Mitigating the impact of COVID-19 and options for economic revival in SA

By Busani Ngcaweni and Jacqueline Nkate

Busani Ngcaweni is a visiting Adjunct Professor at the Wits School of Governance and Principal of the National School of Government, a state training institution in Gauteng tasked to build public sector capacity. Jacqueline Nkate is Deputy Director: Knowledge Management at the National School of Government.

Drawing on recent working papers from the National Planning Commission, the authors argue that rebuilding state capacity should be prioritised as part of South Africa's economic recovery plan. Boosting infrastructure and promoting manufacturing present viable opportunities for reviving the economy, but bureaucratic and other systemic and institutional inefficiencies will have to be addressed. The authors put forward their recommendations to tackle constraints on growth.

INTRODUCTION

South Africa has been experiencing low economic growth rates for more than a decade. This is due to cyclical and structural impediments, as well as the global dynamics precipitated by the 2008 financial crisis. Evidence suggests that both causative factors account for most of our socio-economic challenges. Declining competitiveness is one of the structural weaknesses, with the Global Competitiveness Report of 2019 ranking us 60th in the world (World Economic Forum, 2019). The same report cites weak security, low levels of government adaptability to change and the lack of transparency of public procurement as further drivers of declining competitiveness. Cyclical shocks include policy uncertainty, the impact of a devastating drought and the poor performance of public utilities such as Transnet and Eskom.

Most of the current challenges are path dependent (i.e. they reflect recurrent historical factors), with most analysts arguing that most administrations stick to familiar decisions and programmes even though these have proven ineffective over time. An example is the ongoing bailouts of State-Owned Enterprises (SOEs). Eskom's debt increased from R255 billion in 2014 to over R440 billion by 2019 (Department of Public Enterprises, 2019). Contingent liabilities are a burden on the fiscus, with Eskom accounting for 77% of that (Coleman, 2020). For its part, the Organisation for Economic Cooperation and Development (OECD), a club of rich nations, argues that this impacts business and investor confidence (OECD, 2020). At the same time, the country battles high unemployment rates that have peaked above 30% (National Treasury, 2020).

We highlight these budgetary pressures by way of foreshadowing the view that government, instead of focusing on investing in productive activities that aid firms and enterprises to grow, is funding badly performing SOEs.

All the while, unemployment, poverty and inequality continue to rise (alongside corruption, which is so severe it belongs with the "three challenges") and the recession deepens. In late 2020, the South African Reserve Bank (SARB) reported that "real gross domestic product [GDP] is contracting at an annualised rate of 2.0%, following contractions of 0.8% and 1.4% in the preceding two 'quarters'" (SARB, 2020: 4).

Before exploring policy measures, let us examine the impact of COVID-19 on South Africans by drawing on recent working papers available to the National Planning Commission (NPC).

COVID-19 AND THE RISE IN POVERTY AND INEQUALITY

The outbreak of COVID-19 in South Africa came on the back of the failing economy. It has had a devastating effect on the economy and worsened the existing inequalities (Ranchhod and Daniels, 2020). Van der Berg et al (2020) argue that economic decline resulting from COVID-19 and the national lockdown will have a far greater impact on the economy than the 2007/08 global recession. The lockdown has meant more job losses and income deprivation and it has reduced working hours across sectors (Jain et al, 2020; Rogan and Skinner, 2020). There were approximately 2.9 million net job losses and a 40% decrease in active employment between February and April 2020 (Casale and Posel, 2020; Jain et al, 2020). It is possible that many of these jobs will never come back.[1]

The labour market effect of COVID-19 has been more severe amongst black workers, women, low-earners, informal workers, manual workers and people without tertiary education (Jain et al, 2020). More than 35% of those who have lost their jobs are from the poorest 20% of households (Jain et al, 2020). There was a higher prevalence of child hunger among blacks in households that lost their main sources of income between February and April 2020 (Van der Berg et al, 2020; Köhler and Bhorat, 2020).

Informal workers are not registerable for unemployment insurance, which increases their vulnerability. Amongst domestic workers (estimated at 1.2 million), only 20% have reported being registered with the Unemployment Insurance Fund (UIF) (Rogan and Skinner, 2020).

