as bankers to their governments
- Commodity and service exports incomes has been weakened

ECONOMIC RESPONSE

WHAT IS TO BE DONE?



STATEMENT BY PRESIDENT RAMAPHOSA ON MEASURES IN RESPONSE TO COVID-19, 21 APRIL 2020

- *Our economic strategy going forward will require a new social compact among all role players – business, labour, community and government – to restructure the economy and achieve inclusive growth.*
- *We will forge a compact for radical economic transformation that ensures that advances the economic position of women, youth and persons with disabilities, and that makes our cities, towns, villages and rural areas vibrant centres of economic activity.*

STATEMENT ON OUTCOMES OF THE SPECIAL SESSION OF THE NEC (8 MAY 2020)

- *The NEC is focused on... developing a Post-COVID-19 Economic Reconstruction, Growth and Transformation Plan. The global and national economic projections look extremely grim, with predictions of a global and national recession as a best-case scenario and a global depression at worst.*
- *This will require that our Plan for Reconstruction and recovery must be treated like that of a post-War reconstruction situation, and in the word of the President, ‘we must do whatever it takes’ to ensure that we limit the damage to our economy, society and people, and get our economy back onto a path of recovery.*

THE MANDATE OF THE ETC

Economic Reconstruction, Growth and Transformation Plan

- Localisation
- Transformation
- Industrialisation
- Investment in the Second Economy
- Job creation
- Empower Small Business and cooperatives
- Empower informal sector
- Promote objectives of Broad-based Black Economic Empowerment
- Aviation Sector Strategy
- New Economy
- Integration into the African Continent



PILLARS OF POST-COVID RECONSTRUCTION

- A programme to expand social and economic infrastructure.
- A programme of investment to improve the performance of network industries
- Policies to strengthen trade and investment linkages with other countries across the African continent.
- Skills development to ensure that we have the right know-how for capable private and public sector activity.
- Social compacting to achieve ensure buy-in and compromises by all.
- Policies to ensure that the programme is sufficiently financed and is financially sustainable.
- Capable and developmental state is required to execute the programme of reconstruction.



CORRECTING THE LEGACY OF UNDERDEVELOPMENT

- COVID-19 has created more policy space for progressive policies despite fiscal constraints
- We need to think carefully what are the key policy interventions to enhance the progressive interventions
- We must get to grips with the fundamentals of a political economy that is the legacy of our tumultuous past. A significant area of weakness in our social and economic policy, post the transition, has been a very real underestimation of the structural underdevelopment we inherited from colonialism and apartheid.
- There is almost a resignation that these areas of underdevelopment are lost to the economy. Alongside this has been a tendency to an over estimation of a modernising industrial economy's ability to correct such structural problems. We have underestimated the structural constraints on our growth capacity.

BALANCE OF FORCES

GLOBAL

- Protectionism and populism are on the rise
- Institutions of global governance, finance, health and trade are being undermined
- International trade and access to global supply chains is likely to be diminished for some time
- However, there are new opportunities as neo-liberalism is on the retreat and the role of the state is on the ascendancy and the space for progressive policies is opening up

LOCAL

- We entered COVID-19 with slow growth, high unemployment and growing inequality, as well as a ratings downgrade, and COVID-19 has exacerbated the problem
- State capacity has not been as effective as it should be
- Subjective weaknesses in cadreship has led to a lack of coherence
- We have not always been honest about what we can and cannot do
- However, ANC-led Alliance continues to represent the most powerful political force in the country
- Even in South Africa new opportunities are opening up for progressive interventions



AS STATED IN THE DRAFT ALLIANCE DISCUSSION DOCUMENT ON THE COVID-19 CRISIS



There are strong views that the economy as we have known it will change permanently as countries emerge from their respective lockdowns. The intervening period, between now and the peak of infections, presents an opportunity for the development of principles that guide how scarce fiscal and other resources (both time and money) are spent in a constrained economic environment.

These 'principles' must be informed by the imperative to achieve the goals of the shared strategy of the Alliance, the national democratic revolution, in line with the Freedom Charter, and in the case of the ANC, a vision of a national democratic society as described in its 2017 Strategy and Tactics: '(as a society) founded on a thriving economy ...(with) cutting edge technology, labour-absorbing industrial development, a thriving small business and co-operative sector, utilization of information and communication technologies and efficient production and management', which combine to ensure national prosperity.



