cooperative governance
& traditional affairs

Department:
Cooperative Governance and Traditional Affairs
REPUBLIC OF SOUTH AFRICA

SOUTH AFRICA ECONOMIC RECOVERY PLAN FOR MUNICIPALITIES IN RESPONSE TO COVID-19

TOP SECRET

Draft 5

1. Introduction

We face an unprecedented crisis, a virus Covid-19 that has disrupted the global economy and all facets of normal life. The impact of the economic fallout more severe than ever before in modern history. South Africa with comparatively low infection rates globally, is still not in the clear. What is evident is that Covid-19, is having a disastrous impact on the economy and the economic slowdown is likely to last for more than 3 years. According the latest report by Mckinsey & Company "More than 175 countries and territories have reported cases of COVID-19, the disease caused by the coronavirus (SARS-CoV-2). Case growth has accelerated to more than 735,000 cases and 35,000 deaths as of March 30."

As the engines for the national economy, South African municipalities are disproportionately exposed to the economic fallout. Those most vulnerable are the poor, poverty is our proverbial 'Achilles Heel' in fighting the virus and will remain so unless we act. Our dense and overcrowded informal settlements, the inhumane conditions of people living in shacks and the needs of those working in the informal economy makes social distancing a luxury. The risk of going hungry far outweighs the threat of the virus.

The recent downgrading of the country to junk status pales in comparison to the imminent economic fallout South Africa faces from Covid-19. But amidst the crisis the South African state has emerged as an exemplar of excellent leadership and capacity, during this time of crisis, we have experienced decisive action, vigour and action on the ground. But Covid-19 has created an equally potentially devastating war of poverty and economic collapse. We therefore need to turn our attention and focus to mitigating with urgency the collapse of municipal economies. As government we have two strategic options at our disposal 1) Find innovative ways to expand the current social safety so that households have a buffer against the loss of jobs and 2) re-absorb and redirect jobs into other economic sectors 3) drive new job growth. This is underpinned by a key challenge, how do we harness the buying power and supply chain network of government to drive job intensive sector growth?

The adage goes "Never waste a good crisis", during this time, we can harness the urgency of our predicament to address the most persistent structural economic inequities that have existed for too long in post-Apartheid South Africa. The moment presents an unrivalled opportunity to re-imagine and re-design our municipal economies, finding innovative projects and initiatives for safeguarding our citizens from extreme poverty and deprivation brought about by a rapidly declining economy. While at the same time addressing deep structural problems as we look to create new jobs, absorb job losses from those sectors hardest hit and restructure the urban economy, towards prosperity and a more just and equal society. As such COGTA is leading an initiative to bring together the best minds in the country to help develop a pragmatic, implementable and action oriented municipal economic recovery and revitalization plan.

This plan will be focused on a set of interventions that can harness the current crisis, as devastating as it is, an opportunity for change and transformation is within our grasp. The following concept note frames the major economic impacts on our regions, territories and municipalities and provides the kernel of our strategy towards safeguarding our communities and restructuring our urban and rural economies so that we can minimize the impact on our people. We have defined a set of thematic focus areas, these focus areas frame our intentions and provide an analysis of what we believe can achieve the dual purpose of; expanding the social safety net and creating new jobs.

2. Problem Statement

2.1. Introduction

Covid-19 presents a deep and long-lasting economic crisis for throughout our country, it has already begun to put tremendous strain on existing municipal resources and capacity. The economic fallout will be severe and manifest in multiple and complex ways. The current crisis is compounded by the recent downgrading of South Africa to junk status. The overall National fiscus will significantly contract which will affect the financial capacity of state. This will affect all areas of debt raising and borrowing. This only worsens and makes more complex, the existing challenges of municipalities, many of whom, find themselves in a financial, political and management crisis. In instances where functional municipalities exist critical funding gaps occur, this funding gap will grow significantly. Some, of the most salient and direct economic challenges that Covid -19 will create for South Africa municipalities are the following:

- Decline in inter-governmental fund transfers to municipalities: overall reduction in inter-governmental transfers as National Government Departments and Treasury see their own budgets constrained by inability to collect taxes, tariffs and fees as businesses and households battle to pay taxes. In 2018/19 total of R3.4 billion was allocated to local government equitable share. Direct transfers are likely to decline significantly as a result of the contraction of the National fiscus. Conditional grants such as Schedule 4 Part B grants are likely to reduce which will affect critical infrastructure development programmes of municipalities. Slowing down of infrastructure development will impede service delivery, reduce capital expenditure budget and reduce overall local economic spend. A concomitant slowing down in the construction sector and induced job losses will result.
- Loss in revenue from property rates and taxes: Property rates and taxes account for between 15 and 22% of total revenue of municipalities. This will be significantly affected as a result of inability of households, businesses to pay job losses and businesses closing. In the short-term property rates and taxes are relatively demand

inelastic, but over medium to long-term the real impacts on municipal revenue will be felt. It is not clear what potential loss in revenue will result

- Generation of Revenue from Electricity: revenue from electricity sales account for between 30 and 45% of own revenue for municipalities. The sales from electricity will decline significantly, municipalities will be supplying electricity at a net operating loss. If we imagine a best-case scenario of about 40% loss in electricity revenue, this will significantly contract municipal budgets and therefore spending of essential services.
- Bulk purchases of water and electricity: it is not just electricity, but the bulk purchasing capacity of electricity and water, would be significantly affected, net impact on overall ability to supply will be a challenge.
- Collapse of single economy dominant municipalities: mining municipalities – in North West Province, and other municipalities where economies are dependent on a single economic sector will be adversely affected. Commodity prices have been tumbling across the world. According to Mineral Council for South Africa, the industry employs around 420,000 workers at any given time. The labour force is primary migrant. Large informal settlements exist in mining across South Africa. The city economies will face collapse should the mining sector fail to recovery from the fallout of Covid-19. Unemployment in these towns will rise significantly, leading to an increase in poverty rates. The impact will be felt across income and LSM categories.

2.2. Pre-existing weaknesses in the South African Economy Prior to the Covid-19 pandemic

The South African economy in 2019 came in at a pedestrian 0.2% with the Pre-Covid-19 forecasts placing growth at below 1% this year and only reaching 1% in 2021. Unemployment was already unacceptably high at 29.1%, with even higher rates at above 45% in certain provinces and municipalities. Public debt and the budget deficits were rising. South Africa's sovereign rating faced further downgrades. Consumer and business confidence remained subdued and State-Owned Enterprises (SOEs) faced serious challenges.

Since the global financial crisis, growth in consumption expenditure slowed down reaching 1.8% in 2018. In addition, levels of investment in the South African economy have been lacklustre. Average annual growth rate of gross fixed capital formation stood at 4.7% between 1994 and 2018. The ratio of fixed investment to GDP grew from 16.1% in 1994 to 18.1% in the third quarter of 2019. This is well below the NDP target of 30% of GDP by 2030. Boosting Gross Fixed Capital Formation is critical to raising the economy's growth potential. Added to this is that public sector investment in infrastructure has been falling over the past four years.

Gross Value Added by key labour absorbing sectors of the South African economy, such as Agriculture, Mining, Manufacturing and Construction have been pedestrian and at times declining. The effect of this has been the failure of the South African economy to create jobs even during periods of high economic growth, leading to the phenomenon referred to as "jobless growth."

Data released by Statistics SA shows that the economy shrank 1.4% in quarter four, from a revised contraction of 0.8% in the previous quarter. For the full year, the economy managed growth of just 0.2%, down from 2018's 0.8%. This is the sixth consecutive year that SA's economy has grown below 2% and the lowest level since 2009, according to Stats SA.

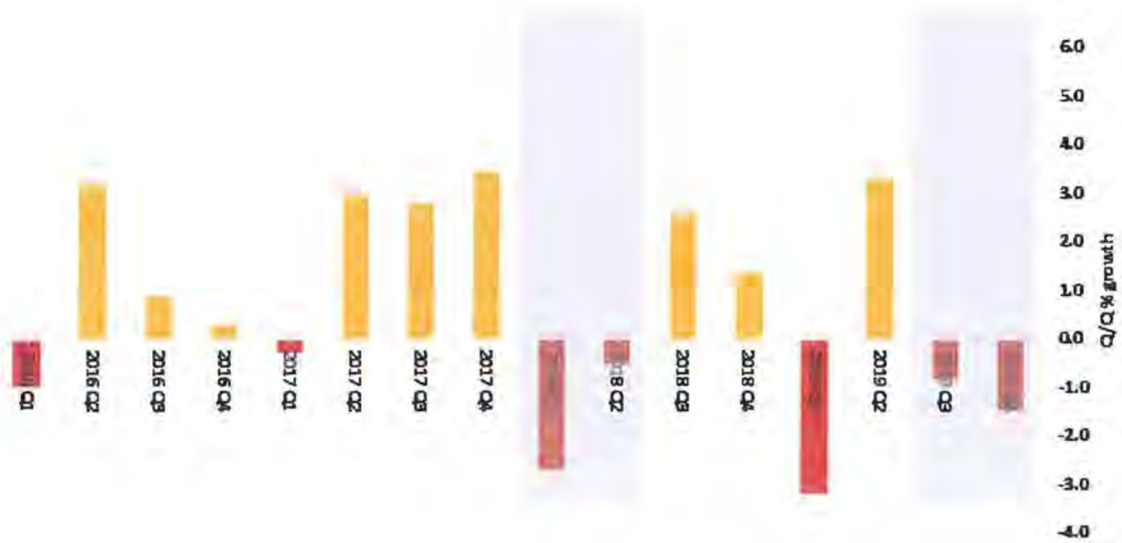


Table 1; Reference

GDP contraction has also been characterized by weak household demand and muted investment on the back of by declining investment by public corporations' general government into the local economy.

