LET US ADVANCE
FROM
AN INSPIRING VISION
TO
A TRANSFORMATIVE PLAN!

JANUARY 2021

Setting the scene!

Last month, December 2020, the South African National Planning Commission (NPC) published an important document entitled ***'Economic Progress towards the National Development Plan's Vision 2030': 'Recommendations for Course Correction'.***

Among others the document says:

"Slow progress toward our Constitutional objectives effectively entrenches poverty and alienation with deep inequity in relation to the majority black population. The lived reality for the majority of black South Africans is still one of high unemployment, limited access to economic opportunities, and asset poverty. This poses challenges in achieving social justice and severely constrains the ability to raise living standards and make economic progress. If our people cannot achieve their potential, then neither can our country achieve its economic potential…

"Covid-19 threatens almost all aspects of the economy. It has revealed in great clarity the structural limitations on creating growth and employment and significant state capacity constraints…

"Over the past decade, there have been clear signs of danger that South Africa could veer towards a downward spiral…"

"We are in a vicious circle ensuing from a toxic confluence of factors, namely falling investment, further diminishing tax revenues, debt service costs that crowd out all other spending and thus constrained resources for investment in development. The results are falling employment and rising poverty and inequality.

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"This downward spiral must be broken."

To illustrate its argument, the NPC presents specific figures. For example it says:

"The NDP sets a target of reducing unemployment from 25.4% in 2010 to 20% by 2015, 14% by 2020 and 6.0% by 2030.

"Instead, unemployment rose from 24% to 29% of the labour force between 2010 and 2019. What happened?

"Income poverty is far too high in South Africa. While poverty rates fell substantially over the 2000s, there has been no measured improvement since 2011, and there are signs of regression in some indicators."

Earlier in the year, in its *Poverty and Equity Brief* the *World Bank* had said:

"Approximately 55.5 percent (30.3 million people) of the population is living in poverty at the national upper poverty line (~ZAR 992) while a total of 13.8 million people (25 percent) are experiencing food poverty…

"South Africa is one of the most unequal countries in the world with Gini index at 63 in 2014/15. Inequality is high, persistent, and has increased since 1994. High levels of income polarization are manifested in very high levels of chronic poverty, a few high-income earners and a relatively small middle class."

Adding to all this, again last year, *The Borgen Project* said:

*"COVID-19 has made poverty worse in South Africa***…***There is no doubt that the pandemic has exacerbated many of the underlying issues surrounding poverty in the country. Hunger and food insecurity have, in particular, become much more pressing issues. Lockdowns, for example, have halted employment and left many South Africans with the impossible choice of working to provide food or staying home to stay safe. Forecasts are currently estimating that the pandemic may push up to 1 million people into poverty."*

South Africa must respond to this!

On 21 October 2020 President Ramaphosa responded to the Parliamentary Debate which had taken place after his Address on 15 October 2020 when he presented the South African Economic Reconstruction and Recovery Plan. Among others he said:

"Our challenge is not only to recover to the pre-pandemic levels of economic activity, but to lift ourselves out of an economic decline that has been several years in the making, while seeking to undo structural distortions that were (also) many decades in the making.

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"Unlike many other national economies, we have to recover jobs that were lost as we had to shut down much of the economy, but also to alleviate the plight of millions of people who were already jobless before the pandemic hit.

"That is why we need to build an inclusive economy…

"At this time, durable social compacts are more important than ever.

"It is through consensus-building between government, business, labour and civil society that we have been able to develop a common programme, and the same spirit of collaboration and partnership must guide us in the difficult days ahead…

"Regardless of where we sit across the political divide, we must find the political courage to unite behind this common vision for our recovery.

"We must work together to build this new inclusive economy and to build a South Africa that works."

It is obvious that all reasonable people with some knowledge of South African reality will agree with all the preceding. Accordingly:

- we agree that South Africa is faced with a deeply entrenched and long-standing socio-economic crisis characterised in part by high levels of poverty, unemployment and inequality;

- we agree that the Covid 19 pandemic has not only helped further to expose this reality but has also further significantly worsened it;

- we agree that South Africa is in a vicious circle ensuing from a toxic confluence of factors which is forcing the country into a very dangerous downward spiral;

- we agree that South Africa has an urgent task to break and reverse this downward spiral; and,

- we agree this can best be done if the social partners - government, business, labour and civil society - combine in a social compact and together elaborate and commit themselves to the implementation of a common economic reconstruction and recovery programme.

In his 15 October Address at the Joint Sitting of the Houses of Parliament President Ramaphosa spelt out what our country needs to achieve given all the foregoing. He said:

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"As even the darkest of clouds has a silver lining, we need to see this moment as a rupture with the past and an opportunity to drive fundamental and lasting change."

"We shall not rest until we have built a new economy based on fairness, justice and equality. This is the task of our generation: to renew, to repair, to rebuild."

"A central pillar…is the transformation of our economy, creating space for new black and women entrants and tak(ing) deliberate steps to change ownership and production patterns."

It would seem obvious that what President Ramaphosa meant when he spoke about *"a rupture with the past"*, "*fundamental and lasting change*" and the rest, including "*chang(ing) ownership and production patterns*", he was calling for a commitment to the eradication of the legacy of colonialism and apartheid.

Again we would agree with this, inspired that at last our country can unite all the social partners for the realisation of this truly historic objective!

Social partners and social compacting!

What President Ramaphosa then said about this was indeed of critical importance. We refer here to his comments that:

"I wish to applaud the remarkable efforts, particularly from our social partners in NEDLAC, in reaching consensus on the actions required to rebuild our economy, and the firm actions that all social partners have committed to contribute to the country's recovery.

"We know from the examples of several other countries that social compacts are essential to effective and sustainable growth and development.