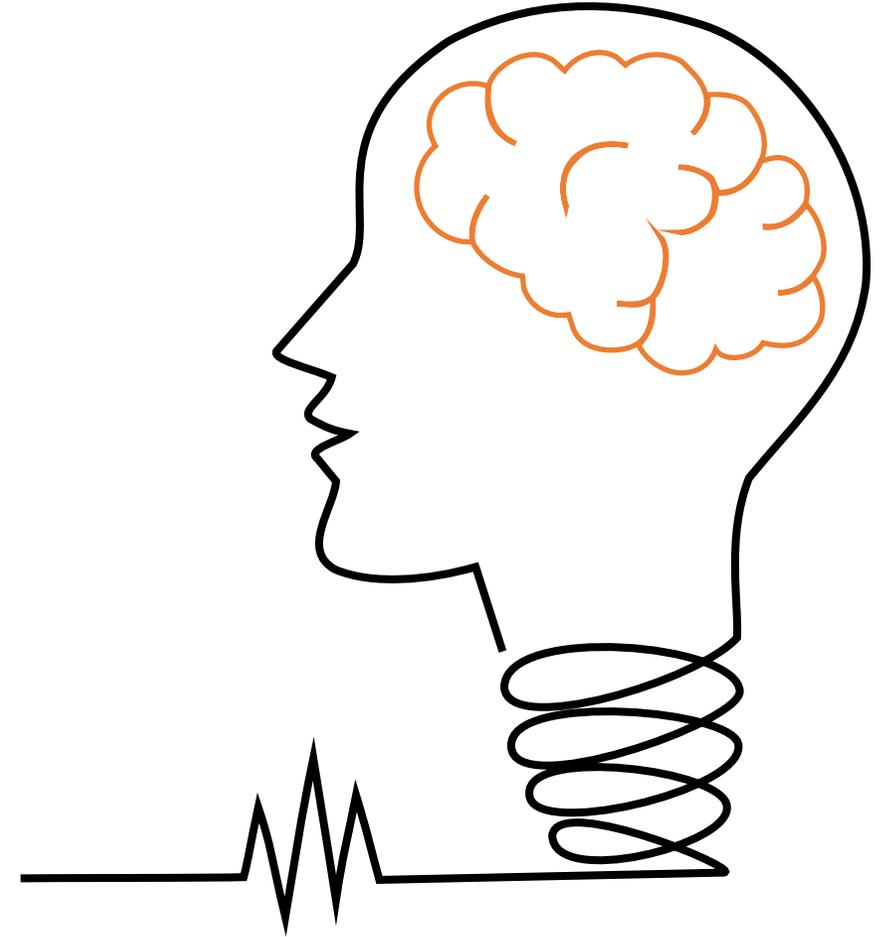
THE DEVELOPMENTAL STATE AND THE VALUE OF ITS HEGEMONY

- A narrow and flawed understanding of what the developmental state is has led to the erroneous conclusion that it is only about public investments and public ownership, with a related over-emphasis on the limited funds of the State.
- A developmental state does not necessarily mean higher levels of state ownership, but high levels of guidance (including guiding the State's own institutions or companies)
- The fundamental problem of the State-guided high-growth system is that between the state bureaucracy and private business.
- This contradiction is inherent once you execute an industrial policy (Japanese experience with different forms such as self-control, state control, and cooperation, but not the laissez far model)
- In our case, as a movement, we draw our hegemony from the clarity of our policies, popular support, a legitimate electoral mandate and thus control of State Power.
- It is these elements that enable the developmental state foundation, and being in power should enable us to guide the development process (not necessarily own every aspect of it or even finance it)
- The impact of Covid-19 has shown the critical role of the State. How does the State then leverage its capacity, inherent authority and capabilities in leading society for the recovery



RETHINKING STATE CAPACITY

- Draw on lessons of having good agencies (SANRAL; SARS; DBSA; IDC. Coega) and how this can provide a model to execute through attracting the right technical skills in the right environment, Government Departments limited in that aspect.
- The level of ambition and complexity of the restructure, implementation and financing proposals for the recovery requires their oversight to be matched with a relevant resourcing.
- It is thus proposed that there should be a properly capacitated economic co-ordination function in the Presidency, to be staffed by a professional secretariat and led at a senior level to have the necessary combination of understanding of economic policy, project portfolio co-ordination and research. Its role will include making key recommendations to further evolve the implementation as well as identify new catalytic interventions .
- In relation to overarching project management of initiatives, the State to leverage the capacity that has been developed in current organs of state, including the COEGA Development Corporation & DBSA, to support new district development vehicles.



SOCIAL COMPACTING

- For South Africa's post-COVID-19 reconstruction to be effective it will be necessary for leaders to articulate the interests of the economy or a sector as a whole, not just their own specific class interest
- Short-term tactical compromises will be required in order to achieve longer term strategic goals and objectives
- **National level compacting** is required at to lift overall lift and create a new, inclusive economy
- **Sectoral level compacting** e.g. on just energy transition, on mining, and on telecoms is needed to guide sectoral reforms and unlock investment, jobs and transformation in specific sectors, we should seek input from the key participants in those sectors and then guide and support their work



GOING BACK TO THE BASICS OF THE RDP & NDP

- Despite progress made during the past quarter century of freedom, which has seen dramatic increases in access to basic services for the majority and sustained periods of economic growth, South Africa still has two economies – one poor and mainly black, and one rich and mainly white.
- The insight of the RDP was to bring inclusive growth through the structural transformation of the South African economy. Through urban expansion and renewal and through providing infrastructure and services to historically excluded communities in rural and urban areas.
- The NDP highlights that South Africa needs a capable developmental state which is capacitated to address amongst other matters, the triple challenges of unemployment, poverty and inequality.
- The vision of the RDP & NDP must inform our post COVID-19 response. We must seize the opportunity to close the gap between South Africa's two economies, just as we pursue policies to promote economic growth and job creation.



ENERGY (ELECTRICITY, OIL AND GAS) (1)...