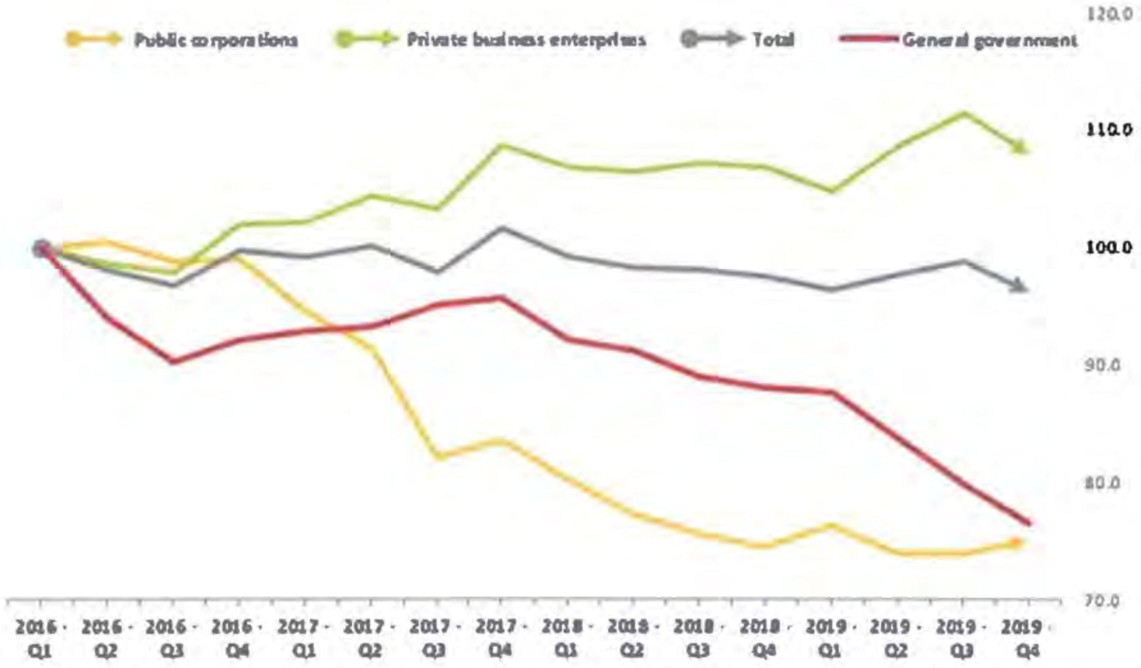


Table 2: ref

Seven of the ten industries contracted in the fourth quarter on the back of fragile electrify supply and contracting public sector investment. *Only Finance, Mining, and Personal services* recorded positive growth sliding the local economy into its third recession since 2008. Key labour-intensive sectors such as *Construction and Transport Storage and Communication* have been in contraction for 4 consecutive quarters.

	Agriculture, forestry and fishing	Mining	Manufac-turing	Electricity, gas and water	Construc-tion	Trade, catering and accommo-dation	Transport, storage and communi-cation	Finance, real estate and business services	General govern-ment services	Personal services
2019 Q1	-16.8	-10.8	-8.8	-7.4	-5.3	-3.6	-4.4	1.1	2.5	1.1
2019 Q2	-4.9	17.4	2.1	3.2	-2.4	3.4	-0.3	4.1	3.3	0.8
2019 Q3	-4.5	-6.1	-4.4	-4.9	-6.9	2.6	-5.4	1.6	2.4	0.4
2019 Q4	-7.6	1.8	-1.8	-4.0	-5.9	-3.8	-7.2	2.7	-0.4	0.7

Table 3: ref

Labour Market Performance

In 2019 labour-intensive sectors shed job significantly due to rising weaknesses in the local economy. We are likely to see the second round of more pronounced job losses in light of continued economic shrinkage. Consequently, In, 2019Q4, 16.42 million people were employed in South Africa, this is alarming when compared to 16.52 million people employed in 2018 Q4. 108 000 South Africans lost their jobs in the 12-month period. Major job losses were in the following sectors:

- Mining (8 000)
- Manufacturing (46 000)
- Utilities (14 000)
- Construction (131 000)
- Retail and Wholesale Trade (70 000), and
- Finance (43 000)

2.3. Ratings Decisions

On Friday 27 March 2020, Moody's downgraded South Africa's sovereign rating to Ba1 sub-investment grade. In a statement Moody's announce that this decision was on the back of the following factors:

- Weakening credit profile;
- Strong widespread fiscal pressures,
- Persistently low growth amid social and political obstacles to reforms.
- Limited progress on structural economic reforms
- Government debt to- GDP risks rising a further 20 pps or more over 2019-23.

The announcement effectively places South Africa on sub-investment grade from all 3 major ratings agencies. Ratings are given as a ranking. AAA is the highest, then AA and A, right through to C and then D (default).

Figure 1: Three major credit ratings for South Africa

The lower your credit rating the riskier you are deemed to be and the higher the interest rates charged. Some institutional investors (such as pension funds) are not allowed to hold debt with a credit rating of BB or below. This makes it more expensive for our government to borrow money, and it increases the amount of the government budget that will be spent on interest. Importantly: it reduces the money available for housing, education, healthcare, and social grants. South African debt has already been dropped from one of the widely used global bond indexes, the JPMorgan Emerging Market Bond Index Global. A downgrade by MOODY's will see SA dropped from other key indices such as the Citigroup World Bond Index (WGBI) effectively leading to a withdrawal from funds with investment grade mandates.

2.4. The Demand & Supply shocks of the Covid-19 era

The global village is currently in a crisis that has been brought about by a spread of this novel disease. The crisis has exposed the deep structural problems in the South African economy and a weakness in macro-economic policy that ensures greater job growth, wealth sharing and redistribution.

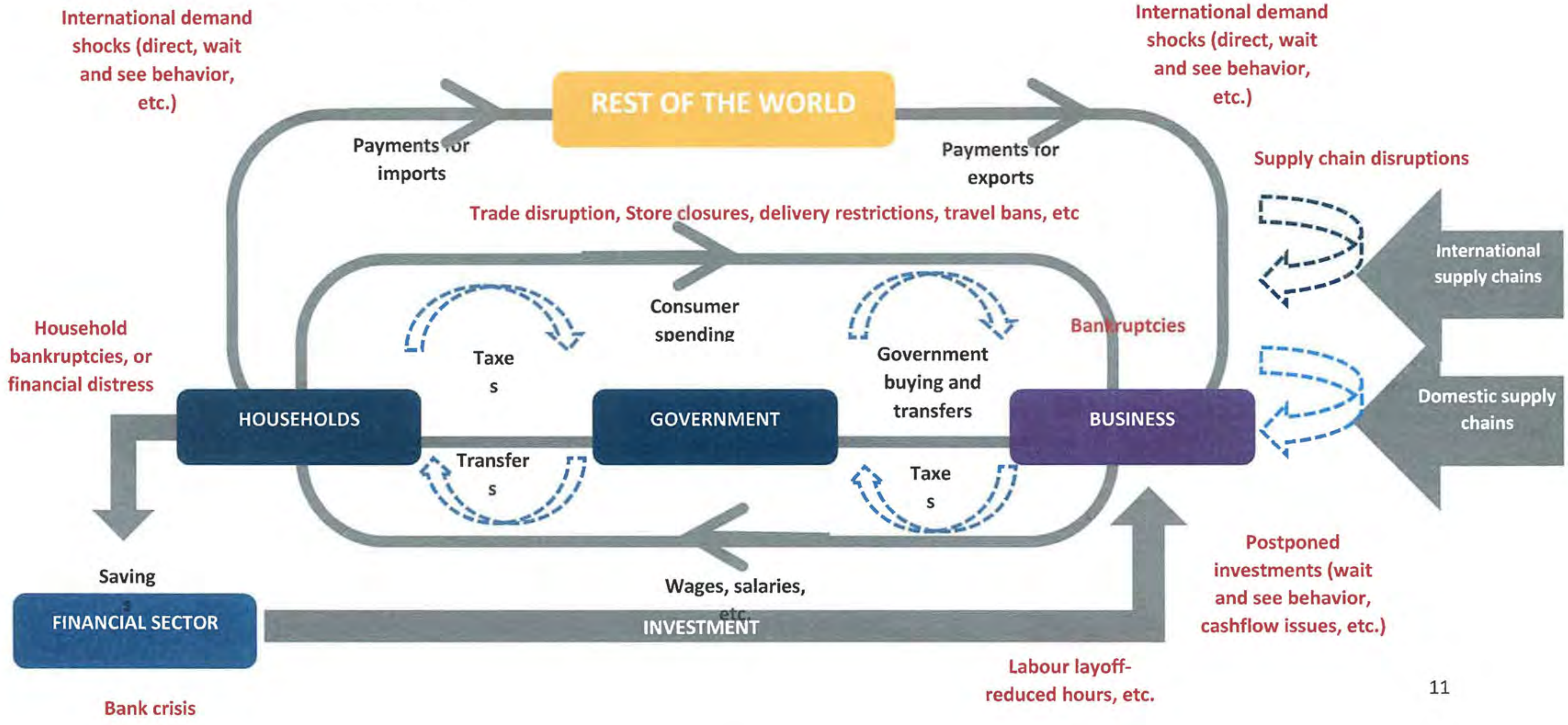
The pandemic will only worsen existing conditions, with an upset the households' power to consume and firms' capacity to produce. The demand and supply shocks are presented in the table below:

What is a supply shock?

In simple terms, it is any factor real or sentiment that can reduce the efficiency with which production can occur. For example employee absenteeism can reduce labor hours thereby reduce output. Another example can be the disruptions of production input supply chains which can have an impact on output. These factors can vary to include health issues such as those presented by COVID-19.

COVID-19 RESPONSE	EQUIVALENT PRODUCTITY SHOCK	POTENTIAL SECTOR DISRUPTIONS
SOCIAL DISTANCING	• Reduction in labor hours • Reduction in demand in some sectors • Increase in demand in other sectors • Reduction to business and consumer confidence	All sectors will be affected by reduced working hours. Service based industries and those that cannot operate remotely will be mostly affected. Further, labour intensive sectors such as Transport, Wholesale and Retail are expected to take a significant hit.
HEALTH ISSUES	• Reduction in labor hours • Increase in government expenditure on health and other services, including infrastructure	Increases in the health services sector resulting from the need to combat COVID -19. Spillover effects on some industries for example Transport, Pharmaceuticals, social and personal services. Construction may be positively impacted with emergency construction projects
TRAVEL BAN (INTERNATIONALLY)	• Reduced mobility of labor and resources • Supply chain disruptions • Impact on tourism specifically	Export based sectors will impacted the most. In particular manufacturing, tourism, mining, and agriculture. This also means a closed economy.

Figure 2: Covid-19 Economic Transmission Points



As at the time of writing lock-down conditions imposed since clearly reduces economic activity. The closed firms and workers will drop productivity. Distressed firms will file for liquidation – particularly since the country was already in recession.

This health shock will cause a social stability and an economic shock of its own. We project that the first economic shock is jobs losses of up to 250 000. With the linked households suffering the most. To provide some basic practical examples, the people who would have gone to restaurants in the next 3 months, will be staying away. Thus, the salaries of service workers, would have dropped. The informal trader who sits at the corner would have had the perishables rot because of social distancing.

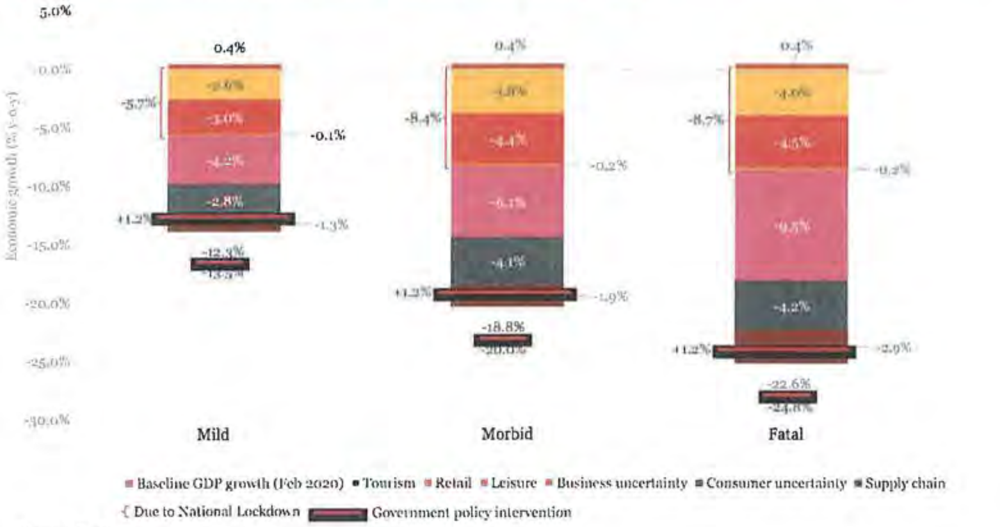
The financial and economic gap in the linked households will be felt. In the immediate aftermath of the lockdown; we have already begun to see;

- Firms moving towards non-payment for the period and or starting to initiate lay off's (job shedding)
- Already the UIF online platform has received in the order of 10 000 applications for the UIF benefit
- Global supply chains have been disrupted and a number of countries have imposed export (trade) bans creating supply challenges for key commodities including medical supplies
- Working Capital especially for small business and informal sector is under strain as they don't have the kind of reserves to get them through this period of unplanned loss of income
- In this scenario, the recovery period will require massive liquidity injections to start-up the households and the firms. Beyond that, the coronavirus shock will propagate outside of the sectors directly affected by social distancing. Trade will slow down and so will logistics.

The figures below demonstrate the results of modelling conducted by PriceWaterhouseCoopers (PWC) on behalf of Business Unity South Africa and the Black Business Council (BBC), reflecting potential impacts on the South African Economy

Impact on real economic growth in 2020

We assumed an expected real GDP growth of 0.4% for 2020. For scenario 1, South Africa could experience a real annual GDP contraction of 13.5%, -20.0% for scenario 2 and -24.8% for scenario 3. The announced government fiscal policy interventions will likely only claw back 1.2%.



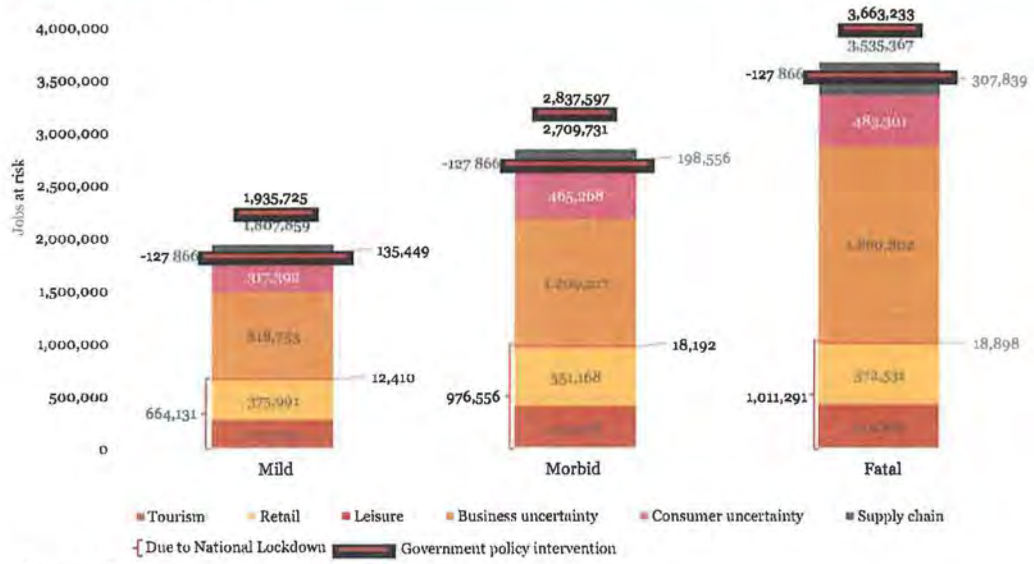
Source: PwC

PwC 31

Subject to change as more information becomes available

Impact of jobs at risk in 2020

From South Africa's baseline unemployment rate of 29.1% in February 2020, our model indicates an increase to 37.5% under scenario 1, 48.3% under scenario 2 and 59.9% under scenario 3. After policy intervention, S1 36.9%, S2 47.3% and S3 58.6%.