"As we implement this plan, government remains committed to the agreements reached through the NEDLAC process."

In the same Address President Ramaphosa also said:

"We will be releasing the Nedlac Social Partner Economic Recovery Action Plan and the Social Compact for Energy Security. These contain very significant measures that we will be working with (our) social partners to implement."

All this communicated the message of a truly ground-breaking development according to which, at last, South Africa would follow the example of the countries to which the

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President referred, saying they had shown that "*social compacts are essential to effective and sustainable growth and development*."

Inspired by these remarks by the President, we remembered that some years ago some of our compatriots had travelled to Europe precisely to learn what they could about the social compacts which were making the contribution to "*effective and sustainable growth and development*" mentioned many years later by President Ramaphosa.

The visit to Europe took place 21 years ago, during the last week of January 1999. It was undertaken by business and trade union members of the then Millennium Labour Council (MLC). The Council was established by organised business and COSATU "*to develop a shared analysis of the (economic crisis in South Africa) and potential solutions to be pursued with government and NEDLAC, as appropriate.*"

The COSATU members of the delegation were:

Mbazima Shilowa, then GS of COSATU;
Zwelinzima Vavi, then Deputy GS of COSATU;
Gwede Mantashe, then GS of the NUM;
Mbuyi Ngwenda, then GS of NUMSA (now unfortunately deceased); and,
Ebrahim Patel, then Deputy GS of SACTWU.

We mention these because they could make a useful contribution to the understanding of the meaning of social compacts as characterised by President Ramaphosa.

Accompanied by senior business leaders, these trade union leaders visited Ireland and the Netherlands. Subsequently they issued a report on their visit. On the matter of the choice of the two countries the report said:

"Ireland and the Netherlands were chosen for study because, from a position of economic crisis in the 1980s, they had undergone a profoundly successful economic transformation to become among the top performing economies in Europe and had at the same time maintained acceptable social policies. In the process these countries had been immensely successful in creating jobs, and reducing unemployment significantly, when many of their European counterparts were experiencing rising levels of unemployment. A feature of the successful transformation in both countries had been intense social dialogue and a national consensus, on key economic and social issues."

When it reported on its visit to Ireland the MLC delegation said:

"In 1986, in response to its economic crisis, Ireland began to develop a national economic and social consensus involving Government, Employers, Trade Unions, Farmers and other

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interest groups. This consensus developed over time into a series of three-year national accords…

"The programmes have covered wages, employment, competitiveness and development, taxation, education, health and welfare.

"The programmes have involved trade-offs, for example linking wage moderation, a shorter working week, and income tax breaks for wage earners, which resulted in real increases in take home pay.

"While it is true that during this period Ireland has received significant EU grants, it is the accords that have been widely credited as the key factor in the country's successful economic transformation.

"The size of the economy has more than doubled. Employment has risen from 1.1 million to 1.5 million. Unemployment has dropped from 19% to less than 7%. Unit wage costs have declined but real income has improved. The national debt has reduced from 125% to 52% of GNP…"

Obviously the fact that '*the size of the economy had doubled*' meant that capital had kept its side of the bargaining by investing in the Irish economy, adding to what came from the EU!

The delegation gave a similar report about its visit to the Netherlands.

It said that one of its conclusions and insights at the end of its trip was that:

"South Africa's different circumstances, higher unemployment, sharper inequality, deeper ideological differences, and a larger population, far from being a deterrent, require of the parties a greater responsibility and a firmer resolve to meet the challenge of successful economic transformation."

The NEDLAC engagement!

Our country's social partners were correct when they decided during 2020 that they must enter into a Social Compact so that they respond together to the huge socio-economic challenges in our country which were further highlighted and worsened by the Covid 19 pandemic.

Again correctly they decided to work on this Social Compact through NEDLAC.

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Our support for this process was and is strongly reinforced by lessons which our business and labour leaders, organised in the MLC, learnt and communicated to our country as long ago as 21 years.

We were therefore very happy to read the Statement issued by the Presidency on 15 September 2020 saying that on the same day the NEDLAC social partners had agreed on an economic recovery plan. The Statement went on to say:

"Social partners have identified priority areas for rebuilding the economy as well as structural reforms and other programmes which will enable sustainable and inclusive growth with an intensive focus on job creation…

"The economic recovery action plan identifies roles and responsibilities for all the social partners – government, community, labour and business – who today declared their commitment to implementation of the plan."

President Ramaphosa further reinforced this Statement when he promised as he addressed Parliament on 15 October 2020 that Government would be releasing the NEDLAC Social Partners Economic Recovery Action Plan.

In that Address to Parliament President Ramaphosa also said:

"I wish to applaud the remarkable efforts, particularly from our social partners in NEDLAC, in reaching consensus on the actions required to rebuild our economy, and the firm actions that all social partners have committed to contribute to the country's recovery.

"We know from the examples of several other countries that social compacts are essential to effective and sustainable growth and development.

"As we implement this plan, government remains committed to the agreements reached through the NEDLAC process."

Having listened to and read the President's Address we became very keen to read and study the NEDLAC Social Partners Economic Recovery Action Plan which had been adopted on 15 September 2020.

Unfortunately we could not find it anywhere since the Government has not released it for public access as the President had promised.

What made it necessary to find the NEDLAC Social Partners Economic Recovery Action Plan was the fact that by the end of 2020 in fact we had two Economic Recovery Plans – one each from two of the NEDLAC social partners!

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One of the social partners, Business for South Africa (B4SA), issued "*A New Inclusive Economic Future for South Africa: Delivering an Accelerated Economic Recovery Strategy*" (**AERS**) on 10 July 2020.

One of the social partners, the Government, issued its "*The South African Economic Reconstruction and Recovery Plan*" (**ERRP**) on 15 September 2020.