BACKGROUND & STATUS QUO

Current challenges

- Shortage of electricity supply is limiting growth and job creation
- Inefficient use of electricity, especially for cooking and heating
- Rising costs of energy, impacting real incomes and investment / employment
- Continued dominance of environmentally inefficient coal technologies, with emissions causing negative health impacts
- High cost build programme that is taking time to complete

INTERVENTIONS AND REFORMS

- Rapid roll-out of IRP, implementing the renewable technologies and also gas through the proposed LNG Hub
- Increase localisation of manufacture of wind and solar technology and increase BEE participation in sector
- Improve Eskom performance, resolving Eskom debt
- Advance the agreed restructuring of Eskom integrated monopoly to facilitate both energy transition and competitiveness
- Continue any cost recovery on inefficient and corrupt contracts seen in the Medupi & Kusile build programme

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...ENERGY (ELECTRICITY, OIL AND GAS) (2)

INTERVENTIONS AND REFORMS

- Develop and finalise an Integrated Energy Plan (for all energy aspects)
- Finalisation of the Petroleum Bill to facilitate upstream exploration and development
- National Treasury to finalise all the required fiscal instruments, including the Petroleum Resources Rent Tax, as well as related royalty tax
- Implementation of the biofuels strategy, with a focus also on biofuels refineries in partnership (CSIR technology started; global interest)
- DMRE and *the dtic* to develop an overarching bioethanol strategy that can lead to new investments in the petroleum sector, and also save sugar cane industry jobs
- Incentivise a shift in household energy use, in particular with changing cooking and heating methods from electricity to natural gas and liquefied petroleum gas (LPG). This will have an impact on peak electricity demand and also real incomes

INTERVENTIONS AND REFORMS

- Progress the new refinery project, with clear timelines
- Continue to implement the emissions standards
- Enable the investment in the necessary infrastructure for petroleum fuels and gas as required, which can also attract private sector investment
- Repurpose the Central Energy Fund and its subsidiaries to partner and catalyse new investments necessary in the energy sector
- Increase resources for research and development in the energy sector
- Finalise the Green Transport strategy, noting its impact on standards for petroleum in transport and related emissions
- Related 'blue economy' activities, such as ship building and ship repair, should be promoted through active policies



MINING

BACKGROUND & STATUS QUO

Current challenges

Lack of investment in mining sector

No significant beneficiation and downstream sector (minerals processing)

Ensuring impact of research & development

Other value added business services for

SA mining output located outside SA impacting on potential high-value jobs

Companies with dominant SA mining assets primarily listed on foreign stock exchanges

Tax policies and fiscal instruments needing continuous review in order to attract investment

Decline in exploration activity, especially early-stage exploration

Lack of financing for junior mining companies and emerging BBBEE companies in the sector

State mining company sits as a subsidiary of the energy company (CEF) with a localised focus on a single commodity (coal)

INTERVENTIONS AND REFORMS

- Regulatory disputes should be resolved to facilitate expanded investment
- Increased mining exploration to ensure long-term expansion of the sector (Council for Geoscience to lead here also using the data sharing approach used by PASA for upstream oil)
- Focus on enablers for minerals processing (export taxes; regulate major commodities for such; cheaper electricity rates)
- Increase R&D, with significant role for Mintek and support of innovative Mining Services sector

INTERVENTIONS AND REFORMS

- Marketing agents for the mines to be relocated/ based in SA to be taxed in SA and bring back the skills to SA
- Listing - if a company acquires a South African mine that contributes 40% of its group revenue, it should be mandatory to have a primary listing in SA
- Incentivise for South African retail investors that can invest in mining (Australia a good example in how this capital can be unlocked)
- Review tax policies and other fiscal instruments to ensure continued attractiveness for investment whilst enabling a more shared outcome in terms of benefits
- Allocate progressive increase in mining income to the Sovereign Wealth Fund



MANUFACTURING

BACKGROUND & STATUS QUO

According to Moody's, COVID-19 could impact global auto sales by as much as 2.5 percent this year, a significantly sharper decline than the 0.9 percent dip previously forecast. The automotive industry is a global industry with a very integrated supply chain. Therefore, any disruption in the global automotive supply chain will impact every regional market – either by fewer sales of cars or because of a shortage of parts necessary for the production of cars.

Additionally, 60% of all OEM components come from the EU. Similarly, 43% of all Vehicle exports are bound for the EU and the US. Trade disruption will drastically slow down the auto sector through reduced production of OEM components from the EU and reduced vehicle imports and exports from both the EU, the US, and China.

INTERVENTIONS AND REFORMS

Increased supply chain disruption and changes in consumer spending habits

Supply has been impacted in three primary ways: limited access to employees due to quarantines, factory closures or manufacturing slowdowns and limited access to logistics to move goods.

Shut down of the Automotive Supplier Parks operations

INTERVENTIONS AND REFORMS

- Bespoke partnership with financial services sector to cushion the sector until supply chains are restored – include consumer side support where feasible. Includes streamlining of access to economic countermeasures, including credit guarantee scheme.
- Also medium term, the Tshwane SEZ and related programmes will drive local production of OEM components.





PHARMACEUTICAL SECTOR

BACKGROUND

- The COVID-19 outbreak is expected to put pressure on already strained public health systems in South Africa. Additionally, detection of the virus might be a challenge due to lack of laboratory capacity and medical supplies.
- **South Africa's pharmaceutical sector** is worth approximately R20-billion annually. There are more than 200 **pharmaceutical** companies, but large **companies** dominate the sector with Aspen Pharmacare (34%) and Adcock Ingram (25%) the two largest companies, followed by Sanofi, Pharmaplan and Cipla Medpro.
- The pharmaceutical industry currently imports about 68% of the supplies. The EU accounts for 53% of all pharmaceutical products, showing heavy reliance on the global values chains for pharmaceutical supplies. For instance, India has announced restrictions on medical products and ingredients, including paracetamol and antibiotics.

