An economic recovery package for South Africa

There are three elements of the economic recovery package:

1. Establish infrastructure fund underpinned by an infrastructure project pipeline that addresses known challenges around planning, funding, implementation and governance
2. Implement growth-enhancing reforms
3. Reprioritise funding to support inclusive growth and job creation

1. Establish infrastructure fund, complimented by a project pipeline, that addresses the challenges of planning and funding as well as implementation and governance

Through our recent investment drive, we have managed to secure various international funding commitments. Our efforts underscored the fact that significant funding is available from various sources, including multilateral development banks. **We will take decisive steps to ensure that South Africa is able to draw down on these funds.** This will be done in a manner that does not change our existing institutional architecture or compromise our fiscal sustainability.

There are four elements of government's renewed effort to create a credible infrastructure delivery mechanism:

- Establishment of an Infrastructure Fund
- Financial structuring to enable private sector participation
- Programmatic partnerships and project financing from DFIs
- Preparation support (to develop transparent pipeline and improve quality)

First, the President will set up the National Infrastructure Fund that will unlock the potential for blended or hybrid concessional financial solutions (debt and equity sources) from public and private institutions that will be deployed to fund infrastructure projects. The fund will allocate resources to projects on development finance principles and integrated into the national budget system. The fund will be overseen by the Minister of Finance, it will be aligned to the national budget system and further operational details will be announced in the MTBPS.

Second, the Presidency will bring together **government, development financing institutions (DFIs) and commercial banks to harness existing credit facilities, technical know-how and oversight to ramp up our investment programmes in water, transport, energy, telecommunications and social infrastructure** particularly at local government level. This will build on the experience of the World Cup as well as the renewable energy independent power producer programme (REIPPP). It will focus on leveraging programmatic, results-based financing to municipalities through our existing grant programmes to scale up their investment in basic infrastructure, housing and transport. We will pilot this approach with our DFI partners through their support to scaling up infrastructure investment in intermediate cities under the Integrated Urban Development Framework (IUDF).

Third, we are **developing a new infrastructure financing initiative that will allow the private sector to participate more innovatively in the funding of public infrastructure projects**. This will include the design of low-cost long-term debt instruments that allow DFIs, commercial banks and other role-players to invest in infrastructure without having to go looking for specific projects as well as collaboration with the commercial banks and DFIs through a co-financing framework to boost private sector investment (including housing). Government's contribution will include investment by cities and city-level business-municipality collaborations. This will be supported by improved capacity for financial structuring (blended finance models) and governance between all interested parties. For instance, we are investigating the creation of simple debt instruments that allow different institutions and role players such as DFIs, and private sector investors to invest in public infrastructure projects.

Fourth, we will **improve the project design and implementation capacity of government departments to feed more projects into the infrastructure pipeline**. There will be increased emphasis on improved governance and technical support for the design and implementation of infrastructure projects. This will include: (i) technical assistance to departments for infrastructure project development provided by GTAC; (ii) strengthening the PICCs capacity to align projects to national priority imperatives and prioritise what should be in the project pipeline; and (iii) the DBSA will assist with project development and oversight to public institutions. These issues will ensure that projects are run on a best practice basis. We will ensure that municipal built environment performance plans and pipelines are reviewed and where support is required to fast-track the implementation, the budget will be aligned over the medium term.

2. Implement growth enhancing reforms

Unlocking infrastructure investment in partnership with the private sector can only take place if **government makes meaningful progress on the growth enhancing reforms** to restore policy certainty and raise business confidence.

In **Mining** the MPRDA Amendment Bill has been scrapped, leaving the current legislative framework in place for the sector. Separate legislation for the regulation of the oil and gas industry will be drafted through the government's legislative process. The Mining Charter will be concluded by the end of November 2018.

The review of the **visa regime and implementation of broader immigration reform** will be concluded by the end of October 2018. Specifically, this will include:

- Amendments to the regulations with regards to minors
- Review of countries requiring visas to enter South Africa
- The implementation of an e-visa pilot platform
- The resolution of visa dispensations for highly skilled foreigners

In **telecommunications**, the allocation of high demand spectrum to enable licensing will be initiated by the end of October 2018. All the relevant departments will identify further steps to reduce the costs of communication for South Africans.

In **transport** the government will fast-track the implementation of the Single Transport Economic Regulator (STER), and will also review the setting of administered prices in the sector in order to lower the cost of doing business and boost competitiveness. Reviews of administered prices in other sectors, such as electricity, is currently underway.

Government remains committed to **efforts to reduce the cost of doing business, particularly for small businesses**. On Wednesday, the government released the results of the second Sub-National Cost of

Doing Business Survey, measuring the relative competitiveness of our nine large urban centres in a global perspective, and will announce measures to further enhance the ease of doing business in our cities. Other support to small businesses include the **small business and innovation fund**, which will be launched in 2019 with an initial allocation of R1 billion.