Having read both documents, it seemed clear to us that the second (Government) Plan did not do enough to integrate the proposals contained in the first (Business) presentation.

This was of particular concern given what the B4SA document says, that:

*"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…*

*"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…"*

Given the foregoing, the framing of the Government document suggested that contrary to what the President had said in his Parliamentary Address, in fact there was no substantive NEDLAC agreement on economic reconstruction and recovery!

Trying to gain better understanding of what would be a very worrying development, we came across the proceedings of the 2020 Annual Summit Meeting of NEDLAC held on 8 December 2020.

Some social partners speak!

Mr Martin Kingston, convenor of the NEDLAC Business partner, made startling observations saying:

"…in agreement with the President and our social partners, we started engaging on the economic recovery for the short, medium, and long term. These engagements have been more challenging, and we have not made as much progress as the situation requires in agreeing upon, and implementing, fundamental issues imperative for economic growth.

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"We need to reflect on why, during the most severe socioeconomic crisis since the birth of our democracy, we have not acted with the necessary resolve and urgency to address the economic, social, and fiscal crises we face, many aspects of which pre-existed the pandemic…

"We need to move beyond ideological debates to a real time and pragmatic, fact-based assessment of our circumstances. In that context, Government must show leadership in rising above ideology to implement critical actions that are in their domain. We recognise the difficulty of making hard choices and trade-offs but that is the reality confronting us and is clearly visible to all stakeholders…

"Given the current crises, the engagements must focus on implementation of three or four critical deliverables that will instil confidence and put us onto the first rung of a long ladder to sustainable inclusive growth that alleviates poverty, addresses inequality, and removes the burden of the inequity of unemployment from the shoulders of society.

"There must be an expedited timeframe for such engagements within which maximum agreement must be sought. However, government must determine the way forward, after attempts to reconcile differences and implement effectively as the mandated government of this country."

To put the matter frankly – in these comments the Business social partner was saying that in fact there was no agreed NEDLAC economic reconstruction plan and that there was need for more urgent discussion by the social partners, led by the Government!

Mr Bheki Ntshalintshali, convenor of the NEDLAC Labour partner, also spoke at the Summit Meeting. Among others he said:

"But there are issues of concern we should not run away from. The widening gap of mistrust among the NEDLAC social partners needs to be attended to because if we don't it does not help us to get together, make big statements because we are in front of television and hope miracles will change (things). The question of retrenchments and job losses besides the many agreements reached in the many Summits make us to lose confidence in this (NEDLAC) process. The unemployment is at the highest levels ever…

"Even the NDP has not succeeded even to come closer to the projections it set for 2030, that unemployment would be halved. We are not there and we are not going to be there. We know that business does not like it when we say this. But we believe there is an investment strike, that the level of impact investment is not at the level it should be…

"We are struggling now to get the NHI Bill back to NEDLAC…something which two years ago we said we would achieve - the NHI in our lifetime. We are beginning to lose hope that we will do so. Just to bring back to NEDLAC the NEDLAC Bill to negotiate – it means that we have to drag Government just to deal with these issues…

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"But there's an attack on social dialogue in our country…The attack by Government on the collective bargaining agreement makes us doubt the commitment of Government to dialogue to an extent that we have decided to report our own Government to the ILO. This is not something we should be proud of. But we can't compromise the interests of the workers we represent. The last time the Government of South Africa was in the ILO was very long time ago on the apartheid question…

"That the Government has to go to court on a wage agreement is an indictment which we never thought (of, nor that) we have to take the same democratic Government to court. But what do we do when the Government does not honour workers' rights? We need to find a way of how we deal with these issues."

Considering what Mr Ntshalintshali said, as quoted above, it is worth noting that when Mr Kingston spoke, he also said:

"The engagements between social partners must be credible and the bona fides of all partners must be accepted –we must make act transparently, collaboratively and with integrity. The engagements must be such that every social partner is of equal status and is given the opportunity to contribute wherever they can add real value."

These comments by the leaders of Business and Labour suggest that indeed NEDLAC has some way to go before it reaches an agreement on a meaningful Economic Reconstruction Plan, with all the social partners truly committed to implement the Plan!

In this regard Business has asked Government to take the lead in ensuring that such a Plan is concluded, given that it is '*the mandated government of this country*'!

More on social compacting!

The Government's '*South African Economic Reconstruction and Recovery Plan*' (ERRP) includes a section on the importance of Social Compacting with regard to the identification and implementation of the tasks contained in the ERPP. Among others it said:

"A process of social dialogue and social compacting, at national, provincial and sectoral level, involving key constituencies such as business, labour, communities and government, has been identified as among the key enablers of the Plan.

"The Social Compact we are developing is two-fold in its mandate and manifestation. It is a compact between all the social partners in the South African eco-system. It will establish shared values and a unified vision for the reconstruction and recovery of South Africa's economy. It will bring together the collective forces of labour, business and communities

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rural and urban alike, then we will be able to harness the full capacity and potential of our resources…

"Already, the South African Economic Recovery and Reconstruction Plan is a product of social dialogue and compacting. It builds on the broad consensus among social partners on what needs to be done to drive economic recovery and reconstruction…Social partners have made collective and individual commitments in respect of all the priority focus areas of the Plan…While the contribution of each social partner on any of the specific outcomes of the Plan may not be equal or simultaneous, each social partner has an important role to play in the implementation of the Plan."

In his comments at the 2020 NEDLAC Summit Meeting, Mr Kingston, representing Business, was, like Government, emphasising the importance of achieving the required Social Compact at NEDLAC.

When he said that the NEDLAC social partners *"must focus on implementation of three or four critical deliverables that will instil confidence and put us onto the first rung of a long ladder to sustainable inclusive growth…"* he was arguing for a detailed NEDLAC agreement which would go beyond the "*broad (NEDLAC) consensus*" mentioned in the ERRP.