INTERVENTION AND REFORM

Immediate and short term due to COVID-19:

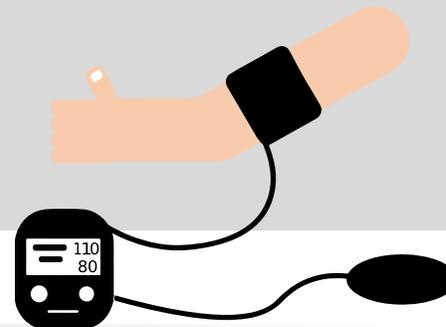
- Local procurement of medical supplies. This will require rapid adjustment of local supply chains and manufacturing facilities.
- Identify alternative suppliers of hospital infrastructure which can be produced locally at short notice.
- Ramp up SMME production clusters as part of common buying strategy, including through repurposed production from automotive sector

INTERVENTION AND REFORM

Long Term:

Government must establish a state owned pharmaceutical company, this is in line with the ANC 52nd conference resolution which explicitly states:

“The ANC should explore the possibility of a state-owned pharmaceutical company that will respond to and intervene in the curbing of medicine prices”.



Source: Quantec Data & Global Africa Network



HOUSING

BACKGROUND & STATUS QUO

- Since the dawn of democracy there has been substantive expansion of home ownership and growing the productive assets. Government has been focussing on ensuring that South Africans live closer to economic opportunities and that the inherited apartheid spatial legacy is combated.
- According to Stats SA in 2018, approximately 81,1% and 13,1% of all households resided in formal dwellings and informal dwellings respectively. This rapid household growth and rural-urban migration are making it hard to address existing backlogs, amidst the new demands.
- More human settlements close to work opportunities, affordable basic services and reliable public transport are needed.

INTERVENTIONS AND REFORMS

- Give priority to land administration, management and development of skills in land related careers.
- Introduce measures to address high property costs, which coerce the poor majority into the periphery and deepen racial inequalities.
- Accelerate the transfer of title deeds to the rightful owners and ensure tenure security through adequate recognition and protection of the rights of long-term occupiers, women and labour tenants
- Advance women's access to land and participation in agriculture and rural economies.
- Promote sustainable use of water resources taking into consideration climate change.

As per the 2019 Election Manifesto, President Ramaphosa, emphasizes the following:

“Vacant land near the centres of cities and towns must be turned into affordable housing for the poor and working class, close to shops and parks, schools and clinics, public transport and places of work.”

WATER AND SANITATION

BACKGROUND & STATUS QUO

In response to the COVID-19 outbreak, people were advised to wash their hands regularly with soap and water to reduce the spread of the disease. This produced a predictable retort:- “How can we wash our hands if we can’t afford soap and don’t have water?”. This response highlights the two challenges that must be addressed in the water sector:-

- The failure to sustain reliable water supplies even where infrastructure has been provided; and
- the need to ensure that the water sector supports more sustainable livelihoods.

INTERVENTIONS AND REFORMS

In order to protect lives and livelihoods, the post-COVID response must urgently address these issues and strengthen the resilience of the water sector. An integral part of this response must be to employ and develop the new cadre of water technicians and professionals, many of whom are currently marginalised and unemployed, to ensure that the sector is able to respond to future crises.



INTERVENTIONS AND REFORMS

The current phase offers the opportunity to mobilise the resources needed through constructive and transformative partnerships with the private sector. This approach will support rather than undermine the transformation of the sector which has failed to develop new talent to fill old shoes.

Three core programmes are identified:-

1. Assuring human water security to through interventions in municipal water supply services;
2. Building the infrastructure base to secure and expand the economy;
3. Empowering the next generation of water managers.

ROADS

BACKGROUND & STATUS QUO

- Roads can represent a critical infrastructure but also enabler for lower skills activity
- Save for some regional road development, there has been a lag in developing road infrastructure in rural areas, particularly to upgrade key arterial roads that connect communities from gravel to paved roads
- Road infrastructure development provides a potential for absorption of skills, public works programmes, development of BBBEE companies, SMME participation and revival of the construction sector
- The nature of roads construction is such that it utilises local materials and thus has ability to maximise local production of inputs and skills

BACKGROUND & STATUS QUO

- There are existing institutions (SANRAL; DBSA; Coega) that can be leveraged for the capacity support needed to drive the necessary programmes
- The required infrastructure may not be easily funded through a private finance mechanism, hence the need to look at the other innovative ways to unlock funds for the State as proposed
- Poor road infrastructure or lack of it results in people having limited forms of transport that they can access, and increases likelihood of overcrowded transport, not desirable in a post-Covid world

INTERVENTIONS

- Launch a major road building, renewal and maintenance programme
- Urgent identification of critical projects and allocation of State institutions with the necessary capacity to support districts and provinces to ensure they move from concept to execution
- Alignment of this with the public works programme to absorb young people into employment
- Scale and longevity to be significant for multi-year procurement for sustainability of the SMME's and other companies on the programme
- Relevant road infrastructure to focus on labour intensive methods of construction



TELECOMMUNICATIONS & DIGITAL ECONOMY



BACKGROUND & STATUS QUO

The fourth industrial revolution and a digital economy will employ technology to unlock systems and innovations that will cut across all sectors of the economy and improve of efficiency and productivity. South Africa's readiness for the fourth industrial revolution is pertinent to the country's integration into global value chains and overall economic strategy. Decisions taken now will shape the country's future and impact on its ability to be globally competitive.

At the moment, South Africa is five years behind the International Telecommunications Union deadline to migrate from analogue to digital transmission.