Rogan and Skinner (2020) pointed out that the Department of Social Development reported that before the pandemic 24% of the population was food insecure. During the lockdown, this increased to about 50% with only 12% of eligible households receiving food parcels by June (Rogan and Skinner, 2020).

As part of government support measures, the Child Support Grant was increased by R300 per child in May and by R500 per caregiver for five months (Rogan and Skinner, 2020). Since social grants are ordinarily supplemented by earnings from formal employment or self-employment, it is not surprising that child hunger increased under the lockdown (Van der Berg et al, 2020). Recognising this reality, government implemented a Temporary Employee/Employer Relief Scheme (TERS) that has funnelled significant UIF funds to workers who lost earnings during the pandemic. By mid-June 2020, TERS had disbursed approximately R23 billion to approximately 4.7 million beneficiaries (Rogan and Skinner, 2020). This fell far short in proportion to the extent of the unemployment challenge, because it only covered people who had been in employment.

Whilst the results of NPC working papers, which were generated during the first months of lockdown, cannot be generalised, they give high-level trends of growing inequality. Official statistics are expected to record similar trends.

What then are government options going forward?

TOWARDS AN ECONOMIC RECOVERY PLAN

When announcing the national shutdown on 26 March 2020, President Cyril Ramaphosa outlined a three-phase approach to the management of the COVID-19 economic fallout.

The first involved measures aimed at flattening the infection curve (containing infection rates) and organising health-sector capacity to be ready for what would later become a storm. Scholars like Hausmann (2020) have ventured that in the short-term, the disruption of the markets and supply chains notwithstanding, the lockdown bought the country vital time to prepare. The second phase (announced on 21 April 2020) involved a R500 billion stimulus package (10% of GDP), that was later formalised through the June Supplementary Budget by the Finance Minister.

The stabilisation package contained interventions ranging from credit guarantee schemes, debt relief for struggling enterprises, the extension of social security (as summarised above), and financial support to targeted sectors such as tourism and manufacturing. On the same occasion, the President indicated that the third phase would take the form of implementing an economic strategy that drives economic recovery (The Presidency, 2020a).

Infrastructure as a lever of growth

There are infrastructure interventions that should be prioritised in the short- to medium-term at local and regional level. Infrastructure interventions absorb labour, open corridors of growth, build capacity and have greater long-term returns, even at times serving as a counter-cyclical measure – as was the case with the 2010 FIFA World Cup building programme (although about a million jobs were lost in the real economy between 2008 and 2010).

In a sense, we are arguing that the government should increase gross fixed capital formation and progressively reduce consumption expenditure as a share of GDP. For example, in the 2020/21 budget only R681 billion went to economic development which includes infrastructure, as opposed to R778 billion and R970 billion that went to debt servicing costs and social development respectively (National Treasury, 2020). ➤

“

... government should increase gross fixed capital formation and progressively reduce consumption expenditure as a share of the GDP.

The government has acknowledged this, and President Ramaphosa thus pledged: “We are deliberating stimulus packages that boost government’s infrastructure spending in projects that reactivate the economy; creating financing instruments that provide liquidity, bridge financing or debt restructuring instruments as well as guarantee products and funds.

“The Sustainable Infrastructure Development Symposium South Africa (SIDSSA) process has prioritised the network industries, namely: energy, water, transport and information and communications technology infrastructure for investment. These sectors have proven to have a superior multiplier effect, introduce greater efficiencies in the economy, lead to spatial justice, and have capacity to absorb supply-side skills (The Presidency, 2020b: 2).”

This commitment, made at the inaugural SIDSSA, was followed by the gazetting of a number of strategic integrated projects (SIPs) in terms of the Infrastructure Development Act, that include dams, roads, green energy, rail, small harbours and human settlements (Department of Public Works and Infrastructure, 2020).