When Mr Kingston said*: "We recognise the difficulty of making hard choices and trade-offs but that is the reality confronting us and is clearly visible to all stakeholders…"* he was saying that the implementation of the *detailed NEDLAC agreement* to which we have referred would be binding on each and all of the social partners and not a matter of choice as indicated in the ERRP.

In its own document, *"A New Inclusive Economic Future for South Africa: Delivering an Accelerated Economic Recovery Strategy*" (AERS) B4SA also says:

The urgent socio-economic challenges facing our country demand "*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…*

"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…

"This document sets out B4SA's proposals to government…"

We believe that it would have been best that Government takes up the offer made by Business that it should consider the AERS as a Business proposal for possible incorporation in a NEDLAC Plan.

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AERS and ERRP!

In this context we will mention some of the matters raised in the AERS.

The AERS is a time-bound three-year Plan.

To the contrary, it is not clear what period the ERRP covers.

The Government should attend to this.

The B4SA says that the AERS will require R3,4 trillion worth of investment during the stated three-year period.

It says that Government and the public sector as a whole should provide R2,4 trillion of the amount.

The private sector would account for R1 trillion of the same.

There are no similar figures in the ERRP.

The Government should attend to this.

The AERS contains a sub-section which includes some important figures. It says:

- in 2018, the private sector accounted for 83% of the GDP and the public sector 17%;
- in 2019 the private sector supplied 55% of taxes; VAT amounted to 26% with Other being 19%;
- in 2019 the private sector accounted for 79% of jobs, with the public sector accounting for 21%; and,
- in 2019 the public sector accounted for 69% of investment, with the public sector accounting for 31%.

In this context we refer particularly to the last bullet point relating to investment in the South African mixed economy.

We believe that, in general, the stock of capital in our country is 70% private sector and 30% public sector.

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We believe that Government should pose the question whether the figures contained in the AERS concerning the relative public/private shares in terms of investment contain a suggestion about a relative change in terms of fixed capital formation.

Naturally both the ERRP and the AERS focus on the central task of economic growth and development.

Accordingly, the AERS contains this sub-heading which summarises its outcome at the end of three years:

Industry Summary: ***An opportunity to generate up to 1.5 million jobs, increase GDP by over R1 trillion and increase tax revenues by R100bn per annum (during the AERS three-year period).***

Under this sub-heading it lists the following **Growth and Development Sectors**:

1. SMMEs, Township and Rural Economy
2. Energy & Water
3. Mining
4. Construction
5. Manufacturing
6. Transport
7. Agriculture
8. Financial Services
9. Telecommunications
10. Tourism & Leisure

Fortunately, the ERRP also identifies the same sectors as areas of special focus. This means that at least two of the NEDLAC partners agree on where to focus to achieve the required growth and development. We imagine that the other two partners, Labour and Civil Society, would also agree.

Further to illustrate the objectives which must be achieved, the AERS says the sector interventions listed above would result in these

Projects & Initiatives

11. Secure and affordable electricity supply
12. Fast track green economy
13. Implement Transnet's road to rail strategy
14. Ports expansion
15. Road infrastructure
16. Full spectrum utilisation

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17. E-learning & digital health platforms
18. E-commerce acceleration
19. Water infrastructure
20. Maximise commercial agricultural output
21. Import replacement focus
22. Increased financial inclusion and lower cost of capital

Again the ERRP also identifies the same matters as important developments which an agreed Economic Reconstruction and Recovery Plan must address.

For its part the ERRP says the following

Priority Interventions will be made:

(a) Aggressive infrastructure investment;
(b) Employment orientated strategic localization, reindustrialization and export promotion;
(c) Energy security;
(d) Support for tourism recovery and growth;
(e) Gender equality and economic inclusion of women and youth;
(f) Green economy interventions;
(g) Mass public employment interventions;
(h) Strengthening food security; and
(i) Macro-economic interventions

It identifies

Key Enablers for these Priority interventions as:

(j) Resource mobilisation;
(k) Regulatory changes, a supportive policy environment and enabling conditions for ease of doing business;
(l) Building a capable state;
(m) Social compacting;
(n) Skills development; as well as
(o) Economic diplomacy and further integration into the African continent.

Happily the AERS also agrees with both these ***Policy Interventions*** and ***Key Enablers*** as listed in the ERRP. Again we would like to believe that both Labour and Civil Society within NEDLAC are of the same view.

It would therefore seem obvious there is indeed a broad consensus among the NEDLAC social partners about the overall framework of the necessary Economic Reconstruction and Recovery Plan.

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The task remains to translate that broad consensus into the detailed Plan/s of what must be an implementable Programme of Action.

Some details from the AERS!

The EARS contains some examples of the considerable amount of work which B4SA has done towards producing exactly such implementable Plans. Here I will give only a few examples to illustrate this.

Here, for instance, are some graphic representations of details in the AERS about some of the ***Growth and Development Sectors*** it identified.

1. SMMEs, Township and Rural Economy **Interventions** • Industry wide financial services approach • Reduce red tape and accelerate growth • Pay SMMEs on time & support local buying • Help SMMEs pivot

3. Mining **Interventions** • Comprehensive regulatory reform package • Permit self/3rd party generation & fix Eskom supply **Benefits if interventions successful** **Jobs** ~70k **GDP** ~R30bn **Tax Rev.** ~R10bn

5. Manufacturing **Interventions** • Improvement in fundamental competitiveness; • Quick capture of untapped export markets; • Improved co-ordination and prioritisation of strategic value chains **Benefits if interventions successful** **Jobs**

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28K - 70k p.a.

GDP
R21- 35bn p.a.

Tax Rev.
R6-10bn p.a.