INTERVENTIONS AND REFORMS

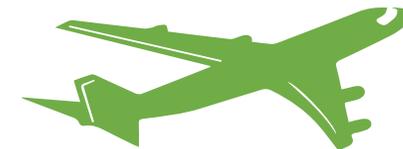
- Support the Post Office
- Digitisation of Government
- Regulate the high cost of communications (data must fall)
- Rationalisation of SOCs
- Digital skills in government and Society
- Schools Connectivity
- Digital Migration switchover required

INTERVENTIONS AND REFORMS

- E-government is an integral part of the digital transformation and the 4IR. Full government digitisation required.
- Licensing of High Demand Spectrum in terms of the Policy Direction and preparations for the licensing of 5G.
- Licencing of the Postbank

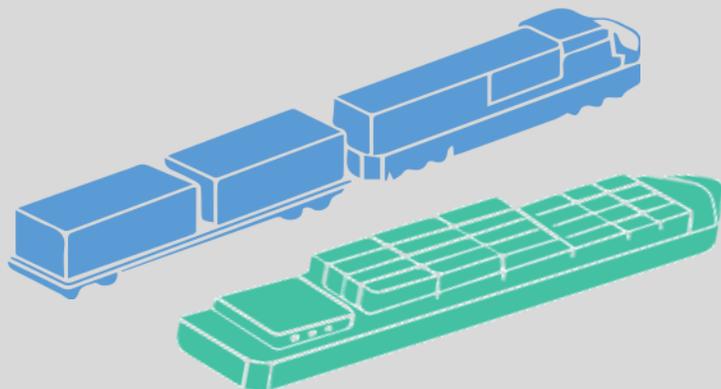


TRANSPORT AND LOGISTICS



BACKGROUND & STATUS QUO

Efficient transportation system is a critical component of economic activity. Transport availability can either boost or halt economic growth. Any halt on public transport or transportation of goods will have an impact on economic growth.



INTERVENTIONS AND REFORMS

- National Rail Policy process: Sector engagements would be undertaken.
- PRASA Rail Modernisation Programme: The PRASA Rail Modernisation programme is currently underway. Interventions and efforts are being made to fast-track this programme.
- High speed train and development of high speed rail network to be introduced.
- Taxi Industry: Engagements required to discuss the transformation of the industry by identifying initiatives that will ensure it is safe, clean and provides a quality service.
- Need for National Aviation Industrial Strategy to be established.



INTERVENTIONS AND REFORMS

- Convene solidarity partnership between large operators, transport sector-SMME umbrella groups, DFIs with credit guarantee capacity and financial service providers to provide support to ongoing operating capital
- Streamlining of access to economic countermeasures , including credit guarantee scheme
- Work with industry to prioritise and discount warehouse space for highest demand/ most necessary commodities .
- Fast-track operating subsidy programme for the taxi industry. Work with industry to consolidate/ link purchase of major. Offer financial support to the industry and engage the financial sector on allowing payment holidays for vehicles.

TOURISM (1)...

BACKGROUND & STATUS QUO

“Importance of tourism spending and investment on economic activity and employment for every R1 million spent in the sector, five jobs (one skilled, two semi-skilled and two unskilled) are sustained. The same R1 million in expenditure results in an added R1.26 million to the economy (directly) and an additional R350,000 added due to downstream linkages (indirectly).”

PriceWaterHouseCoopers 2020

INTERVENTIONS AND REFORMS

This indicates the strategic nature of the sector a growth focal point that has the ability to absorb varying skill level through employment. The industrial linkages of the tourism sector in the South African economy has important implications for the general stimulation of the country’s economy through the multiplier effect from the expenditure side. And, this is a critical feature of the sector given that gross value addition in this sector rooted in the value chain that has a tight relationship with other sector of the economy.

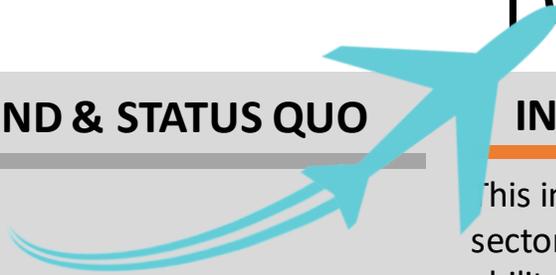
It is also important to note that for 2019 the tourism sector accounted for 2.9% of South Africa’s GDP while contributing 4.5% to total employment. This makes the sector a strategic focal point of the recovery and long-term prosperity of the South African economy, and this should be born in mind at a time when the sector has been hardest hit by the impact of COVID-19.

INTERVENTIONS AND REFORMS

Finalize the pilot project and roll out E-Visas, and increase the processing capacity in the rollout of e-VISA applications.

Develop “new-normal” supply-side capabilities and capacity that is rooted in driving economic transformation in the supply side of the tourism sector.

Government needs to urgently work on an economic case for next round of VISA free countries that would be strategic for the recovery of the tourism sector through international tourism when borders re-opened, and this should be urgently implemented.



...TOURISM (2)

INTERVENTIONS AND REFORMS

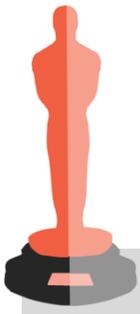
Government should develop a Tourism Infrastructure project pipeline that would play a critical role in unlocking the diverse product offering that South African can offer to both domestic and international tourists. And, given that the tourism sector is a priority and strategic sector for economic transformation and employment, increase SMME funding in the sector in a manner that deepen spatial tourism sub-sector product offerings in villages and small towns.

INTERVENTIONS AND REFORMS

Prioritize the development of tourism infrastructure development projects through the development of fundable projects through DFIs funding in a manner that de-risks investment in tourism projects and allows for increased blended funding in a manner that fosters economic transformation and drives employment creation.