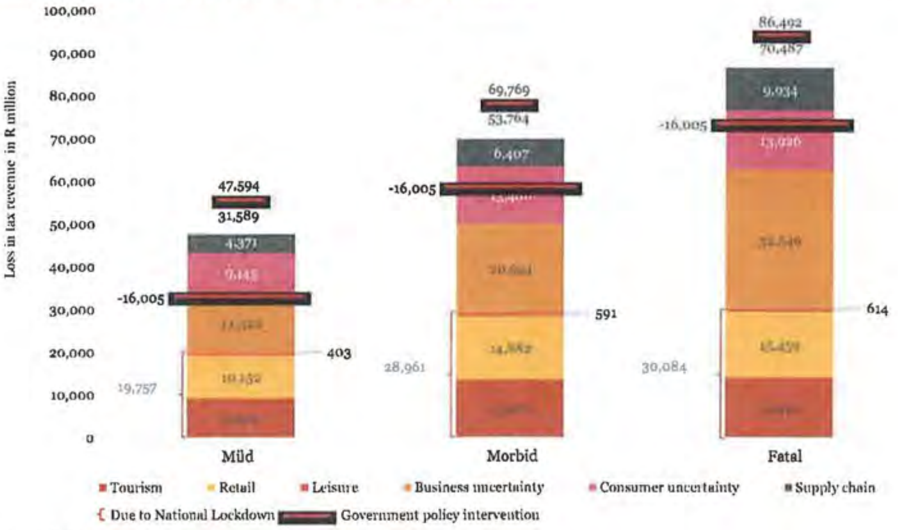


Source: PwC

PwC 34

Impact on fiscal deficit (loss in tax revenue) in 2020

There would be an increase in the fiscal deficit from the baseline 2020 figure of 6.8% as per February 2020, to 8.3% under scenario 1, 9.6% under scenario 2 and 10.6% under scenario 3. After fiscal policy intervention (as per current information), S1 7.9%, S2 9.1% and S3 10.1%

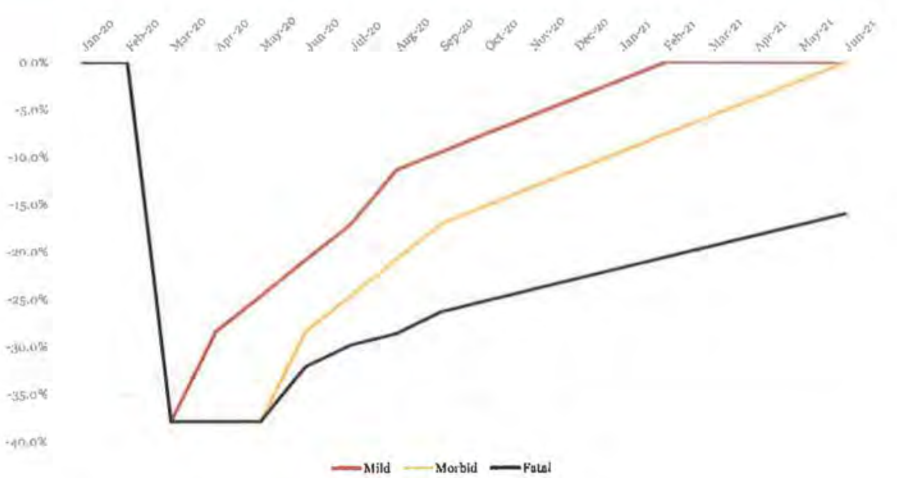


Source: PwC

Subject to change as more information becomes available

Modelled recovery: 18 months from January '20

The graph above implies a V-shaped recovery under scenario 1, U-shaped recovery under scenario 2 and L-shaped recovery under scenario 3.



Source: PwC

2.6. Critical Implications in response to the economic crisis

The implications of the scenario modelling exercise are grim - If government does not coordinate a response, there is a risk of at least 1,5 million people losing their jobs in South Africa , not to mention the historically under and unemployed who face extreme risk as the economy contracts as much as 6 %. The following is a summary of the critical implications of the Covid-19 Economic Crisis:

- The District Development Model becomes the primary institutional mechanism through which we will be able to coordinate economic regeneration and social safeguarding mechanisms throughout the country. However, we need to centralised decision-making body, which functions precisely as the Central Command Council does so that all of government in involved. The District Hubs must be established and operation throughout the country to coordinate on the ground action and provide
- Safeguarding the poor requires an expansion of the current social safety net to in inject liquidity to households, informal traders for basic foodstuffs, medication & transport. We need a targeted data driven response to identifying the poorest households and those most at risk of hunger and deprivation. As part of a livelihoods package. State fiscal and financial resources are already constrained, public debt to finance income is not an option, this would require a coordinated social safety fund with private sector and a combination of international aid.
- The concomitant global impact means that we are likely to experience short and medium-term import shortages on manufactured goods, we inevitably have to kickstart domestic production, not only to meet these supply constraints but to use this as an opportunity to grow our manufacturing sector in strategically competitive sectors. We require job intensive industrial growth.
- Non-competitive industrial firms who face closure as a direct result of the economic crisis, would have to be revived and business models re-engineered towards new production lines. We need to rebuild our industrial capacity. This would require considerable capital cost injections in instances where new specialised machines have to be procured. Financing of this initiative would have to be carefully considered, through various bond raising mechanisms.

- Our economic model that existed before the coronavirus shock must now change. The virus has re-written the rules of global trade and globalization in general. It has also re-written rules and the need for domestic production. We must now rebuild societal income and production while facing the significant fiscal constraints as government we did before– this is dependent on a strong social compact with private sector. We must partner with the private sector to re-finance industrial activity, boost township economy and streamline value chains.
- The proposed stimulus response that can be directed via the District Model can provide relief – and seize opportunities – by doing the following:
  - Direct disaster spending (and state spending generally thereafter) to targeted sectors, including clustering all our demand as the South African State for essentials and building up capacity to produce through partnerships with existing industry and SMMEs (including temporarily changing production at existing factories), with a specific focus on potential productive clusters in townships and villages. This will require a shared-services approach to procurement and supply, combing requirements across all departments
  - Create special purpose vehicles to fund the upfront cost of bulk infrastructure for emerging economic nodes against future flows of bulk service charges, developer contributions and elevated rates contributions (the Lanseria model) to radically reduce barriers to expanding the rates base.
  - Accelerate strategies to support the township and village economy, including the following:
    - Change how township economic development is regulated and governed so that the assumption is that any business which can be legal, is legal, subject to certain conditions so that businesses can be recognised and funded.
    - Incentivise the growth of productive sectors and their location in township and village spaces – including manufacturing, urban and

agriculture and agro-processing and services firms - through effective land use and other incentives.

- Introduce a legal framework that will ensure that big retail shops and malls located in townships will seek to partner with local businesses, including sourcing some of their products and services from local producers, service providers and manufacturers within the township economy.
- Set up better procurement rules and programmatic support which allow government and its main contractors to buy from large groups of township-based firms, with systems linking them so they can supply if they were one large firm. This will build the capacity to supply the private sector and open private sector markets to township firms by enabling discovery of suppliers, derisking the supply relationship and targeting programmatic support so that it enables delivery. The same will be done with NGO funding to drive the care economy.
- Turn taxi ranks into micro-CBD's, and support the taxi economy to use its scale to grow supporting value chains and industries.
- Use a backyard real estate development model to convert areas with high commercial densities to into township high streets
- Compel all businesses that get government contracts to spent a certain percentage of their procurement spent on township SMMEs and cooperatives.

– Accelerate strategies to absorb and mobilise skilled and semi-skilled labour as contractors , taking on unemployed youth as apprentices and employees, as part of a mass scale "new deal" style response to repairing and upgrading public facilities, improving service turnaround times and quality, and improving living conditions in deprived areas in particular.

- Link agro-processing and the food economy to the social relief of distress requirements provoked by socio-economic crisis now likely to follow in the wake of the Covid-19 pandemic , creating an explicit market for homestead and small farmers to supply quality food to food insecure households, including through the establishment of municipally enabled "people's restaurants" following the model pioneered by Brazil as part of the Fome Zero programme.

A further unpacking of how these interventions will be structured follows.

3. Understanding the implications and set of strategic options

3.1. Introduction

The scenario presented indicate that we need a coordinated response from National Government bringing all resources and expertise together. The District Development Model (DDM) as a unique form of social compacting that involves all key players, provides a valuable and sustainable strategy for government and its partners to respond to the immediate challenges and unlock development and economic opportunities in the short, medium and long term. The DDM calls for a stronger, coordinated and integrated governance model/system that works in unison to tackle local challenges within all our district spaces.