7. Agriculture
Interventions
• Invest in infrastructure, boost global trade
• Improve access to financing
• Enhance reform programmes
• Ensure commercial growth

Benefits if interventions successful

Jobs
60-80k p.a.

GDP
R10-15bn p.a.

Tax Rev.
R3-4bn p.a.

10. Tourism & Leisure
Interventions
• Help stakeholders survive the crisis
• Prepare to restart industry,
• Increased focused on domestic tourism

Benefits if interventions successful

Jobs
170-240k

GDP
R37-54bn

Tax Rev.
R850m – 2.5bn

Similarly the AERS contains some detailed information about what it identified as ***Projects and Initiatives***. Here are some examples.

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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

Sector Drivers

Energy, Construction, Mining, Manufacturing, Water

Implement Transnet's road to rail strategy

• Address debottlenecking issues to grow rail volumes
• Expand Saldanha railway capacity
• Private concession Lephalale-Maputo line

Sector Drivers

Transport, Mining, Construction, Manufacturing

Road infrastructure

• Complete BRT implementation
• Clarify role of minibus taxis within public transport

Sector Drivers
Transport, Construction, SMMEs

Full spectrum utilisation

• Digital migration, permanent allocation, network sharing
• "Use it or lease it", Rapid Deployment Plan, WOAN licences

Sector Drivers
Telecommunications, Tourism, SMMEs

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

Sector Drivers

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The details contained in these graphic presentations are not a *thumb-suck*, to use a popular phrase. They are the result of detailed work to ensure that the proposals in the AERS will actually produce results with regard to the challenges of poverty, inequality and unemployment.

Unfortunately, there are no similar figures in the ERRP!

Given the fact that in reality the Government and B4SA agree about the identified ***Growth and Development Sectors*** as well as the ***Projects and Initiatives***, in the context of the NEDLAC processes, it would be fair to assume that Government would work to integrate the AERS into the ERRP.

One advantage of this is that the ERRP would then take advantage of the detailed planning on which the AERS is based, thus to create an implementable Plan/s rather than a Vision!

In his Parliamentary Address on 15 October 2020, President Ramaphosa said:

"A vital part of growing our industrialisation effort are the sectoral masterplans, which bring all partners together to agree on specific measures to improve productivity, investment and competitiveness.

"There are currently masterplans in the automotive, clothing and textile, poultry and sugar sectors.

"We are now working to finalise masterplans in the digital economy, forestry, agriculture and agro-processing, creative industries, aerospace and defence, renewable energy, steel and metal fabrication and furniture."

By the time B4SA published its Report, the AERS, it had done the detailed work to table more or less implementable Plans covering the 10 Growth and Development Sectors identified in its AERS.

From what President Ramaphosa said in Parliament it seems that the Government adopted a different approach.

Thus by the time President Ramaphosa addressed Parliament, the Government had agreed some implementable '*masterplans*' with its partners on *a few industries within some Sectors*.

Given the urgency which attaches to the Reconstruction and Recovery Plans we are addressing, the above suggests that, as we have said, the Government should have

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integrated the AERS within the ERRP, among others to speed up the detailed sectoral ***planning*** process.

The important objective of Job creation!

Earlier we indicated that B4SA stated that its AERS would create 1,5 million jobs during its three-year period.

The Government's ERRP gives its own very worrying figures. Let us quote what it says:

"The estimated impact of the plan as modelled by National Treasury is about 1.7% GDP growth additional to the 1.3% baseline from a no policy intervention scenario, bringing the total to about 3% GDP growth on average over the next ten years. It is also estimated that the plan shall result in additional 1.6 million jobs over and about the 2 million jobs in the case of the baseline scenario without further policy interventions. Thus, the plan is projected to add 3,6 million jobs over a period of ten years."

First, this suggests that, after all, the ERRP is a Ten-Year-Plan compared to the AERS being a Three-Year-Plan!

Logically and second, this means that the two Plans cannot be compared as they cover radically different periods.

Naturally the question arises – given the challenges South Africa faces, what is the best and appropriate Plan Lifespan? Is it three or ten years?

Further, we must bear in mind that whereas the ERRP speaks of the addition of 3.6 million jobs in a decade, *Statistics South Africa* reported last year that the number of the unemployed reached 7.1 million between January and March, 2020, the last quarter before the onset of the Covid-19 pandemic!

Inexplicably and difficult to understand, the ERRP also includes this statement:

"*As part of the support package announced in response to COVID-19, R100 billion was earmarked for job creation and retention. This is part of an employment stimulus, based primarily on direct public investment in employment to counteract anticipated job losses. The stimulus would enable the creation of a cumulative 2.5 million direct jobs by the end of the 2021/22 and 5 million jobs by 2023/2024."!*

Speaking about this same matter when he addressed Parliament, President Ramaphosa said:

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"Our third key intervention is an employment stimulus to create jobs and support livelihoods.

"Large-scale job interventions driven by the state and social partners have proven effective in many countries that have faced devastation from wars and other crises.

"We have committed R100 billion over the next three years to create jobs through public and social employment as the labour market recovers.

"This starts now, with over 800,000 employment opportunities created in the months ahead."

To add to the puzzle, the ERRP also says:

"Specific short, medium and long-term interventions required to strengthen the key sectors of the economy will also be made. The collective impact of these sectoral interventions are intended to bring South Africa back on course towards the targets set in the National Development Plan; Vision 2030. These include:

- *growing the economy at a rate of 5,4%;*
- *reducing the unemployment rate to 6%..."*

The fact however is that the ERRP itself says modelling of the Plan by National Treasury predicts that it will result in a 3% growth rate over a decade, and completely fail to reduce unemployment to any significant extent!

Government had a serious responsibility to provide a scientific explanation of the contribution of the ERRP to the critical task of job creation!