Increase spending in the maintenance of strategic national parks, world heritage sites and other strategic tourist attractions in the country, such that economic activity and employment opportunities are created during the recovery period which also has a benefit of resulting in world class facilities that improve the competitive advantage of South Africa as a tourist destination of choice.





CULTURE AND CREATIVE INDUSTRIES

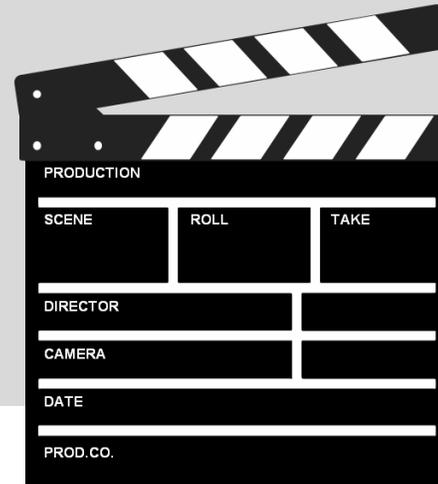


BACKGROUND & STATUS QUO

- The creative sector employment in SA accounts for 1,14 million jobs and 2% contribution to GDP.
- The creative economy includes people in the Visual Arts and Crafts, Audio-Visual and Interactive Media, Design of Jewellery; Automotive Design, Creative, Arts; Entertainment Activities, Book Publishing, Music, Advertising, Architectural and Design Activities.
- Areas that are dependent on live entertainment, sports and tourism have been adversely affected.
- On the positive side, the availability of creative sector content in TV, Gaming, Radio has contributed to psychological health and well-being of many South Africans during this period, and broadcasters and social media have provided online and free content in recent weeks.

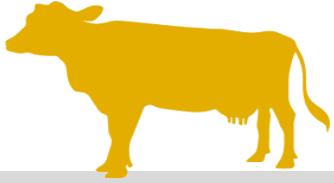
BACKGROUND & STATUS QUO

- Activities in the audio-visual and interactive media and demand for e-books and e-press have been boosted by the lockdown.
- However, businesses and individuals operating in the creative industries in South Africa are amongst the greatly affected people.



INTERVENTIONS AND REFORMS

It is proposed that advocating/development of an online platform for the distribution creative products be created. Digital access has become a public need. Online dissemination of cultural products such as music, film, design must be appropriately incentivized.



LAND AND AGRICULTURE



BACKGROUND & STATUS QUO

The agro-processing sector contributes a significant component towards total manufacturing value added as well as employment. The sector contributes approximately 20% towards the total value added of the manufacturing sector.

SA's agriculture is export-orientated, with exports of roughly US\$10 billion in 2019, which approximately 50% was accounted by Asia and Europe.

INTERVENTIONS AND REFORMS

Immediate arising due to COVID-19:

- Streamlining of access to economic countermeasures , including credit guarantee scheme
- Consolidate and expand existing partnerships to identify sector-level opportunities to share costs and access financing to cushion against shutdowns
- Link agro-production and agro-processing clusters to consolidated buying/ group buying programme to meet food requirements for additional social relief of distress and food requirements for increased number of people hospitalized

INTERVENTIONS AND REFORMS

Immediate, medium and long-term:

- Ensure more support for emerging and small-scale farmers;
- Invest in agricultural research and new smart technologies;
- Establish a sustainable strategy for agriculture to mitigate the impact of climate change;
- Address the domination of agricultural inputs by big business and the monopoly;
- Domination in agro-processing and food retail that keep out small players;
- Consolidate all government measures offered to small-scale farmers to scale-up on production, including promotion of co-operative activities or systems through joint marketing and joint processing can be done to increase productivity



SMMEs AND COOPERATIVES



BACKGROUND & STATUS QUO

A significant adverse effect on this sector, will have a dire impact on employment levels. It is important to ensure that SMMEs remain operating and workers remain employed. The Ministry of Small Business Development has announced a response to mitigate the potential effects of the pandemic on the SMMEs. Measures include the debt fund relief on existing debts and repayments.

Under the current conditions, which have necessitated lockdown to combat the spread of COVID-19, SMMEs will be hit hard. Thus focus has to be put on mitigating these negative effects on SMMEs.

IMPACT

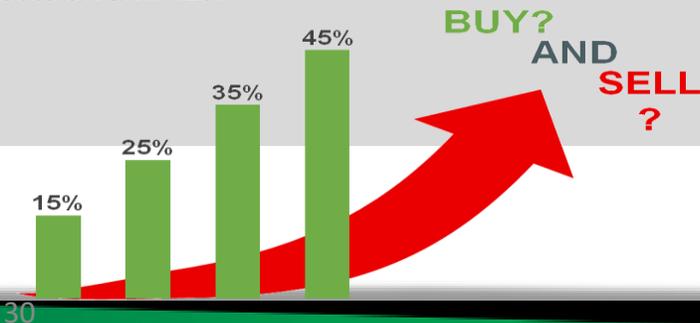
SMMEs might experience inventory and supply shortfalls of certain products

SMMEs might default on their debt repayments-working capital constraints, which might translate in SMMEs shedding jobs

High possibility of job cuts due to decline in revenue due to COVID-19

INTERVENTIONS & REFORMS

- Use the SEFA wholesale funding window and funds from other DFIs to provide low-cost capital and credit guarantees to banks and other financial institutions which can provide assistance to businesses that have lost income and customers due to Covid-19 but are otherwise profitable
- Fast-track payment of SMMEs – cut to 15 days.
- Purchase order financing via FNB
- Streamlining of access to economic countermeasures, particularly those run by DSB
- Allow municipality rates holiday for SMMEs.
- Use SMME Clearing House digital platform to offer ways for SMMEs to access value chains and cluster digitally - including disaster response procurement





DFIs AND FINANCE (1)....