The DDM enjoins government cooperation in all aspects of local government development, namely, socio-economic development, infrastructure development, financial development, spatial governance (including land and human settlements) and governance. The DDM is firmly based on analysis of previous and current initiatives to improve developmental Local Government and Cooperative Governance, wherein developmental change is shaped and owned at a local level in partnership with communities, citizens and social actors. The successful functioning of Local Government is critical in this regard but insufficient on its own without a cohesive governance and overall government coordination and functioning.

As an approach that should form the basis for a response to the current crisis. The DDM is aimed at enhancing state capacity, institutional powers and functions which includes the ability to work in a cooperative manner so that there is greater cohesion and positive development impact. The DDM should inform South Africa's economic response and it will do so in a way that will disrupt current and old ways of how government has been working. It will bind all three spheres of government to commonly agreed objectives and deliverables in time and space (impact area/district space) and ensure that, as a government, our efforts (programmes, projects, budgets and policies) are targeted and focused but takes into account the unique circumstances of different localities in order to design appropriate responses. Therefore, the three spheres of government and state entities will be required to work in unison in an efficient and impact-oriented way, and where there is a higher culture of performance and accountability for coherent service delivery and overall development in 52 district spaces.

As we forge ahead to implement the DDM, there are 8 critical and urgent/immediate interventions that needs to be fast tracked and they are:

a. The deployment of district shared services in the immediate term in all districts that will work with all municipalities to tackle all challenges emanating from the current economic crisis. The shared services will provide immediate and technical support to struggling municipalities, including technical intelligence that is required to inform national policies review, i.e. reduction/consolidation of municipalities etc.

b. The review, consolidation and better streamlining of all grants to municipalities in order to maximize efficiency gains and provide the required and coordinated support to municipalities to secure infrastructure funding.

c. The activation of the political district champions that will work with districts. The political champions must comprise of national, provincial and local political leaders. The district political champions can provide the immediate political oversight on the implementation of the response plan in their allocated district and provide updates and feedback to the National Command Centre.

d. The commencement and fast tracking of the review of all local government legislation in order to determine if they are enabling or hindering municipal financial sustainability.

e. Reprioritization of all national and provincial programmes to respond to district challenges in the immediate, medium and long term.

f. Fast tracking the process to identify and release of strategically located land parcels to assist with spatial transformation by ensuring the development of real integrated human settlements, the challenge of informal settlements, unlock economic opportunities and improve revenue generation streams for municipalities.

g. Identifying all alternative sources of funding currently available locally and globally to municipalities, i.e. climate change fund, etc. and assisting all qualifying municipalities to access these funds.

h. Devolve certain powers and functions to municipalities that have demonstrated the ability to perform such powers and functions, informed by the DDM technical and political oversight.

In the medium and long term, the DDM offers an opportunity to implement certain interventions. After a reflection on the current economic crisis and the pandemic, these interventions have become even more non-negotiable. These interventions will play a critical role to ensure that government is better prepared to tackle economic, social, and ICT and any such pandemic in the next 25 years. These are interventions that will need to be built on the DDM approach but more especially on the following principles:

a. Institutionalizing long-term planning,

b. Developing resilient district/regional economies,

c. Spatial transformation,

d. 4IR compliant governance, and

e. Supporting and promoting localized solutions to economic development

Medium to long-term interventions

a. The development of One Plans

As part of the implementation of the DDM, the development of long term plans, One Plans has been critical. These long term plans of all 52 districts have become more relevant than before. They offer an opportunity for government, the private sector, communities, NGOs, the traditional leader, church leaders, basic a true all of society approach to forge a social compact that will enjoin all of us on one development agenda within a district.

A process to develop these One Plans needs to commence as soon as the opportunity allows. This process needs to also be based on a concrete scenario planning that takes into account all eventualities and determines causes of actions that needs to be taken. The One Plans for the districts and metros offers an ideal opportunity to undertake both short term and long term responses to the current crisis. They will become the tools that offer predictability, while being versatile enough to respond to imminent challenges/crisis, while offering and rallying all actors in the district spaces to collaborate and commit clear programmes and budgets. Amongst others, One Plans, must contain a clear disaster mitigation and response plan, clear spatial transformation actions, and programmes that will leverage localized economic solutions based on district wide potentials.

b. Macro reorganization of the state

The current crisis, seen through the perspective of the DDM also offers an opportunity for the macro reorganization of the state. This initiative was started by the President and it may be timeous to embark on the second phase of this intervention.

c. Policy and legislative review

As part of the implementation of the DDM, one of the major concerns that started to emerge is current policy and legal environment that has introduced a stringent compliance driven approach and undermines service delivery. In most instances, the policy and laws that govern finance have been the source of concern to many municipalities' abilities to respond to their local challenges. A review of these policies has the potential to assist the implementation of the DDM and respond to the current economic crisis.

The other policy and legal challenge that has been identified is in the disaster management area. In addition, the current COVID 19 pandemic has disrupted South Africa's concept, policy, legal and implementation of most of its spatial transformation policies, specifically those that relate to densification, compact cities and informal settlement policies. Some of the issues that have become a challenge relate to the implementation of social distancing and self-isolation in the face of a health pandemic such as COVID 19 in our townships and more specifically informal settlements. While these spaces are densified and compact, the cultural and social practices, the houses and property sizes that have been provided make it almost impossible to respond to mechanisms that will slow the spread of the pandemic.

The recovery plan is dependent of identifying where spare capacity and potential, capabilities exist across all sectors of society. And then ensuring that these capacities are effectively harnessed. This will be driven through an all of government and society approach. Across all spheres of government, there are supply chain opportunities that can be tapped to; increase jobs, created greater supply chain opportunities for small businesses and induce economic multipliers. The following section presents the implications and set of strategic options.

3.2. Strategic Pathways

3.2.1. Developing an integrated governmental mechanism

The exemplary response by South African government to the Covid-19 crisis has demonstrated the institutional strength of the district health system and the importance of centralising operations, decision making, policy making and project planning through the

Command Council. To give effect to the economic recovery of the country, a mirroring of this institutional form would be required. A centralised policy making, programme and project planning, operations and tactical decision-making council would have to be established. The district development model would have to be shifted from a pilot programme into a fully functional nation-wide institutional mechanism so that decisions, policies and projects can be effectively implemented through the district development hubs.

The DBSA has been entrusted by national government with the establishment and roll-out of key elements of the District Delivery Model (DDM). A five-year agreement with COGTA to capacitate local government at the District level. In addition, the DBSA has established five provincial project management units (PMUs) in collaboration with provincial government. The DBSA also provides municipal planning and project preparation support via their own facilities, as part of the "developmental dividend'. These existing partnerships and capabilities can be leveraged to ensure the coordinated planning, financing, implementation and monitoring of municipal infrastructure and services. Support from the DBSA will ensure that a "centralized programme and project management office" is established to scale up implementation, centralize project management capacity, and thereby fast-tracking implementation."[i]

We acknowledge that local government is going through a governance and financial crisis, we understand the severity of the situation and see this recovery plan, as a key mechanism to course correct, take drastic and decisive action and implement a number of structural and change management reforms. On the other hand, we affirm that there is a capacity deficit across local government. To address this deficit requires a coordinated inter-governmental approach, while at the same time broadening the role and access of private sector (for profit, non-profit, social enterprises, community associations) into providing funding, financing and technical support for critical projects during this time. This 'all of society' approach is what would become the primary mode of implementation. There are considerable financial resources available in the country to be able to tackle the current challenges, this requires certainty on the actions, projects and a clear set of regulations which will be provided to ensure that all sectors of society can play a decisive and much needed role in the economic recovery of municipalities. This can be achieved through coordinated partnerships for implementation. The 'Centralised Developmental Council' will ensure that all inter-governmental relationships and partnerships are coordinated, projects and programme are effectively designed, planned and packaged for implementation.

3.2.2. Design and implement social and solidarity economic reforms in municipalities

Problem: our urban and rural economies are a legacy of Apartheid, initiatives to support SMME's, increase labour intensive employment have been unsuccessful, because the macro-economic conditions have favoured a top down neo-liberal economic approach, as opposed to a bottom up, community and entrepreneurial driven approach. The lessons from the Asian tigers shows that benefits of a small business community driven approach to economic development. This means that the barriers to access to market opportunities need to be eliminated through decisive policy and action. Moving away from the current exploitative and consumptive economy in many of our townships and rural communities to an equal, productive and entrepreneurial community driven economic development model. This requires a revision of the role of the state and local government away from the direct responsibility of service delivery, towards a shared model for service provision where communities can play a part in the delivery of services.