Further, the government will implement a number of **demand-side measures**, including enforcing commitments to local procurement and increased public purchasing from cooperatives and SMMEs. Currently, government has committed to set aside at least 30% of procurement spend for SMMEs and Cooperatives. Particular attention will be paid to ensuring effective localisation in tenders.

3. <u>Reprioritise funding to support inclusive growth and job creation</u>

Funding will be reprioritised towards initiatives that are labour intensive, address infrastructure needs and boost township and rural economies. A strong monitoring and evaluation framework will be established in the Presidency to measure progress and ensure that we meet the ambitious targets that we have set ourselves. The funds for these interventions will be sourced from existing departmental budgets – further details provided by the Minister of Finance in the Medium-term Budget Policy Statement.

a. Investments in agriculture that support inclusive growth

Several features of the agriculture sector make it important for the pursuit of inclusive, labor-intensive economic growth: its rural linkages, ability to absorb less skilled labour, large multipliers due to extensive links with the rest of the economy, globally competitive labour productivity and importance for export-led growth. A growing agricultural sector can therefore help address our challenges of unemployment and low growth and counter rural poverty. It is for these reasons that this economic recovery plan identifies agriculture as a priority area.

We have **created package of support to black commercial farmers through the Black Producer Commercialisation Programme**. This programme will provide inputs, infrastructure, implements and pesticides to qualifying beneficiaries. The sources of blended funding and beneficiaries have already been identified. A second intervention is to provide emerging farmers with the ability to participate in key value chains such as grain, red meat, poultry, sugar value chains to access key infrastructure (e.g. abattoirs, feed lots among others).

In partnership with commercial banks, the Industrial Development Corporation and development finance institutions, the **Land Bank is currently concluding transactions of R16.2 billion** that will create permanent and seasonal employment opportunities in rural areas. A large portion of the funding will go towards export-oriented crops that are highly labour intensive.

Government will **finalise the signing of 30 years leases** to enable farmers to mobilise funding for agricultural development.

b. Igniting economic activity in townships and rural areas

Our urban economies are critical to our national economic performance, but their growth prospects are undermined by the legacy of our apartheid spatial form. Re-integrating, connecting people and jobs, and increasing economic density in our cities is at the heart of governments programme for urban economic transformation, and our investment programmes in effective urban transport systems and affordable housing and infrastructure will remain central.

We have **prioritised the revitalisation of the country's state owned industrial parks**. This will allow our industrial parks to serve as catalysts for broader economic and industrial development in townships and rural areas. Three industrial parks have been identified for revitalisation namely: Babelegi in Hamanskraal, Dimbaza in the Buffalo City Metro and Ekandustria in Bronkonspruit. These regional industrial parks will be complemented by the revitalisation of 26 township industrial Parks including Siyabuswa, Phutaditshaba, Mogwase and Seshego among others.

We will **establish a township and rural entrepreneurship fund** which will provide finance to aspiring entrepreneurs in townships and rural areas. A lack of funding is cited as the most common challenge faced by aspiring entrepreneurs in these areas. The fund will operationalise R500 million to assist these entrepreneurs either scale up existing projects or gain access to start-up capital for new projects. The fund will be accessible to South African citizens aged between 15 and 40 who have businesses in townships or rural areas. Qualifying individuals will be allocated between R5 000 and R50 000 per project. Details on selection criteria and the launch of the fund will be announced in the MTBPS.

We will **provide training and grants for inputs and equipment required by informal traders** to run their businesses through the National Informal Business Upliftment Strategy (NIBUS). We will also provide funding to municipalities and private companies to provide or maintain shared infrastructure facilities that are used by informal traders.

c. Refocus our current funding towards public infrastructure projects

We will refocus our current funding towards public infrastructure investment projects that can address critical infrastructure backlogs.

- We are dedicating resources to provincial roads with an emphasis on road asset management including clearing verges as well as routine and periodic maintenance. There will be an explicit effort to ensure that these activities are pursued in a way that is labour intensive through the use of SMMEs and cooperatives owned by women and young people.
- In human settlements, we will scale up our programmes to upgrade informal settlements, with dedicated, city-wide challenge fund. Public-private supply implementation plans will be developed to improve security of tenure in urban centres. This will provide support to the "missing middle" or "gap market" households. This will be supported by reforms to the current grant system to boost private home ownership amongst lower-income South Africans, particularly through the scaling up of end-user subsidies that support households to access home loans, such as the Finance-Linked Individual Subsidy Programme.
- For water infrastructure, the construction of the Mokolo-Crocodile pipeline will be prioritised. In addition, issues relating to non-revenue water, water reticulation asset management by municipalities and sewerage spillage in the Vaal River System will be addressed.

Through the **Budget Facility for Infrastructure** we aim to ramp up funding for infrastructure projects that have complied with funding criteria. In the current year, through these processes, infrastructure spending will be boosted by R1.3bn towards critical infrastructure projects such as student accommodation, water infrastructure projects, hospitals and school infrastructure. Further details on future funding of these projects will be provided in the MTBPS.