The important matter of the required investment capital!

Naturally both the ERRP and the AERS discuss the important matter of the capital that will be required to realise the goals set in the Plans.

Again of great use in this regard is information presented by B4SA in the AERS.

It says:

*"Before the onset of the Covid-19 pandemic, total **public sector** debt amounted to about R4tn, comprising of R3.2tr national government and R0.8tr local government / SOE debt. In addition, the Government's contingent liabilities amounted to about R0.6tn, excluding contingencies related to SOE funding.*

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"We anticipate a total 3-year public sector funding requirement of about R2.4tn. The requirement can reduce if private business can contribute to infrastructure development."

It also goes on to say:

"Before the onset of the Covid-19 pandemic, total loans by SA financial institutions to the non-financial ***private sector*** *(incl. households) amounted to R3.9tn, including R3.3tn bank funding and R0.6tn by the savings industry. Corporates held liquidity buffers of about R1tn.*

"There are early indications of an increased demand for credit for working capital purposes, constrained by lenders' risk appetite. Infrastructure investment would increase demand. Lending to SMMEs is supported by the R200bn guarantee. The total 3-year requirement is estimated at R1tn."

The AERS then draws attention to the capital available within our country. It says:

"The stock of invested domestic assets is about R12tn ($700bn) in total, adjusting for overlap within and between savings and bank assets."

It then says that available capital in the country is made up as follows:

- Regulated Savings have R8.4tn; and,
- Banks have R5.8tn (excl. derivatives).

Of great importance in the context of the Economic Reconstruction and Recovery Plans, the AERS advises that the *Regulated Savings* are relevant to *infrastructure funding* and says:

- *"already there is significant indirect investment via sovereign and SOE bonds (about R1tn invested, excl. GEPF);*
- *direct investment is attractive for long term portfolios of Life Companies and Defined Benefit Retirement funds. Unlisted direct investment currently constitutes about 1.5% of portfolios (OECD average of 1.3%, 4.3% in funds that have mandates to invest directly); and,*
- *incremental capacity would be available if investment instruments are tradeable."*

Of the *Banks* it says:

- *"They are a Primary source of loans to the private sector and a significant financier of public sector debt;*
- *"There is an early indication of funding capacity of* ***R350bn – R450bn p.a****., majority of which could be available to the private sector as holdings in public sector securities exceed regulatory requirements; and,*

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- *"There is potential for increased lending through prudent redeployment of investment in government bonds."*

All this suggests that there is a considerable amount of available capital within the country. This should result in reducing the need for reliance on foreign savings to finance the projects visualised in our Economic Reconstruction and Recovery Plans!

The preceding information about available domestic capital is especially relevant with regard to the important matter of the role of fiscal policy in the context of the Economic Reconstruction and Recovery Plans currently under discussion.

In this context, relating to the required resources, the ERRP says the following:

"Resource mobilization is critical for the implementation of this Plan. Even more critical is that the initiatives and focus areas identified in the Plan should inform resource allocation going forward. The Plan identifies the following as critical elements of mobilizing resources for the economic recovery and reconstruction effort:

*• Ensuring the ease of accessing the government backed loan relieve (*sic*) scheme, which is a result of the collaboration between the National Treasury, the South African Reserve Bank and commercial banks;*
• Amendments to Regulation 28 of the Pension Funds Act to unlock funding for long-term infrastructure projects and high impact capital projects;
• The use of project preparation to further unlock private sector funding for infrastructure and high impact capital funding;
• Increased use of green infrastructure bonds and green climate finance
• The formation and operation of the State bank; and
• Changes to the PFMA and MFMA to facilitate PPP to facilitate greater private sector involvement in the reconstruction and recovery effort.

"Promoting good governance through the provision of sound fiscal stewardship will be a key area of focus. In this regard, concerted efforts will be directed towards prudent financial management, while expenditure will be in line with policy priorities, which goes hand in hand with public accountability and transparency."

Needless to say, the ERRP is very correct to point to the central issue of resource mobilisation. I therefore believe that it was very necessary that the ERRP should have said more about this matter precisely because of its intended nature *as a Plan*!

For instance, it would have been very good if the ERRP could have drawn on the analysis and proposals contained in the document *"Briefing Notes on Key Policy Questions for SA's Economic Recovery: October 2020"*, produced by the ***South African Presidential Economic Advisory Council (PEAC).***

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Of particular importance in this regard are the PEAC proposals on:

- fiscal policy
- monetary policy; and,
- infrastructure funding.

Adoption of the PEAC proposals on these matters would give greater certainty about the important matter of resource mobilisation beyond the ERRP statement cited above.

We are suggesting that the Government should take seriously the proposals contained in the PEAC statements below and incorporate them in the ERRP as important interventions with regard to the vital task of resource mobilisation. The PEAC says:

"Since fiscal policy is too constrained to support more fiscal stimulus, which would be advantageous for post-pandemic recovery, <u>the potential for more monetary stimulus must be explored</u>. Urgent intervention is needed to stem the rising tide of corruption and ensure that administrative leadership positions are filled by competent individuals with integrity."

"Fiscal policy implementation was less effective due to state capacity constraints on the ability to spend money effectively at short notice… The upper bound of 87% of GDP and the pace of debt reduction is unrealistic and likely to be pro-cyclical. <u>A more gradual but credible debt reduction target of around 100% of GDP is recommended</u> with firm, time-consistent commitments to SOE restructuring and wage bill containment (pending litigation outcomes). Inclusive, green growth must be placed at the centre of a post-pandemic recovery agenda, and <u>partnerships with a willing private sector could be a major source of economic infrastructure finance</u>, freeing up more fiscal resources for social infrastructure."