Recover and rebuild manufacturing capacity and drive exports

Assuming that the domestic, continental and international markets will stabilise and peak post-COVID-19, government should consider supporting the manufacturing sector in a targeted manner. Globally, high-tech manufacturing has stronger growth potential than low-tech manufacturing. While high-tech manufacturing is less labour-intensive than low-tech manufacturing, it still has a greater employment growth potential, even with rising income per capita. The challenge for South Africa is growing high-tech manufacturing while creating large-scale employment. With low growth rates and a crisis of unemployment which has been made worse by COVID-19, South Africa needs to support activities in sectors that have strong growth-pulling properties as well as activities that are strongly labour-absorbing (including low-skilled labour).[2]

Where there is already some support, such needs to be scaled up and better resourced to have a meaningful impact in rebuilding South Africa’s manufacturing capacity. In addition, government support to manufacturing growth needs to be much better integrated with other policy measures, such as competition policy and macroeconomic policy. Sub-sectors like the automotive, food and pharmaceuticals sectors stand a good chance of revival, especially if they leverage commitments from the South Africa Investment Conferences of 2018 and 2020, and take into account that they sell their goods in the foreign markets. There is as yet no indication that the following companies will withdraw their investment commitments in manufacturing: Toyota (R2.4 billion), Mercedes Benz (R2.4 billion) and Aspen Pharmacare (R3.4 billion) (Department of Trade and Industry, 2018; Department of Trade, Industry and Competition, 2019), with a further commitment of a R15.8 billion investment from Ford.

Looking at the past, industry other than agriculture and services has tended to produce high emissions (per unit of value added). The composition of manufacturing matters. Consider for example that high-tech manufacturing is generally cleaner than low-tech manufacturing and the nature of manufacturing technologies and processes also affects the extent of emissions. This means there is scope for reducing the emissions associated with any given level of manufacturing production.

... we propose a skills revolution that involves changing the model of SETAs to focus more on programmes offered by the TVET colleges.

The low-carbon energy transition presents opportunities for the manufacturing sector, particularly in the hydrogen economy (fuel cells) and in the manufacture of green energy products/components like solar panels, wind turbines and battery storage. For this to work, clear forward and backward linkages are required between industrial policy, urban development and land use policies such that as the housing/accommodation/property industry stabilises, local producers can supply green energy products. Guaranteeing backward linkages can unlock incentives such as those enjoyed by Special Economic Zones whilst taking advance of local content requirements.

South Africa is a signatory to the Paris Agreement to combat climate change, and has nationally determined contributions that outline our commitment to combating climate change with clearly defined targets.

As pressure mounts to transition along a low-carbon, climate change resilient developmental pathway, the cleaner fuels/green energy sector will be critical. There is an opportunity to exploit forward linkages by promoting manufactured products that use green technologies. Aviation is going green, so is the automotive industry – thus presenting opportunities to produce fuel cells and batteries for electric cars.

Manufactured products dependent on domestic consumption (for example, steel, cement, beverages and garments) are also likely to see more losses in the short term as consumer confidence declines. However, if the recently approved National Infrastructure Plan is fully implemented and the commitments made at SIDSSA honoured, we might see a modest revival of cement and steel manufacturing, although competitiveness remains of concern.

CONCLUSION

As shown above, the consistently underperforming South African economy has resulted in the rise in unemployment, poverty and inequality – the COVID-19 pandemic merely exposed our weaknesses, including our vulnerability to corruption. The economic logic is basic: growth helps to raise revenue which must be reinvested to incentivise production and to fund social protection. No economy can borrow itself out of a recession. Recent loans from the International Monetary Fund, the BRICS Bank, the African Development Bank and other liquidity interventions by the central bank are not a substitute for decisive reforms.

Without getting into too much detail, some of the decisive state reforms required are:

Increasing the productivity of the public service. This entails holding the public service to professional standards of efficiency and accountability and increasing consequence management. A development-oriented or people-centered public service that delivers goods and services on time, on budget and according to set specifications will shift the conversation from a "bloated" public service into an effective public service.

As the primary research cited in this paper demonstrates, poverty is on the rise as a result of COVID-19. The papers, and countless other studies, have demonstrated that social assistance in the form of grants and access to basic services does mitigate the impact of poverty. Therefore, there is a strong case for consolidating social security by extending the R350 grant for a longer period and for sustaining commitments to provide housing, school nutrition, free basic services and free education for the youth from vulnerable households.

