Infrastructure-led growth and youth entrepreneurial development support - urgent socio-economic priorities for South Africa's economic recovery

Focus area: Strategic policy response to address low economic growth trend in South Africa and its effects on jobless recovery

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The Covid19 pandemic has no doubt devastated the world economy in virtually all fronts, leaving countries with much less jobs than they had before COVID-19 hit. Inequality and poverty have also deepened as most of the fiscal resources that were allocated towards addressing the later challenges had to be diverted towards fighting the pandemic and lessening the severity of its socio-economic effects. The South African economy was no different. However, in the case of South Africa (SA), at the time when COVID-19 hit (i.e., in March 2020) the SA economy was still trying to recover from the technical recession it was experiencing. This, from economic policy point of view, necessitated a new economic strategy and an urgent fiscal response to address both the legacy challenges of an unequal and jobless economic growth as well as new socio-economic challenges brought about by the effects of COVID-19.

The SA economic challenges were further worsened by other factors other than Covid19, which exacerbated the already dire socio-economic situation, especially the infrastructure development state in SA. These include the Kwa-Zulu Natal (KZN) & partially Gauteng July 2021 crisis, April 2022 floods in KZN, and the Russia-Ukraine geo-political conflict which started in February 2022. The SA incidents were characterised mainly by the distraction of private property and public infrastructure, which adversely affected food and energy supply chains, as well as trigger the recent food and oil price inflationary pressures in SA, coupled with the said international incidents.

According to Trading economics data, South Africa has registered a growth rate of 4.9% in 2021, albeit this being a jobless recovery. Their data also show that this stubborn unemployment rate in SA is the highest jobless rate since comparable data began in 2008, seeing unemployment rate rising from 34.9% in the third quarter to 35.3% in the fourth quarter of 2021. Given the fact that the recovery rate is also low, this puts pressure on the efforts made to address the soaring levels of unemployment in the country. Great policies and initiatives advocating for various employment creation strategies exist, but they seem to be yielding slow results or in this current state, no positive results at all.

The recent economic Plan (Policy) called the Economic Reconstruction and Recovery Plan (ERRP) was then introduced in SA by the Presidency in October 2020. The ERRP which places Infrastructure investment at the centre of economic growth was born out of a social compact which in the main sought to rebuild the economy and address Covid19 crisis at a go. While the infrastructure-led approach to economic growth is commendable, the growth path in SA still seems to be facing tough and persistent hindrances. That is, the very same infrastructure, which is supposed to produce the 'recovery miracle', seems to be under attack in all sorts of forms. Over and above the well-known low private investment rates, traditional challenges of protracted spending or underspending on public infrastructure mega-programmes and budget over runs, there are recently many reports of costly incidences of vandalism and theft of strategic infrastructure (e.g., Eskom and Transnet cooper cables and other strategic public infrastructure metals). These lead to the evident of dire deficiencies in service (public good) delivery that take forms of unreliable electricity/water supply, rail transport delays or discontinuation, etc. These challenges in turn lead to the constant increase in the cost of supplying these services and hence increase in prices of services born by the public. What does this mean to economic growth and employment?

Practically speaking, without infrastructure at all (i.e., worst case scenario), as infrastructure get stolen or destructed, it would simply become virtually impossible to deliver basic services to households, private businesses, government and it's SOE's. In the same manner, unreliable infrastructure (existing scenario) would also mean unreliable basic services provision to the economy, which would render it inefficient and uncompetitive. Since economic growth is a function of both optimal demand and supply, this would in turn, mean an uncertain or bleak growth outlook for South Africa in the long run. Lack of competitiveness would mean less productivity and persistent rise in prices of production inputs. The overarching macroeconomic effect of both scenarios would therefore lead to the further dampening of investor confidence and make it extremely difficult to attract both domestic and foreign direct investment.

The overarching goal of the ERRP is to create sustainable, resilient and inclusive economy through a major infrastructure programme and a large-scale employment stimulus with the aim to respond to the immediate economic impact of COVID-19, propelling job creation and expanding support for vulnerable households. In order to achieve the ERRP's objectives and hence to more effectively give the ERRP a chance, the fundamental question is therefore whether the legacy challenges of infrastructure investment have been adequately addressed. These challenges coupled with the recent incidents of infrastructure destructions will require a new way of thinking/approach in terms of infrastructure investment, protection and usage. This therefore calls for an approach of partnership between government (all its three spheres) and private investors (i.e., PPP) and civil society and workers to address criminality and create a sense of ownership amongst them.

This is because infrastructure as an enabler of social and economic/industrial development will as envisaged in the ERRP create a sound industrial development base that will in turn inspire the much needed investor confidence and set SA on the path towards economic recovery (i.e., reverse de-industrialisation and stimulate economic growth) and job creation. Talking about job creation, therefore coupled with Infrastructure development, the revitalisation of the labour market and Science, Technology and Innovation (STI) systems will be key in order to create new skills or skills of the future required in the post-pandemic economy (such as digital skills). The World Bank's assessment of the South Africa economy finds that young entrepreneurs are one of the country's best hopes of solving the jobs crisis in an environment of Covid19 - weakened economic growth. Another study conducted by Mckinsey on SMEs in Africa and Middle East in the context of Covid19 finds that small businesses are key to unlocking economic opportunities and achieving inclusive growth. Mckinsey further finds that SMEs across South Africa not only are they responsible for a quarter of job growth in the private sector, but they represent more than 98% of businesses, employ over 50% of the country's workforce across all sectors.

The fact that youth unemployment is undoubtedly one of SA's most intractable challenges, made worse by COVID-19, is itself an affirmation of the support for small businesses. Therefore government should be encouraged to continue providing sustainable business developmental support and finance towards local small businesses. So too, to improve SMEs competitiveness government should intensify structural reforms through appropriate and targeted red tape reductions, sector regulatory reforms, and investment in infrastructure development and protection, which would in turn improve SMEs sustainability and market access opportunities. Again, a strong social compact is still key which will also see the private sector also increasing their contribution to/investment in SMEs entrepreneurial development through initiatives such as Supplier

Development Programmes which would go a long way in terms of particularly supporting government policies to improve SMMEs access to market opportunities.

Having chosen the manufacturing sectors as a job-creating industrial path, SA therefore needs to prioritise those industrial infrastructure sectors with significant growth and job creation potential (multipliers), such as transport, water, energy, agriculture, mining, ICT's, etc. The role played by municipalities and SOE's in infrastructure development and service delivery cannot be overemphasised. Thus, SOE's as policy implementing agencies need to be prioritised in terms of capacity building. The role of Government (all spheres) (as policy makers and somewhat partial investors and enablers of investment) and private sector (as owners or borrowers/investors of capital) is also crucial in ensuring that prudent project management and financing models are employed. A working social compact would create a mutual understanding between the two role players, as well as improve policy certainty/investor confidence.

The biggest policy intervention required in South Africa is therefore a coordinated effort to ensure that infrastructure criminal activities (big or small), have no space in the South African economy. Infrastructure is a costly long term crosscutting-enabling investment to economic development and growth, which has to be protected at all cost and preserved equally by all sectors of the economy (households/communities, government, private sector, and workers).

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