Act 2: The Economy 12 November 2019

It is now 23 months since President Ramaphosa was elected president of the ANC and 21 months since he took over from Jacob Zuma. He set himself two tasks: rebuild the ethical foundations of the state (reclaim it from state capture) and revitalise the economy.

We described the attempts to reclaim the state in a note 'Act 1', published in August. In the three months since then a lot more has happened to reclaim the state. We will update you in due course. In this note, we look at Ramaphosa's other priority, the economy.

Sept 2018

In his seventh month in office (Sept 2018), Ramaphosa announced an economic recovery package. The package consisted of 25 actions. In our evaluation 11 of these have been done; 5 are in process; 3 have not been done (all 3 to do with extra money); and on 6 we could not obtain hard data.

The recovery plan was clearly not strong enough. Growth remained anaemic and unemployment got worse. Growth this year will be 0,5% against 0,8% in 2018. As Danie Craven liked to say, look at the scoreboard. The first attempt to ignite growth has not worked. Clearly the country needs a strong dose of structural reform to get growth going. What is the score on that?

(Some people argue the Reserve Bank should lower interest rates radically and Treasury should increase the budget deficit further to ignite growth – neither of those will be done by this administration so we will not discuss these arguments further.)

1. Structural reform

Labour relations

The requirement for unions to hold a secret strike ballot amongst their members before engaging in a strike is now part of labour law. It was fiercely resisted by unions and some even threatened a constitutional challenge, which has not happened.

A second measure, the youth wage subsidy, that the unions also opposed aggressively has been extended for another ten years.

A third fiercely opposed measure, the evaluation of teachers, has been agreed. On 3 September an agreement was signed with the education union, SADTU, for a quality management system in schools. The system is detailed and comprehensive, will begin on 1 January 2021 and teachers will be evaluated twice a year.

So much for the conventional wisdom that government can't introduce policies the unions disagree with…

Energy and Eskom

The Integrated Resource Plan (IRP) was finalised and gazetted. This must be read with the government's plans for Eskom. These are truly ground-breaking policy initiatives as an entire sector (electricity) currently dominated by a government monopoly (Eskom) will be turned on its head. Some dismiss these policies as insufficient and 'it-will-not-happen', partly based on the 'unions-will-not-allow-it' argument. Government has signalled a strong political desire to implement these initiatives and I am happy to place my bet that this will happen.

The IRP and Eskom proposals will together unlock massive investment, expand the role of the private sector considerably and significantly expand sectors like gas and wind power.

The short-term issues outstanding here are the appointment of an Eskom CEO, authorising 2 000 MW of new capacity to plug Eskom load-shedding and the finalisation of 17 applications for own-generation licenses sitting on the minister's desk.

Telecommunications

Government has finalised its policy on spectrum-licensing and handed it over to ICASA for implementation. ICASA released its guidelines on how 4G and some 5G spectrum will be allocated, and the public now has 90 days to comment. At the Investment Summit last week telecommunications executives were very enthusiastic about the possibilities the new spectrum will bring.

Collaboration in sectors

The success of the South African automotive industry is well known and continues. Already auto exports are 19% up on 2018. The success of the motor industry is the product of government and private sector collaboration, resulting in an industry or sector plan. The motor industry support plan was recently extended from 2020 to 2035, providing policy certainty. Similar sector plans have now been developed for the clothing, textile and leather, and poultry industries. There is also one underway for the sugar farming and production industry.

The PPGI (public private growth initiative) is led by Roelf Meyer and Toyota's Johan van Zyl, with full support from government. It covers 19 sectors with 43 projects where the private sector has committed to invest R843 billion over five years, provided identified obstacles are removed.

The relevance of these agreements is that they bring business and government together in the same room to work on what investment is needed to grow a sector and what impediments should be removed. It is the secret behind Japan's success, where Van Zyl is currently working and from where he brought the idea to South Africa.

2. Visas

Seven countries were added to the list of countries from where travellers can enter South Africa without visas, making it a total of 99 countries that don't require South African visas. South Africans enjoy visa-free travel to 75 countries. To reach the president's target of doubling tourist arrivals, arrivals from India and China will have to be tackled even more. This can happen through e-visas and South Africa's first e-visa facility will go live this November.

The birth certificate requirement has been abolished for foreigners and South Africans, but South Africans must show 'parental consent' when travelling with children.

Tourism envoy Derek Hanekom observes that the changed visa regime has not yet 'filtered to international airlines and embassies'. Presumably part of the work of the tourism envoy will be to make them aware.

The president set the target that visas for skilled applicants must now be finalised within a week and in due course he wants to get it down to one day.