Introducing conditionalities to the infrastructure outlined above. The infrastructure build programme should be sustained with resources being targeted at expanding ports (and making port tariffs efficient) to support exports; building broadband for fast internet; expanding key national and provincial roads as corridors of trade; and maintaining bulk water and sanitation infrastructure. This is increasingly coming under pressure as a result of under-investment and rapid urban migration, for example. But there have be conditions attached to this support, such as the requirement that beneficiaries promote innovation, local procurement and skills development.

As we have argued above, **energy security** is key to the success of a decisive reform agenda. Two things are required here. One: find creative ways to address Eskom's debt which is over R450 billion and therefore a threat to sovereign credit ratings. This could include having the Reserve Bank buy some of this debt thus allowing Eskom to reprioritise resources into a strong maintenance programme, including » entering the renewable energy space as reliance on fossil fuels declines. Two: government should negotiate the price of buying energy from independent power producers (IPPs) in order to 'share the cake' by allowing more players into the market. The anti-IPP lobby is using costs to undermine an otherwise important programme for the country's energy security. This deployment of policy instruments will be a game changer for the just transition the country must embark on.

Finally, we propose **a skills revolution** that involves changing the model of Sector Education and Training Authorities (SETA) to focus more on programmes offered by the Technical, Vocational and Training Colleges (TVET colleges). The success of the interventions above will depend at the rate and quality of technical and vocational skills the country can produce within a short space of time. By leveraging resources from SETAs and partnerships with industry, TVET colleges can access skills trainers from industry to deliver high-impact and responsive training interventions. Every construction site can become a training site. Every production line (especially in the industries that benefit from subsidies) can become a training site. Again, this is a policy lever that should be used to drive the economic recovery programme we discussed in this paper.

As the adage goes, public policy is the art of making choices. But these choices have to be rational (evidence-based), realistic and responsive. Even as we argue above that infrastructure and manufacturing present viable opportunities for reviving the economy, such ambitions will not be realised unless bureaucratic and other systemic and institutional inefficiencies are addressed. Hence it is vital that the rebuilding of state capacity should be prioritised as part of the recovery plan, per the first proposition above. By equal measure, investments in human capital development need to be scaled up, alongside speedy allocation of radio frequency spectrum and investment in smallholder agriculture. The latter requires clear linkages to value chains supporting local consumption (school feeding schemes, local markets and retailers). Agricultural exports need to take advantage of the country's friendly trade relations in the region, in the global north and now increasingly with countries in the global south that have the "appetite" for South Africa's agricultural products.

REFERENCES

Casale, D. & Posel, D. 2020. *Gender and the Early Effects of the COVID-19 Crisis in the Paid and Unpaid Economies in South Africa*. Pretoria, available at https://cramsurvey.org/wp-content/uploads/2020/07/Casale-Gender-the-early-effects-of-the-COVID-19-crisis-in-the-paid-unpaid-economies-in-South-Africa.pdf

Coleman, C. 2020. 'From a "Two-Speed Society" to One that works for All Doing "Whatever it Takes": A Ten-point Action Plan to Grow an Inclusive South African Economy and Escape a Socio-Economic Crisis.' Vice-Chancellor's Open Lecture. 15 July 2020. University of Cape Town. Cape Town.

Curr, H. 2020. *The world economy*. Economist Special Report available at https://www.economist.com/special-report/2020-10-10

Department of Public Enterprises. 2019. *Roadmap for Eskom in a Reformed Electricity Supply Industry*. Pretoria.

Department of Public Works and Infrastructure. 2020. 'Presidential Infrastructure Coordinating Commission Council: Strategic Integrated Projects.' *Government Gazette* No. 43547. 24 July. Infrastructure Development Act (23/2014), as amended: Strategic Integrated Projects 43547.

Department of Trade and Industry. 2018. *Close Out Report on the South Africa Investment Conference 2019*. Pretoria.

Department of Trade, Industry and Competition. 2019. *Close Out Report on the South Africa Investment Conference 2019*. Pretoria.