Intervention: implement a solidarity and social economy through a service delivery co-production model for our municipalities, where enterprises and organizations (cooperatives, mutual benefit societies, associations, foundations and social enterprises) provide their own communities with goods, services and knowledge that meet the needs of the community they serve, through the pursuit of specific social and environmental objectives and the fostering of solidarity. Municipalities must implement programmes that will reduce poverty, inequality and unemployment. Programmes that will change the way the municipality does business and also equip communities to respond to problems in their own back yards – and be paid for doing it. The goal is to create and support the productive capacity of enterprises in communities to provide goods and services that can yield and buffer communities from poverty. These include; building of pavement, fixing of small infrastructure, delivery of waste management, locally grown food, solar geyser heaters, and access to information, food vouchers etc.

Also, municipalities as a result of the economic fallout will struggle to fund operations. This provides an opportunity to ensure that municipalities reduce wasteful expenditure, develop lean operational budgets, and leverage communities, non-profits and volunteers to assist in local delivery of services. A localized spatial social compact will lead to greater local labor absorption, promoting mutual accountability, shared responsibilities between municipalities and communities.

Key to executing this will be the establishment of a 'new deal' style labour programme which impacts both small contractors and unemployed youth. This will entail clustering together semi-skilled older workers who have built experience as contractors, enabling them to work collectively on maintenance and service delivery projects through a common digital platform linked to SMME support (working capital/ stock credit, recognition of prior learning, support with book-keeping and financial management using simple on-phone tools). A condition of being part of such a cluster is that the new SMMEs founded by older workers must take on young people coming out of TVETs and other training pipelines as interns/ apprentices. These young people can be funded via a range of existing government initiatives , or have their labour costs covered as part of the cost of contracting.

Benefits:

a) Recognising people as assets and ensure the involvement of people in the delivery of services.
b) Build skills and capacity- individual, institutional and the community.

c) Empower communities by allowing them to take greater control of their decisions.

d) Encourage self-reliance by developing skills and capacities.

e) Reduced cost of services, goods, knowledge and infrastructure to poor communities

f) Broad based employment, economic empowerment of poorest communities

g) Improve technical, operational, financial capacity of social enterprises

h) Attract professionals from all sectors to provide expertise, be supported to build viable social enterprises, while being remunerated at market related salaries.

Critical Actions:

a) Establish a contracting system which mandates developmental supervision of clusters of cooperatives and smmes by larger companies to deliver work packages which improve the delivery of services in their communities. In this way, jobs /livelihoods will be created for those who are members of co-operatives, partners in micro-companies or workers employed by the co-ops or companies doing the work.

b) Implement the system foreseen under figure 3.2 above with respect to all maintenance of public facilities and all appropriate service delivery areas , with young apprentices/ interns deployed to work under the new SMMEs founded by semi-skilled older workers supported to elevate themselves as part of contracting clusters.

c) Identify critical essential economy social businesses that can be supported and scaled up

d) Design and implement social economy fund and technical support office to encourage entrepreneurs and corporates to establish social businesses across critical sectors, rural municipalities, using seed capital pooled from public and private sector

e) Ensure that a minimum social safety net is in place using technology, this is particularly important for the majority of households we do not receive social grants but urgently require support to buy food and essential items. This would take the form of a direct food voucher programme, an initiative currently run by the Western Cape Government.

3.2.3. Building a labour-intensive economy

Problem: our economic industrial sectors require revival, through labour intensive job creation moving towards more a greener more sustainable manufacturing sector. Our over-dependence on extractive industries persist, this requires change. Our neoliberal macro-economic approach has placed an over-emphasis on financial markets, foreign investment in stocks and bonds and this has had a disastrous impact on the poor and labour intensive growth. We need an integrated supply chain approach for infrastructure development, where materials, products required as inputs into construction sector are locally manufactured.

Intervention: revitalization of the manufacturing sector, specifically in rural and township economies, focusing in immediately address supply sectors across critical sectors including the recent surge in demand for example of medical supplies to combat Covid-19. creation of industrial neighbourhoods and clusters, following international examples from Germany and Vietnam 'small is beautiful approach'. A fiscal stimulus package to Black industrialists across a range of business scale operations from small home-based workshops to large factories. Each unit is competitive. A strong export-oriented growth support into Africa strategy. Identification of critical competitive industries for support. Dual approach ensuring labour intensity and technological intensity.

Increasingly, there have been a number of firms that thrive during this crisis. These firms have relatively inelastic demand curves. During this period, there is an opportunity to support businesses that can absorb the fallout of job losses in other sectors while also employ lowly-skilled workers that can be employed, trained and up-skilled. Importantly, businesses that can demonstrate sustainable revenue growth and re-engineered job-intensive business models can play a significant role in the economic resilience, survival and sustainability of municipalities in South Africa.

As an example, the most immediate opportunity that has arisen during this crisis is in the medical manufacturing sector. Existing manufacturing businesses whose production lines can be re-purposed to provide critical medical supplies for combating Covid-19 e.g.; masks, ventilators, beds, tents and a range of medical related equipment- can be prioritized to seize and respond to the current global demand challenges in relation to Covid-19. Can we set up our own 3-D Printing factories to print masks? South Africa's large and young mobile workforce that can be employed to meet the supply of medical equipment to meet local and global demand. This would supply our existing demands for combating the virus but can be geared for export markets in other parts of the world. Medical manufacturing plants can be established to provide short term employment but can also evolve into more sustainable businesses.

But there are other such industrial and service sectors, that may not be directly related to Covid-19 but have indirectly emerged as a result of the 'new normal' way of life that has emerged. This can be dovetailed with the existing programme to support Black Industrialists. Covid-19 presents an opportunity to create new areas for growth and development.

Benefits:

a) Wide scale labour intensive employment, creating millions of new jobs, local economic development in township and rural communities
b) Repurpose, recycle, re-use, existing capital equipment and machinery
c) Cross-skilling of workers for new industries
d) Identification of niche manufacturing capacity, capability and competitive advantage directed to the 1.2 billion African consumer market
e) Spatially balancing of economic growth across rural provinces and townships

Critical actions:

a) Build networks of small and large manufacturing plants by identifying labour intensive manufacturing clusters through the National Spatial Development Framework and with DTI.
b) Repurpose existing struggling factories and businesses in line with new niche sectors identified. These businesses must be supported through direct, local supplier contracts and must be provided with access to African and global export markets.

3.2.4. Create infrastructure financing that is developmental.

Problem: the funding of key capital public infrastructure across a wide array of infrastructure classes has been wholly the responsibility of government. The capital budget is not enough. The estimated municipal infrastructure funding gap is over R500billion over a ten-year period. It should also be noted that this is just the capital component and doesn't address refurbishment, replacement and maintenance of existing infrastructure, which implies that the funding gap is even bigger than what is estimated. The majority of municipalities cannot access funding from the capital market because their balance sheets do not enable them to. However, there are alternative methods and tools that are available to all municipalities (metros, intermediate cities, and small, rural municipalities). The immediate need is to expose municipalities to these funding streams, including local and international DFIs, commercial banks and other investors through pool financing (using District Development Model). The National Infrastructure fund also creates an opportunity to leverage private sector funding for infrastructure development, especially in the local government sector, which will be hardest hit.

The COVID19 pandemic poses a serious risk that will discourage the private sector from investing in municipal infrastructure for obvious reasons. Although COVID19 will adversely impact on balance sheet lending, due to issuer credit rating downgrade, there is however, an opportunity to take advantage of the credit rating to access funds from alternative sources and tools such as project financing. The DFIs should provide more infrastructure planning support to create a credible project pipeline and project preparation to enable private sector participation. Amongst the various mechanisms, the Private Sector Participation (PSP) model developed by the DBSA and COGTA will provide as useful mechanism for municipalities to access funding for infrastructure refurbishment. Government and a detailed project pipelines followed up with credible project business cases.

Interventions: establish a concise investment regulatory framework, followed up with a clear project pipeline and credible business cases for major infrastructure projects across the country. A calculated set of performance targets for short- and medium-term jobs. A set of regulations that opens access for infrastructure financing in projects to micro-investors, stokvels and social businesses. Projects must be construction ready and have gone through the necessary planning approvals.

The DBSA is the South African national development finance institution with a mandate to develop and finance sustainable infrastructure. The development of sustainable local government infrastructure and improved service delivery is a critical element of their mandate. Throughout engagements with the DBSA they have proposed the following interventions to support SA municipalities and our partners in addressing the unprecedented challenge caused by COVID-19.