INTERVENTIONS AND REFORMS

DFIs have an important role to play in the developmental and economic transformation agenda of the South African economy. This role is in the form of correcting market failures that emanate from the largely oligopolistic financial intermediation market structure. Their role should always be understood from the standpoint of the pricing of risk in private financial intermediation and their role to ensure the funding of projects that are critical for development but may be at odds with the risk matrix of private funding institutions. And, one of the most important binding constraints for the success of DFIs to deliver on their developmental mandate is the access to funds at a cost that allows for developmental interest rate, and the broadening of the de-risking ability of the DFIs in the funding of critical developmental projects that have favorable economic multiplier effects.

INTERVENTIONS AND REFORMS

With regards to development finance institutions, it is proposed that:

- There should be an urgent completion of the formation of the State Bank so that will increased access to the savings of South Africans so that efficiency of the allocation of savings within the current Banking oligopolistic market structure is optimized, such that it has a special relationship with DFIs that allows for developmental interest rates to be charged for the financing of critical projects by DFIs. This will go a long way in alleviating the problem of DFIs accessing funds at market rate from financial institutions and financial markets.
- There is a need to urgently and directly address liquidity challenges of DFIs in relation to the operational costs of funded investment projects and the necessary funding being made available for investment projects to continue to be funded by DFIs.

INTERVENTIONS AND REFORMS

- There is a need to amend the conditions of the liquidity funding scheme between the National Treasury, the SARB and Commercial Banks to directly include DFIs being able to provide liquidity to projects that they have directly funded. The risk profile of these developmental projects carry a different risk pricing for commercial banks, and there is little to no incentive for commercial banks to extent liquidity relief for these projects





...DFIs AND FINANCE (2)



INTERVENTIONS AND REFORMS

Amend Regulation 28 of the Pension Fund Act in order to increase the access of the Savings of South Africans to fund long-term infrastructure and capital projects, as a result increase the availability of funds to DFIs and financial intermediaries at a reasonable rate of interest.

Given the current uncertainty for short term financial instruments, and a tricky bond market environment, this creates an opportunity for DFIs that are engaged in the provision of infrastructure that has long term maturity for the funding of infrastructure given the risk averse posture that has been publicly taken by the GEPP in relation to a switch from derivatives based investments to increased investment in direct economic activity.

INTERVENTIONS AND REFORMS

The PIC needs to be engaged with the aim of releasing funds for the funding of long term projects prepared through DFIs.

DFIs should have a line item budget component of the UIF that is a function of variable long term infrastructure projects as a measure to increase the access of long term infrastructure funding by DFIs such as the DBSA.

The SARB should engage in sectoral supply side capacity expansion exercise through the creation of a funding instrument with DFIs for long term infrastructure investment to the tune for R500 billion. This should be offered at a developmental yield to maturity, with time horizons that are beyond the appetite of funding from private commercial banks.

INTERVENTIONS AND REFORMS

And DFIs should be allowed to deploy this funding for infrastructure projects, and in a manner that de-risks investment projects and provides an opportunity for collaboration with private commercial banks using blended financial approaches.





FINANCIAL SECTOR AND STATE BANKS



INTERVENTIONS AND REFORMS

While it faces increasing continental competition, the South African financial services sector can rightly be said to endow our emerging market nation with 'the financial plumbing of a rich place' with deep, liquid markets and stable cross-border transactions.

There has been research that as noted the concentration in the financial sector and thus whether it is efficient for the transmission mechanism and also unlocking finance for infrastructure.

In addition, the financial services system has failed at the SMME lending level as a platform for driving inclusive growth at the bottom of the pyramid and also unlocking the cast funds for investments in infrastructure.

INTERVENTIONS AND REFORMS

This is despite the fact that credit loss rates (CLR) on lending from South African banks to SMMEs have been low by global standards (ranging from 0,3% to 2,5% across different banks) suggesting that the challenge has been conservative lending assumptions rather than inherent risk under pre-crisis conditions.

To respond to this challenges there is a need to:

- Enhance the capacity of the State Bank (s), and ensure these are properly capitalised and governed, with them being enabled to access different forms of access to capital. For instance, key lending banks such as the Land Bank should have the capacity for wholesale deposits and for the Post Bank there needs to be a more strategic approach to building its capacity, sourcing the best financial skills and utilise its role in the social service payment and transfer system

INTERVENTIONS AND REFORMS

- Create the necessary regulatory mechanism to ensure increased pension fund investments directly into projects as real assets, which can unlock capital that currently is not finding its way into projects (this requires a review of Regulation 28)
- In addition there should be a complete review of the competitiveness and enabling of access to capital and liquidity by the large banks, noting their dominance of the financial system especially for corporations and flow of funds in the financial system.

ECONOMIC RESPONSE

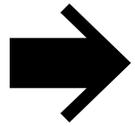
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INFRASTRUCTURE-LED RECOVERY STRATEGY



STRATEGIC APPROACH TO FAST TRACK INFRASTRUCTURE PROJECTS

The case to fast track infrastructure projects to support economic growth

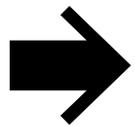


Largescale infrastructure projects remain one of the few levers left to mobilize public resources and stimulate the economy

Identify and support 'shovel ready' infrastructure projects from the public sector, to be implemented post the lockdown. Government should also engage private developers for projects that are ready to start as soon as the construction sector gears up. Constraints should also be identified and remedies provided.