"The assessment conducted above indicates that South Africa's COVID-19 monetary policy response was largely effective, though "learning by doing" offers some room for improvement in future, and that in future <u>an accommodative monetary policy stance should be maintained and increased from the current 11% of GDP to 15% of GDP</u> in line with the recommendations contained herein."

"The assets under management (AUM) of South African asset management firms is about R10 trillion and the size of our banking sector is about R5 trillion. The market has the capacity – and surprisingly – the appetite to invest in long-term infrastructure projects. <u>South African large asset management firms are willing to fund infrastructure projects, provided these projects are bankable</u>. Many want to fund water and sanitisation projects, road and rail infrastructure and energy and they will do it without government overlays (i.e. government putting financial skin in the game)."

With regard to the immediate foregoing I would like to emphasise the following which could be incorporated in the ERRP:

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- the PEAC suggests that it would be better and preferable to increase the debt-to-GDP ratio to 100% and then reduce the debt over a longer period of time, using the wealth generated through the recovery and growth of the economy;

- the PEAC suggests that the South African Reserve Bank should inject more resources into the real economy, helping to raise the stimulus to 15% of GDP;

- the PEAC, like B4SA, suggests that what the AERS called '*Regulated Savings*' should be attracted to invest in infrastructure. This would greatly reduce the need to increase the public debt and therefore increase the possibility, as visualised in both the ERRP and the AERS, to use infrastructure investment and development to drive the economic recovery process.

[Similar arguments are advanced by Dr Nthabiseng Moleko and Prof Mark Swilling in their University of Stellenbosch document "*New Wine into new wineskins: An alternative economic strategy for South Africa's economic reconstruction*". The Government may also find it useful to see what it can draw from this document.]

The imperative to build state capacity!

Quite correctly both the ERRP and the AERS draw attention to the importance of a capable State with regard to ensuring the success of any Economic Reconstruction and Recovery Plan.

The serious challenges in this regard arise from the fact that for perhaps a decade our country experienced a systematic process to degrade many of the State institutions, with the specific objective to render them dysfunctional.

This emphasised the critical importance for such vital documents as the ERRP to indicate in greater detail exactly what would be done to build the required capable State.

The ERRP says:

"The successful implementation of the Plan will also depend on a capable, ethical developmental state with the capacity to plan and to implement in a coherent and integrated manner across the three spheres of government. Accordingly, strengthening the capacity of the state will be among the priority areas of focus.

"As part of strengthening the capacity of the state, government will, overtime, expand dedicated capacity in project preparation, project implementation and execution of infrastructure and high impact capital projects. This will include strengthening partnerships with the private sector."

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It is important that the ERRP has made these observations with regard to the matter of building State capacity, correctly describing it as a priority area of focus! This underlines the need to be very specific in terms of identifying and implementing the specific steps that must be taken to achieve the stated goals.

It is very fortunate and appropriate that the PEAC document to which we have referred, "*Briefing Notes*…", pays a lot of attention to what the Government calls the District Development Model {DDM), referring to a Municipal District.

The PEAC accepts and supports the notion or proposition that one of the areas of focus in terms of building State capacity is exactly such Municipal Districts. It is for this reason that it then goes into great detail to make specific proposals about what should be done to ensure that the DDM plays its expected role in helping to ensure the success of the projected Economic Reconstruction and Recovery Plan.

The PEAC says:

"There is an opportunity for the DDM framework to convene a wide group of stakeholders to underwrite (in both financial and non-financial terms) strategic economic and social service infrastructure projects (i.e. roads, housing, renewables and industrial parks). In a context of deep fiscal constraints, collaboration between holders of patient capital and those whose term structures align to the time horizons of local infrastructure projects, such as pension funds is going to be critical.

"In its allocation of technical, financial and other resources to priority infrastructure projects, the DDM has the potential to unlock sustained economic and social development in the poorest Districts of South Africa. This ought to be a crucial element of the reconstruction and recovery efforts of the 'third phase'.

"In undertaking these tasks of reconstruction, the ability to channel our best resources, in a transparent, inclusive and accountable manner, will determine whether the DDM is able to contribute to transitioning our country away from a raw mineral export-dependent economy with uneven, poorly-integrated economic activity and development towards a prosperous, inclusive and thriving economy."

As we have tried to indicate, the PEAC discusses the specific interventions which must be made to empower the DDM to contribute effectively to the achievement of the historic results it details.

This is exactly the reason why the ERRP should have included in its section dealing with building the '*capable and ethical developmental state'* the PEAC proposals on the DDM.

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This also applies to other correct proposals made by what, after all, is a Presidential Advisory Council!

All this has to do with the important and urgent task to *ensure that the ERRP is truly a planning document*!

The private sector as a reliable social partner!

We must return once more to the matter emphasised by President Ramaphosa of the critical importance of the Social Compact for the achievement of the Economic Reconstruction and Recovery we are discussing.

In this context we would like to underline the importance of the commitment made by the private sector when it said that it would have to invest R1tn to achieve the targets set in the AERS.

We attach similar importance to the statement made by Mr Martin Kingston when he spoke for the NEDLAC Business partner at the 2020 NEDLAC Summit Meeting, calling for the negotiation and conclusion of a meaningful NEDLAC Economic Reconstruction and Recovery Plan.

In the context of the very serious strategic challenge our country faces, to unite all the social partners around the historic project radically to transform our socio-economic reality, I think we should also understand these private sector positions in the context of what Mr Bheki Ntshalintshali said at the 2020 NEDLAC Summit Meeting.

Here we are referring to what he said was the belief in the Labour sector that the private sector was and had been on a counter-productive *investment strike*!

We have also heard other voices calling on the private sector to help develop our country.