Setting up borrowing facility to fund capital infrastructure and programmes

The DBSA proposes to create a long tenor lending facility to enable municipalities to fund their critical infrastructure capital expenditure requirements. The DBSA is the leading funder of municipal infrastructure in South Africa with ~R25Bn of municipal loans and bonds (~35% of total municipal debt) and is therefore well placed to manage such a facility. [ii] The facility will be funded and managed by the DBSA, with potential co-financing from like-minded development finance institutions, which can help to increase tenor and reduce cost of borrowing.[iii] In addition to our financing capability, the DBSA has access to internal resources for municipal planning, project preparation and programme management, all of which will help to quickly develop and finance sustainable infrastructure projects. Where feasible, the DBSA would also propose to leverage municipal grants, private sector participation and guarantees/credit enhancements to maximise limited capital available. The DBSA's implementation monitoring capability can also be utilised to ensure loan proceeds are fully deployed towards intended investments.

Embedded generation projects to support electricity supply for municipalities

The IRP2019 provides for uncapped procurement of Embedded Generation, commonly known as Distributed Generation, up to and including 2022, and thereafter, procurement would be capped at 500MW per year up to 2030. Distributed generation includes all generation facilities in an area in which the facility is operated solely to supply electricity to an end-use customer within the same property as the facility. This is intended to allow for power generation embedded within municipal distribution networks and therefore diversify their supply base. NERSA's Consultation Paper-Rules for Registration of Small-Scale Embedded Generation (SSEG) as projects of less than 1MW. Clarity on the distributed generation beyond 1MW without the need for a NERSA generation licence is required.

The DBSA and the Green Climate Fund have jointly developed a ~R4bn facility called the Embedded Generation Investment Programme (EGIP) which could provide concessional funding to support municipal based embedded generation projects. EGIP is a credit support mechanism to support non-sovereign backed Power Purchase Agreements for renewable energy projects in South Africa.

This includes both the private and municipal off-takers. EGIP will provide subordinated debt (the total subordinated debt to be sized at a maximum of 30% of the total project cost) to fully-developed renewable energy projects (solar and wind) targeted at generation for own use which has a capacity of around 10 MW as per the current draft IRP or as the IRP is updated from time to time. EGIP also has a component that will provide credit support to special purpose vehicles which are established and owned by Local Community Trusts (LCTs) and/or SMMEs ("Shareholder SPVs") to support such LCTs and SMMEs in investing into the particular RE project. The DBSA has identified a preliminary list of ~40 municipalities with critical infrastructure requirements and electricity demand for support via the EGIP programme.

Benefits:

a) Tap and crowdsource investment funding for infrastructure
b) Create public shareholding and thereby promote greater oversight on procurement, project pipelines and spending on public infrastructure projects
c) Gear investment towards specific environmental and socially beneficial infrastructure e.g.: renewable energy

Critical Actions:

a) Rapid kickstart of the National Infrastructure Fund (NIF): the NIF is a project run by the DBSA to encourage private sector investment in public infrastructure projects. It is a blended finance model, which reduces the risk for private sector investors. There is already appetite from private sector. This fund needs to be rapidly kickstarted and supported by clearly identified portfolios for investment e.g.; renewable energy, housing, agriculture etc. together with sound investment regulatory criteria and conditions.
b) Establishment of a national, centralized project management office will help with the acceleration of infrastructure in a coordinated manner. The PMO take responsibility for the entire infrastructure development value chain in line with the District Development Model. This will also enhance integrated planning, budgeting and implementation of projects across all three spheres.
c) Build capacity of municipalities to implement by providing a have rapid response and action team staffed with technical specialists to fix local government capacity. The rapid response team with address challenges, prepare integrated infrastructure plans and stabilize operations and governance.
d) There is a need for a strong drive for more labour intensive infrastructure delivery mechanisms versus the traditional approach is required. The construction industry needs to be brought on board to agree on a strategy to adopt more labour intensive approaches that will provide decent and sustainable work opportunities. A firm decision has to be made in terms of setting the standards and regulations for

municipalities and the construction industry on the type of projects that will be implemented through this method (e.g. paving of roads, maintenance of assets etc.)

e) We must introduce a Taxi Increment Financing (TIF) that uses future gains in taxes to subsidies current improvements, which are projected to create the conditions for gains above the routine yearly increases which often occur without the improvements. Tax increment financing dedicates tax increments within a certain defined district to finance the debt that is issued to pay for the project. A tax increment is the difference between the amount of property tax revenue generated before TIF district designation and the amount of property tax revenue generated after TIF designation.

3.2.5. Create a developmental agenda for local government.

Problem: we are losing touch with our citizens. Our municipal system has become an upward reporting mechanism to provincial and national government and not an institution embedded in the needs and wants of our citizens. Participation is at a low level. The quality of participation is weak. It is not demand responsive nor beneficiary/citizen centric in the way it delivers services. Local government is not a service-oriented institution. Part of this problem will be solved by introducing the solidarity and social economy model but needs to be solved through a community participatory model that recognizes the innate talents and opportunities in communities. And builds the capacity of communities to solve their own problems and builds local ownership. Developmental local government is not about service delivery but about building the capacity of institution, systems to solve and respond to problems.

Interventions: refine the district development model and introduce a citizen-beneficiary first, customer centric planning and service operational model across municipalities in the country.

This should be paired with a fast-tracking of the township and village economy strategy with the following components :

Benefits:

a) A citizen responsive, service oriented local government

b) Executive Performance is defined by customer service, community participation, institutional building and community empowerment

c) Involvement in all sectors of society in municipal decision making and planning

Critical Actions:

a) The Township and Village economy strategy must be fast-tracked and converted – through the district development model- into a full spectrum township and village economic revitalization strategy with the components described above.
b) We must reimagine local government in the short, medium and long term. Local government will play a crucial and decisive role in the recovery. The current model of local government has worked well in deepening democracy and expanding service delivery to previously underserved communities. But it has also huge dysfunctionalities. The District Delivery Model is the immediate opportunity to overcome some of these challenges, but it is not enough. It must have the capacity to lead the recovery, ability to attract capable professionals who must be given space to implement programs and take accountability for them.
c) Municipalities must also be relieved of some of the red tape in project approvals and implementation, including by Councils, provincial and national government, especially National Treasury.
d) The role of development agencies must be institutionalized, and these must be designed and regulated to be nimble, agile efficient and effective. Citizen Academies: immediately revive the citizen academy programme of COGTA, to build community capacity and resilience during the crisis. Deepen the model of volunteerism, first responders and community outreach currently working across the country as part of the Covid-19 response.
e) Identify critical skills, talents, resources across all municipalities who can volunteer or provide services as part of the economic recovery plan.

f) Review local government wage negotiating cycle, in order to create a social compact with organized labour, with the intention to contain the wage bill.

3.2.6. Create competitive economies that benefit local economies, SMME and cooperatives.

Problem: enterprise development and supplier enterprise support has become a tick box and has not led to bottom up growth. This has not yielded the results. Best practice from South Korea reveals that a focused SMME's need to be supported in specific sectors and industries where they are given a chance to compete and gain an equal footing. They also need funding for growth. Investors and government are needed to play mutually reinforcing roles.

But in turn, businesses struggle under government mismanagement. The Eskom crisis has created a significant problem. Revenue from electricity sales account for between 30 and 45% of own revenue for municipalities. Eskom's challenges are deepened. Cost recovery by Eskom is now only worsened. Do we write off all debt allowable to municipalities? What would be the impact on Eskom's? Do we write off Eskom's debt to municipalities that engage in rigorous cost cutting measures? While these are complex issues, the opportunity also exists to render municipalities energy resilient during this time. By ensuring that municipalities can urgently fund and implement small scale embedded generation electricity projects, where municipalities become the owners of solar generation plants, hybrid technologies, wind turbines etc. This will assist municipalities to generate their own electricity and provide options to businesses and households to generate. This will reduce the reliance on Eskom and build future resilience. In order to achieve this, the recent energy regulations published by the Department of Energy, which prohibits grid connections and small-scale embedded generation would have to be revised. On the demand side, households can be assisted to reduce significantly their monthly electricity bill by installing solar water geysers.

Interventions: a revised regulatory framework and that opens up opportunities for SMME's, provides a supportive and enabling regulatory framework.

Benefits:

a) Ability to address Apartheid dominance of monopolies and oligopolies
b) Ability to lever our competitive advantages for SMME's and promote strong export growth focus
c) Key clusters and innovation centres for SMME's that are promoted, supported with education and skills, legal capacity and strategy.