3. Ease of doing business

South Africa has gained seven places in the Global Competitiveness Report (60th out of 141 countries) but lost two in the Ease of Doing Business Report (84th out of 189 countries). The president has set the goal of being amongst the top 50 for Ease of Doing Business.

At the Investment Summit he announced the launch of Biz Portal where a business can be registered, and at the same time also register for tax, a domain name, a BEE certificate, the Compensation Fund, the Unemployment Insurance Fund and open a business bank account. The goal is to be able to register a business in one day.

4. Investment

The President has hung his hat on increased investment. There is a quantitative target (R1,2 trillion by 2023) and an institutional target (establishing an Infrastructure Fund). Judging by last year and this year's investment conferences, he will comfortably reach the target in two years more than R660 billion was mobilised. Still three years to go.

South Africa Reserve Bank numbers confirm the investment turnaround. In the second quarter of this year gross fixed investment increased by 6% after 5 quarters of decline. Gratifying is that public corporations and government invested less, whilst the private sector rebounded sharply. Could it be that the election had to be finalised before businesses started investing?

The Infrastructure Fund will leverage investments from foreign financial institutions like asset managers and banks. The president must be exasperated with the slow progress. True, a CEO was announced in the mini budget (the very competent Dr Sean Phillips), but legislation is required and Treasury has yet to submit that. Ambition also had to be toned down. Initially government would have contributed R400 billion to the Fund, but this figure is now R100 billion over ten years. The wheels of bureaucracy grind slowly; and Eskom is slurping up money that could have gone to investment.

5. Prescribed assets

On 4 November the finance minister made it clear in parliament that prescribed assets will not be introduced. It was always unlikely that prescribed assets would be introduced while government is trying to entice the private sector to participate in the Infrastructure Fund. It is also unlikely when there is a deep capital market that can provide loans to a money-starved government.

6. Structural reform must also be about inclusion, not just the formal economy

Structural reform cannot just be about big sectors and the formal economy. It must also result in more inclusion.

In the September 2018 recovery package, the president made a point of including informal, township and rural economies. Five of the 25 actions in this package relate to these economies. At the Investment Summit he reiterated again: 'Our broader strategic vision (is) catalysing economic activity in our districts, municipalities and provinces.'

Textiles, poultry and sugar farming are labour intensive industries with big scope for emerging farmers. Government's policy directive to ICASA specifically makes provision for black-owned small enterprises in the telecoms sector through a WOAN (Wireless Open Access Network) mechanism. It will boost black participation considerably.

Government has released 167 000 units of land belonging to SOEs (totalling 14 100 ha) for redistribution to citizens. Thirty-year leases on 1 400 farms have also been signed with beneficiary farmers.

So what?

- The president has repeatedly made it clear that the government will not spend its way to growth and will maintain strict fiscal and monetary discipline. That has happened. The deterioration of South Africa's fiscal position has to do with low growth and mismanagement/theft at the SOEs.
- Big structural reforms have been announced in energy and telecommunications. It will unlock many billions in investment and is considerably more growth friendly than anything in the Sept 2018 package.
- Growth is also being pursued through addressing constraints like visas and ease of doing business; and getting business, government and labour to collaborate in selected sectors.
- Specific steps are being taken to enhance inclusion and create black-owned businesses.
- The president summarised his administration's approach at the investment summit: 'Over the past 18 months we have made inroads. Our gains have been gradual, but they have been incremental and noteworthy. We are confident they will now gain further traction… '. He quoted a Confucian proverb: 'The man who moves a mountain begins by carrying away small stones.' This is how Ramaphosa governs.

Outstanding items on structural reform

It is useful to keep a check list of what still needs to be done. Readers' views are welcome.

- There are the three Eskom/energy related issues referred to above; starting with the unbundling of the Eskom; and action on gas and wind power.
- The elephant in the room is stabilising the South Africa government's debt. The finance minister set a goal of a primary balance by 2022/23. That will require R150 billion (R50 billion a year) in a combination of expenditure cuts and tax increases. By the February Budget in 2020 he will have to show a clear path to achieve his goal – about 100 days away.
- SAA, South African Express, SABC and Denel. Both the President and finance minister has intimated that a private equity partner is on the cards for SAA. South African Express must be dealt with decisively. The SABC management must show they can operate within budget.
- Judgement in the court case on the mining charter's once-empowered-always-empowered dispute to finally clarify mining uncertainty.
- Finalisation of 'expropriation without compensation' to provide certainty about property rights.
- 'Friction regulations' like municipal approval for infrastructure roll outs and water permits as part of 'Ease of doing business'.
- Acceleration of land reform in urban and rural areas.
- The 30% set aside for black businesses in the Public Procurement Bill.