Ekurhuleni News. 2020. 'Consol Glass Cancels R1.5bn Manufacturing Plant Due to the Alcohol Ban.' Accessed 3 July 2020, available at https://www.tametimes.co.za/ekurhuleni-news-consol-glass-cancels-r1-5bn-manufacturing-plant-due-to-the-alcohol-ban/

Hausmann, R. 2020. *COVID-19 Macro-economic Consequences for Developing Countries*. Centre for Development and Enterprise webinar, 2 April, Johannesburg.

Jain, R., Budlender, J., Zizzamia, R., & Bassier, I. 2020. *The labour market and poverty impacts of COVID-19 in South Africa*. Pretoria, available at https://cramsurvey.org/wp-content/uploads/2020/07/Jain-The-labour-market-and-poverty-impacts.pdf

Köhler, T. & Bhorat, H. 2020. 'COVID-19, social protection, and the labour market in South Africa: Are social grants being targeted at the most vulnerable?' Pretoria, available at http://www.dpru.uct.ac.za/sites/default/files/image_tool/images/36/Publications/Working_Papers/DPRU%20WP%202020008.pdf

National Treasury. 2020. *Supplementary Budget Review 2020. National Treasury.* Pretoria.

Nwosu, C. & Oyenubi, A. 2020. *Income-related health inequalities associated with COVID-19 in South Africa.* Pretoria, available at https://cramsurvey.org/wp-content/uploads/2020/07/Nwosu-Estimating-income-related-health-inequalitiesassociated-with-COVID-19.pdf

Organisation for Economic Cooperation and Development. 2020. *OECD Economic Surveys South Africa: 2020.*

Ranchhod, V. & Daniels, R. 2020. *Labour market dynamics in South Africa in the time of Covid-19: Evidence from Wave 1 of the NIDS-CRAM Survey.* Pretoria, available at https://cramsurvey.org/wp-content/uploads/2020/07/Ranchhod-Labour-market-dynamics-in-the-time-of-COVID-19.pdf

Rogan, M. & Skinner, C. 2020. *The COVID-19 crisis and the South African informal economy 'Locked out' of livelihoods and employment.* Pretoria, available at https://cramsurvey.org/wp-content/uploads/2020/07/Rogan-Covid-crisis-and-the-South-African-informal-economy.pdf

South African Reserve Bank. 2020. *Quarterly Bulletin June 2020*. Accessed 5 July 2020, available at https://www.resbank.co.za/Lists/News%20and%20PublicationsAttachments/10091/02Quarterly%20Economic%20Review.pdf.

The Presidency. 2020a. 'President Cyril Ramaphosa Address to the Nation: 21 April 2020.' Pretoria, accessed 6 July, available at http://www.thepresidency.gov.za/press-statements/president-cyril-ramaphosa-address-nation-0

The Presidency. 2020b. 'Sustainable Infrastructure Development Symposium South Africa: 23 June 2020. Pretoria, available at https://sidssa.org.za/media-27july2020/

Van der Berg, S., Zuze, L., & Bridgman, G. 2020. *Coronavirus, Lockdown and Children: Some impacts of the current crisis in child welfare using data from NIDS-CRAM Wave 1*. Pretoria, available at https://cramsurvey.org/wp-content/uploads/2020/07/Van-der-Berg-Coronavirus-Lockdown-and-Children-1.pdf

World Economic Forum. 2019. *The Global Competitiveness Report 2019*. Geneva.

Editor's note: Several of the studies available to the NPC, cited above, are from the National Income Dynamics Study – Coronavirus Rapid Mobile Survey (NIDS-CRAM), based on a broadly nationally representative panel survey of South African individuals. The most recent reports are available at https://cramsurvey.org/

ENDNOTES

1. The pandemic is leaving economies much more digitised – as people work from home – and less equal – as transport, cleaning and service jobs for offices and CBDs are cut. It is uncertain when (and whether) a lot of these jobs will come back (Curr, 2020).
2. The focus on prioritising sectors, as captured in successive versions of the Industrial Policy Action Plan (IPAP), has been a step in the right direction. NA