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CONEXIG RSA ARTICLE – PART 3

The SIP that could Overturn the Negative Economic Impact of COVID-19 in South Africa

This is part 3 of a three-part series comprising:

Part 1 - Economic impact of the COVID-19 and the state of the global and South African economies pre-COVID-19 outbreak
Part 2 - Reflections on the 2008 Financial Crisis and how South Africa and the rest of the global community responded
Part 3 - Perfect time for South Africa to Accelerate Implementation of Strategic Infrastructure Projects (SIPs).

Part 3, and the last of the series, deals with why South Africa's acceleration of economic infrastructure roll-out, and particularly the Strategic Infrastructure Programme (SIP), is critical for the recovery and growth of the economy during, and in the aftermath of, the COVID-19 pandemic.

Perfect Time for South Africa to "SIP" more

The South African government's response so far to COVID-19 has been well received by South Africans and even got applause from the World Health Organisation.[1]

Apart from the lock-down and other measures put in place to manage the spread of the Coronavirus, the government has instituted a number of stimulus and support measures aimed at containing the impact of the virus on the economy. Such measures include support for SMEs, Employees (tax support), Banks (e.g. reduction of repo rate and reduction of liquidity ratio), Human Settlement, Medical, Education, Agriculture, Water, Sports, Arts and Culture, creation of solidarity fund etc.[2]

These measures, just like the ones put in place by other countries and regional blocks, are aimed at containment of the impact of COVID-19; this is primarily because a number of countries are already in some form of lockdown. In fact, as at 10 April 2020, Business Insider reported that at least a third of the world population was in some form of lockdown.[3]

However, as the lockdown restrictions are lifted and the global community begins to interact, 'expansionary' measures will be required to get the global economy, and that of individual countries, to grow in the aftermath of COVID-19, which will certainly be a contracted and/or slow-growth economic environment. This is where infrastructure roll-out, or acceleration of the SIP, is expected to play a crucial role in South Africa; below is a brief discussion why accelerating the implementation of SIP is needed more than ever, notwithstanding other necessary measures needed to stimulate the economy for long-term recovery and growth.

Firstly, **the SIP framework is already in place**. In 2012 the South African government adopted a National Infrastructure Plan (NIP), which is integrated and coordinated by the Presidential Infrastructure Coordinating Commission (PICC); eighteen (18) Strategic Infrastructure Projects (SIPs) have been identified and form the basis by which the NIP will be implemented. The programme is made up of five Geographically focussed SIPs, three each of Spatial, Energy and Social SIPs, two Knowledge SIPs and one each of Regional Integration and Water & Sanitation SIPs.[4]

Secondly, **Infrastructure has expansionary effect on the economy**. Infrastructure roll-out has shown to have a positive impact on the GDP and the wider economy as a whole; for example, China's recovery during the 2008 financial crisis from 6% GDP in the last quarter of 2008 to over 10% in the third quarter of 2009 has been credited largely to the stimulus package that was mainly allocated to infrastructure development.[5] In South Africa, a study by statistician Peter Perkins and colleagues found that public sector investment in economic

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[1] Jonisayi Maromo, 'Coronavirus in SA: WHO boss praises South Africa's response to Covid-19 pandemic', IOL News, 1 April 2020

[2] Thinking through the possible Economic consequences of COVID19 for South Africa, PwC, 31 March 2020

[3] Juliana Kaplan et al, 'A third of the global population is on coronavirus lockdown…', Business Insider, 10 April 2020

[4] 'A Summary of the South African National Infrastructure Plan,' PICC, 2012

[5] Shikha Dalmia et al, China's Looming Real-Estate Bubble, Wall Street Journal, August 21, 2010

infrastructure had a positive effect on GDP growth and in a later publication Perkins made the following observation:

> *" Economic infrastructure may be compared to the foundation of a building. It plays a supporting role, facilitating the multitude of productive economic activities that constitute the bulk of the economy, or gross domestic product."*[6 7]

Thirdly, **the SIP aligns and speaks to the National Development Plan (NDP)**. The NDP seeks to address nine challenges facing South Africa, one of which is Infrastructure that is poorly located, inadequate and under-maintained.[8] Therefore for South Africa, Infrastructure roll-out, particularly SIP, is not only needed as a response to stimulating the economy in response to COVID-19, but also as a necessity to address historic social and structural imbalances and challenges.