On 22 September 2019 *Business Times* published an article entitled "*Have the courage to invest the cash*". It said:

"The private sector must stop waiting for the government to create optimal conditions for it to invest the more than R4-trrillion it is sitting on, says Elias Masilela, former CEO of the Public Investment Corporation (PIC), who heads the global impact investing initiative in SA…

"The South African private sector needs to understand they should not invest for narrow profit only but for broader economic gain," says Masilela.

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"Whatever they do has to have a broader impact than just influencing the bottom line. And the investments have to be visible so that the poor understand that they're not just being made to benefit the owners of capital, but to benefit them as well."

Earlier, on 17 March 2019, the same newspaper had published an '*Editor's view*' entitled "*Bereft of strategies, corporate SA is still blaming woes of the past*". The author was Mr Ron Derby, the current Editor of *Fin24*. He wrote:

"SA corporates reacted in pretty much the same manner as their US and European counterparts to the 2008 global recession: they cut jobs and reduced investment significantly. More than a million jobs were lost in the private sector, the slack taken up by the Administration of Jacob Zuma and his ill-fated journey towards a developmental state…

"Given that SA's unemployment rate remains among the highest of the countries ranked by Bloomberg, I'd argue those efficiency gains were never given up and during the decade of Zuma's governance the private sector maintained its cost focus…

"A retail analyst providing 'insight' blamed everything from consumer apprehension to spending on the upcoming May 8 general elections. That was really far-fetched, and the worst excuse I've heard…

"Cost saving as a strategy is no longer viable."

Big business itself has spoken in a similar vein. Mr Johann Rupert participated in a '*PowerFM*' radio programme in December 2018. During this programme he said:

"We let President [Thabo] Mbeki down because he created a perfect scenario for business to invest. But you know what – I think we could not believe our luck, we should have invested more from the private sector during that period… Before foreigners invest, they look at us," Rupert said about SA's investment environment." [***fin24***, 06/12/2018].

More recently Brian Kantor, Head of the Research Institute at Investec Wealth and Investment, writing in his personal capacity, has said that:

'The SA banking system is hunkering down, not gearing up… The banks are building balance sheet strength and raising deposits, and are cautious about lending more…hence adding to their reserves of equity capital. All of this is growth depressing.'

Similarly concerned about this same matter of levels of investment in our economy, former Deputy Minister of Finance, Mr Mcebisi Jonas, published an article in the *Daily Maverick* on 3 June 2020, headed "*We need to rethink (just about) everything*". He said:

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"Since 1994, we have lived with a strange dichotomy. Structurally, the problem is that big business wields economic power but has no political power; and the political elite don't necessarily have a stake in the economy.

"Clearly, as we enter the new world, we need a new social compact that brings the two kingdoms into one federation."

It is exactly because of all the foregoing assessments concerning private sector investment in our economy that the G4SA document, AERS, assumes special significance.

Among other notable things is the fact that this is the very first time during the 26 years of our democracy that business has come together to make a public and solemn commitment to invest in the South African economy!

Further it is important to note that:

- the amount pledged of R1trn over 3 years is not insignificant;

- this would but be 'the first tranche' in the context of what would be a 'standing' NEDLAC process to achieve the broadly agreed socio-economic transformation of our country; and,

- B4SA forwarded its AERS to the Government hoping that it would be integrated in the Economic Reconstruction and Recovery Plan which would be adopted at NEDLAC.

We began this document by citing the December 2020 document published by the National Planning Commission (NPC) which said, inter alia:

"Slow progress toward our Constitutional objectives effectively entrenches poverty and alienation with deep inequity in relation to the majority black population."

It seems clear that, at last, the required national consensus exists that we must indeed make faster progress towards the eradication of the poverty, alienation and inequity decried by the NPC!

What is to be done?

Ø Government and the country must accept that the Government's "*The South African Economic Reconstruction and Recovery Plan*" (ERRP) published on 15 October 2020 is essentially a Vision, not the required Transformative Plan.

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Ø Accordingly, because of the size and strategic importance of the challenge to eradicate poverty, alienation and inequity, NEDLAC must reconvene to conclude a Strategic Economic Reconstruction and Recovery Plan (SERRP).

Ø Government must convene NEDLAC for this purpose as soon as possible.

Ø NEDLAC should table the SERRP by 30 June 2021.

Ø The SERRP should be a three-year-plan covering the period July 2021 – June 2024.

Ø As the Social Partners negotiate the SERRP, they must be ready and willing to make the necessary hard choices, sacrifices and trade-offs.

Ø Even as the NEDLAC negotiations are proceeding, Government should work seriously to build the required State capacity.

Ø Even while it is negotiating the SERRP, NEDLAC must engage in a sustained communication campaign to inform the public as part of the process of helping to ensure the active and informed involvement of the population in the implementation of the SERRP once it is completed.

Ø As NEDLAC works to conclude the SERRP it must do so motivated by the following:

STATEMENT OF COMMITMENT

We, the South African social partners - government, business, labour and civil society - are fully aware of the fact that millions of our people are suffering from intolerable levels of poverty. We are also conscious of the fact that our country suffers from extraordinarily high levels of unemployment. We also know that our country suffers from one of the highest levels on inequality in the world. We are moved by the fact that the millions who suffer as a result of these negative national features hope and pray that the agreement we must reach, concerning our country's economic reconstruction and recovery, will begin the urgent process to provide them with a decent standard of living and restore their human dignity. We fully endorse the Statement made by the Millennium Labour Council in 1999 and therefore repeat: "*South Africa's different circumstances, higher unemployment, sharper inequality, deeper ideological differences, and a larger population, far from being a deterrent, require of us a greater responsibility and a firmer resolve to meet the challenge of successful economic transformation."* Informed by this understanding, we therefore commit ourselves to work together to produce a Strategic Economic Reconstruction and Recovery Plan that addresses the negative national features mentioned above as well as act together to ensure its implementation.

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