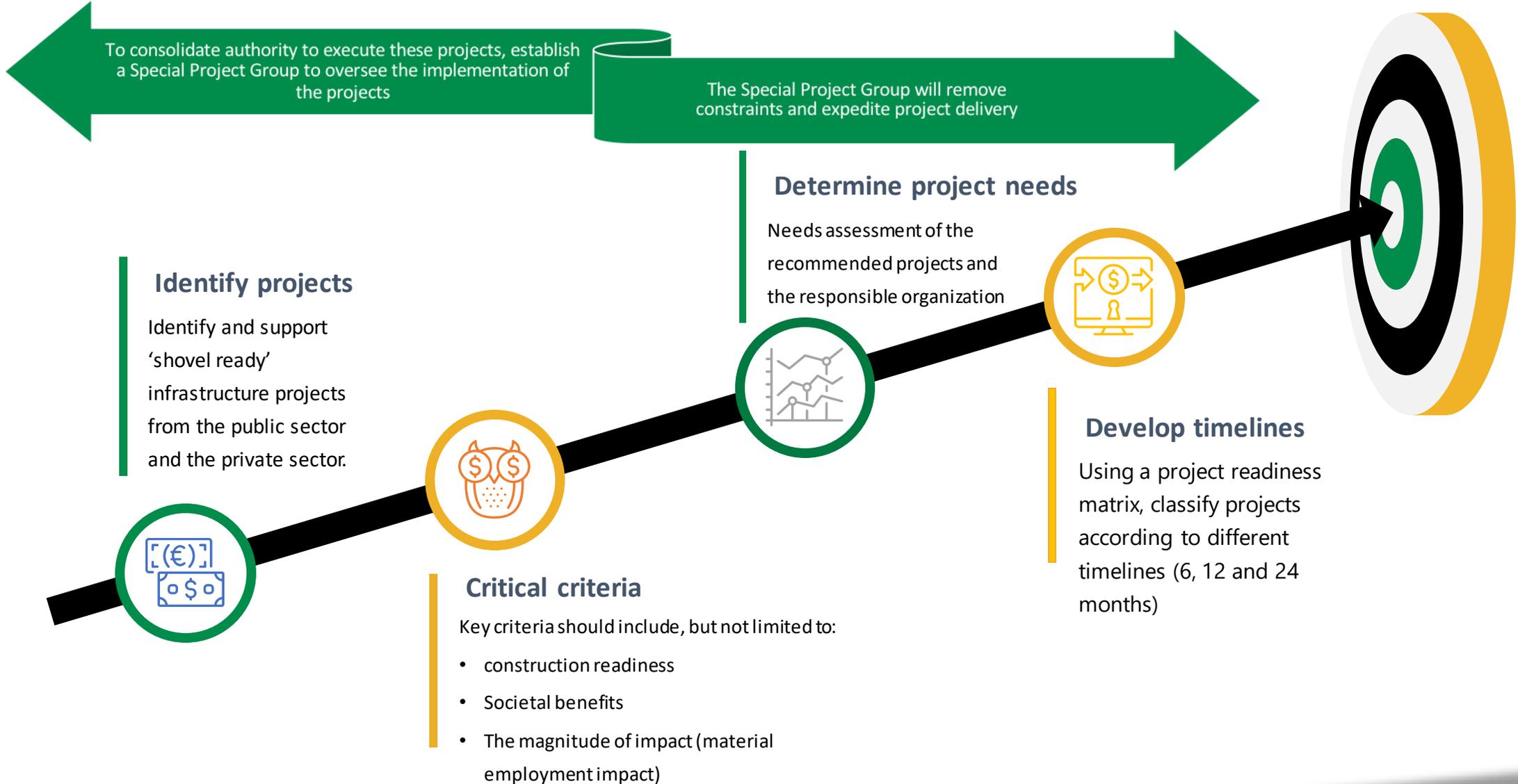


- **Development of capacity to locally produce required materials (e.g. valves, pipelines)**
- **Upscale the Informal Settlements Upgrading Programme – Focus ON Serviced Stands and Self and Small and Medium Construction**
- **Designate Construction Inputs**



Already has projects in the pipeline that are large enough to give the economy the vital boost in the short-term and setup for long-term growth. A lot of groundwork has already been done with the projects in the pipeline.

STRATEGIC APPROACH TO FAST TRACK INFRASTRUCTURE PROJECTS



MANUFACTURING & THE NEED TO LOCALISE HEALTH EXPENDITURE

How will this help you?

Why is localisation important? Development economists and policymakers view localisation as a strategy to deepen industrial linkages in the economy and thereby accelerate the process of economic development. Localisation is also aimed at increasing local manufacturing capacity and capabilities, and in so doing, increasing jobs, reducing imports and improving the country's competitiveness and balance of payments.

 To gain a deeper understanding of the benefits if localising health expenditure in economy during and post Covid-19, it is ideal to identify the components of the value chain that could be produced locally. This in-turn could lead to further development in the value chain components identified which could then encourage more industrialisation through increased demand for local production. The main sectors that will be impacted by localising the specified health spending include, but not limited to the following:

Sectors directly and indirectly impacted by Covid-19 specific health expenditure



Textile  Business Services  Furniture 

Building and Construction  Chemicals and Chemical Products 

Sectors with the highest economic linkages

South Africa is a **net importer** of pharmaceutical products, showing high external dependence on medical supplies, particularly from the EU and Asia . This presents room f to locally source some health products.

THANK YOU



protect Yourself.

Defend Each Other:

Let's Do it Together.