Fourthly, the **SIP is in progress but needs acceleration**. A number of projects under the programme are in place, as reported by the PICC in its 2018/2019 annual report where it reported that it tracked 323 projects quarterly and that these projects sustained more than 160 000 jobs. It further reported that these projects comprised investment in public infrastructure, which included the construction of power plants, schools, hospitals, roads, port development, water pipelines and new bus route systems. However, some of these projects like the Medupi Power Station, have been severely delayed.[9]

Perhaps President Cyril Ramaphosa captured the situation best during his inaugural State of the Nation Address:

> *"Infrastructure investment is key to our efforts to grow the economy, create jobs, empower small businesses and provide services to our people. We have invested heavily in new roads, power stations, schools and other infrastructure. As some of our projects are taking time to get off the ground and to enhance our efforts, I will assemble a team to speed up implementation of new projects, particularly water projects, health facilities and road maintenance."*[10]

Lastly, **Business and the Private Sector are likely to be on-board this time around**. One of the early positives of COVID-19 for South Africa is a spirit of cooperation and solidarity between government, opposition parties, business and civil society such that Martin Kingston, vice -president of Business Unity SA says that *"we are seeing a level of alignment and solidarity which is unprecedented since 1994"*[11]

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[6] Peter Perkins et al, 'An Analysis of Economic Infrastructure Investment in South Africa, CSSR -University of Cape Town, 2005

[7] Peter Perkins, 'The role of economic infrastructure in economic growth: building on experience'

[8] National Planning Commission, 'National Development Plan 2030 Our Future-Make it work', Department of Presidency, RSA

[9] President Cyril Ramaphosa: 2018 State of the nation address, 16 February 2018

[10] Economic Development Department Annual Report 2018/2019, RSA

[11] Chris Baron, 'Rapport forged in Corona Response; Business and government explore a new level of trust', Sunday Times,29 March 2020

As such, based on the strong leadership showed by President Cyril Ramaphosa and Minister of Health Dr. Zweli Mkhize in the response to combat COVID-19, it should be possible to form a united body, made of business, government, organised labour, civil organisations etc, that would forge a united response to expand the economy during, and in the wake of the aftermath of, COVID-19. This body could be similar to the Joint Economic Work Group formed during the 2008 financial crisis, or role players could simply expand the representation and role of the National Coronavirus Command Centre to include economic recovery and expansion measures and mandate; the implementation and acceleration of SIP would then form a vital part of these measures.

How will the SIP be Paid for?

The question is not just how the infrastructure roll-out, or acceleration of the SIPs, will be paid for but rather how the investment in the overall recovery and expansion of the economy would be funded. It is now common knowledge that a combination of the contracting economy, rising unemployment, rating agencies' downgrades, rising fiscal deficit and rising gross national debt as percentage of GDP will all make it difficult for the South African government to secure funding needed for economic recovery and expansion. However, there are three areas the government can address immediately.

Firstly, it could **reallocate** more expenditure to economic infrastructure investment for 2020 and the coming years. From 1998/99 to 2017/18, public-sector infrastructure expenditure as a share of gross domestic product (GDP) averaged 5.9 percent whilst the 2020 budget indicates spending on public infrastructure of R 815 billion over the next three years, which is still below the NDP target of 10 percent of GDP.[12] [13]

Already, as Hilary Joffe reports, markets are hoping to see an "emergency" budget sooner rather than later, while Treasury will want to get better numbers first on how much economic fiscal damage the COVID-19 crisis is likely to cause-and what the funding options are.[14]

However, prudent and effective implementation of the infrastructure programme still remains critical, if more money allocated to economic infrastructure investment is to yield desired outcomes.

Secondly, government has to **prioritise** on the type of infrastructure to invest in and implement, focussing on the SIPs that have the ability to catalyse economic growth, such as the geographic SIPs. For example, Stanlib Chief Economist Kevin Lings believes that, given the choice from its long list of strategic infrastructure projects covering 18 areas, the country should invest in economic infrastructure, above social. This, he says, is because a rail or road link could do more than hospitals or schools, to catalyse private-sector investment.[15]

[12] Public Infrastructure Update 2019, National Budget, South Africa, February 2019

[13] Public Infrastructure Update 2019, National Budget, South Africa, February 2020

[14] Hilary Joffe,' Tough Calls ahead on borrowing -SA has options but they come at a cost', Sunday Times, 12 April 2020

[15] 'The role of infrastructure in building the South African Economy', Vision 2030, 2015

Lastly, the private sector and government should collaborate, as noted above, in economic infrastructure investment. Whereas the NDP requires public infrastructure spend of at least 10 percent of GDP by 2030, it targets an overall economic infrastructure spend equal to 30 percent of GDP by 2030; only then, the NDP notes, will sustained impact on growth and household services be realised. This means that Private Sector investment in economic infrastructure has to reach 20 percent of GDP by 2030 but it has mostly been between 10 and 15 percent of GDP since 1960. [16] [17]

In Conclusion

The long-term economic impact of COVID-19 will not be fully grasped, especially that the response for now, as expected, is containment. However, there is consensus that COVID-19 will lead to economic contraction globally, impacting negatively on jobs, business profits, national fiscus, individual and corporate incomes etc.

Therefore, bold and decisive measures are needed to stimulate the economy in the aftermath of the pandemic; whereas there are a number of measures that can be instituted, it is evident that South Africa will have to include in its suite of expansionary measures, an accelerated and targeted economic infrastructure roll-out programme , of which the Strategic Infrastructure Programme should form an integral part.

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[16] National Planning Commission, 'National Development Plan 2030 Our Future-Make it work', Department of Presidency, RSA

[17] Public Infrastructure Update 2019, National Budget, South Africa, February 2020