Critical actions:

a) Review procurement policies of municipalities particularly bid requirements for micro and small businesses in relation to project experiences, rand value of previous projects to ensure a more developmental procurement policy and strategy. Local government must redirect its procumbent spend to support the vulnerable sectors to COVID – 19 and do set asides for SMMEs and local businesses. This should be supported by changing procurement laws at a national level but also procurement policies at a local level. Local government tenders must be monitored closely to prevent state capture by incumbents through for an example biased specifications or standards.
b) Improve post-bid adjudication response and feedback. Provide coaching and technical support programmes to SMME's.
c) Review of recent energy regulations by Department of Energy
d) Rapid national roll-out and support to poor households for installation of solar geysers.
e) Support the establish 12J Venture Capital Fund, where emerging entrepreneurs and social businesses can get access to investment funding.
f) Municipalities that are in peripheral regions must be guaranteed a portion of infrastructure funding, including through SOEs capex.

g) All metros must be assisted by National Treasury to issue development bonds for infrastructure and economic development, in addition to the proposed reconstruction bond.
h) Development Finance Institutions must have set asides for different regions of the country to support balanced growth and prevent a tipping point into abject poverty in some parts of the country.
i) Municipalities through their planning functions determine who is trading where. This must be immediately used to promote the rebuilding of SMMEs. For an example, taxi ranks have been taken over by the large retail chains, who have established business models for these markets, selling everything including alcohol, fresh produce and meat, pushing informal traders and independent retailers out. Municipalities must impose stringent conditions on new developments to lower barriers to entry to places like malls and space for informal traders.
j) Use municipal fresh produce market to empower local emerging farmers to support agrarian reforms.

3.2.7. Creative and productive agrarian reform that is inclusive

Problem: the entire agricultural sector can be supported to provide some cushioning to the economic fallout, it has the potential to employ millions of South Africans, but it requires restructuring to allow for greater number of firms and businesses in sector. Particularly the need to support emerging Black farmers, retail cooperatives and manufacturers of agri-products.

We require a comprehensive agrarian reform action plan, that tackles the most immediate challenges and obstacles in the sector through a set or practical and immediately implementable projects that can unlock value. The following presents some of the initial thinking and will be further strengthened.

Intervention: we need to drive household food production and create diversified sources of food supply that balances the current dominant commercial farming sector. A spatial and regulatory planning framework that identifies regional agri-projects that simultaneously addresses land reform, giving access to Black Farmers while ensuring that food is supplied from rural municipalities to towns and cities. A set of projects that focusses support to cooperatives across the agricultural value chain.

Critical actions;

a) Identify catalytic agri-projects ready for implementation that would have immediate employment benefits
b) Business model optimization for municipal fresh produce markets
c) Agricultural marketing board must be reestablished which must be used with modern technologies enable smaller producers to focus on production rather that looking for markets, such work must be done by the marketing boards.
d) Support the agricultural sector with investments in infrastructure such as abattoirs, silos etc. especially in sectors with export potential or that are essential for food security. Municipalities must immediately employ agricultural specialist to do this work. Support for exports must be diversified so that smaller local players can be empowered than simply focusing on large sectors such as the auto sector that even though good for employment are foreign owned.

3.2.8. Building cohesive community through mining.

Problem: the mining sector will be the hardest hit, from the Covid-19 economic fallout.

Interventions: now exists the opportunity to significantly diversify the economy of mining towns, away from single resource and commodity dependence. In turn this provides a way to re-imagine a new mining town based on advanced beneficiation, labor intensity and livability. Mining companies will be severely impacted by Covid-19, while they require a stimulus package to sustain current operations, the challenge of this extractive industry remains.

Beneficiation and the creation of value-added products remains an opportunity to provide a more diversified set of economic activities around mining commodities. South Africa has the world's largest reserves of manganese and platinum group metals (PGMs), according to the US Geological Survey, and among the largest reserves of gold, diamonds, chromite ore and vanadium. Critical questions remain: What products/manufactured parts can be created from existing supply of SA's major mining commodities? How quickly can beneficiation factories/plants be established? How we re-purpose or expand operations of existing plants? What can be done to encourage Black industrials to establish plants in existing mining towns? How quickly can we ensure supplier agreements in place for manufactured products?

Critical actions:

a) An agreement with 'mining municipalities' on the support package to mining companies
b) Drafting of critical beneficiation project business cases for implementation and investment readiness

3.2.9. Minimizing the effects of COVI-19 on the local construction industry.

Problem: The South African construction sector has been ailing for a while, with some JSE listed contractors recently closing down or selling their business. The COVID-19 shutdown is expected to have devastating effects on most construction companies with low liquidity ratios and we could see almost 50% of all contractors closing. This would have dire impacts on jobs and our ability to build South Africa post COVID-19. We therefore need to consider how we support this fragile sector.

Critical actions

a) All forms of construction contracts (GCC, FIDIC, NEC and FIDIC) recognize disasters, and allow for some form of remedial action. We can expect municipalities to face claims from contractors (those that survive) for extension of time and other costs. We need to build support for both contractors and municipalities to deal with these (we know contract management skills are limited in most municipalities).

5. Designing a job intensive public sector housing system

Problem: The current contractor driven business model, where large corporate building contractors develop low-income public housing has perpetuated a system, that is not job intensive, that allows only larger scale developers to benefits that costs too much and takes too much.

Intervention: we need to move a contractor based model to a community and cooperative self-build model, that allows for scaling of public housing and that includes a wide range of suppliers, manufacturers and local artisans.

Summary of Actions

Action areas	Summary of intervention/ Intended Impact/ Policy objective	External Partnerships/ social compacting implications
Dedicated Financing mechanism for firms engaged in Township & Village Economy activities	Deployment of **Township Innovation Fund & linked bespoke financing partnerships for firms participating in the various projects and programmes listed above**, including - Purchase order financing - Credit guarantees for developmental funding instruments supporting the core Township & Village Economy policy goals - Wholesale Fund supporting funding instruments driving the Township & Village Economy policy goals	Finance partners including development finance institutions (SEFA, NEF, IDC) as well private sector funds with relevant impact mandates, all of whom enter the broader funding structure as limited partners (LP) SA GOVERNMENT to partner with a relevant General Partner (GP) to administer the funding instruments independently as a common funding pool/ network of funding instruments This should support a dedicated partnership to unlock stock credit, trade credit and working capital to firms operating in townships and villages, using the data from government procurement systems and other digital systems run by partners to de-risk lending to township firms of all sizes by financial service providers.
Township supplier targeting and Consolidated buying for SA GOVERNMENT	Targeting both procurement and support at township-based SMMES as main contractors/QSE's Enabling Inclusion of most local level of township based SMMEs and cooperatives in subcontracting/ value chains of major projects on a geographically targeted basis via consolidated buying	SMME clearing house DFIs and private sector funding partners (incl. FNB) ESD providers Progressive organised business formations

Action areas	Summary of intervention/ Intended Impact/ Policy objective	External Partnerships/ social compacting implications
Installation, Repairs & Maintenance (IRM) as consolidated buying platform for facilities management, maintenance and technical trades	Elevation of skilled township based informal contractors, via a consolidated buying platform, to service maintenance requirements across public facilities, linked to hosting of IRM trainees	National Business Initiative (NBI) – IRM progrmame management office.
Promoting consolidated buying via platforms with private sector partners	Private sector variant of consolidated buying and IRM promoted via SMME clearing house	Organised business formations
Manufacturing cluster pilots (consolidated buying of inputs)	Incubation of manufacturing incubators in the contracting models for products and inputs used widely across the SA GOVERNMENT contracting landscape, with access to concessional funding streams and state-owned land assets as enablers	Finance partners, including development finance institutions SMME clearing house deployment (web based platform)
Township Development Act	Gauteng Act defining minimum standards for developmental governance of townships , with accompanying model bylaw	SALGA/ SACN as core of a wide enabling partner network

Action areas	Summary of intervention/ Intended Impact/ Policy objective	External Partnerships/ social compacting implications
Commercial rapid land release	Deployment of open digital bidding application, via SMME clearing house platform , for prioritization to lease land assets owned by SA GOVERNMENT for commercial development in township areas	Finance partners including development finance institutions SMME clearing house deployment (web based platform)
Taxi Economy Programme	Deploying a suite of interventions, in partnership with Taxi Associations, to develop Taxi ranks and other associated sites into multi-function commercial sites which function as central business districts for townships and deprived areas.	Partnership with Taxi associations at various levels to deploy industry fund/ taxi bank instrument Finance partners, including development finance institutions
Backyard dwelling upgrade fund	Rollout of model for concessionally funding title holders (and/or de facto landlords) to upgrade backyard rentals to multi-story structures, preserving rentals at their existing levels but adding more revenue-generating spaces (including for street-level commercial). Use of alternative building tech will be key to holding costs low enough, and the intent is to mobilise entire streets at a time to opt in to do some rapid-deployment placemaking. Certain interested partners (including technical universities) are can enable innovation with off-grid power and sanitation solutions (possibly at block	Multi-expert partnership group to drive instrument design, including estate agent affairs board Finance partners to OOP/ DED, including development finance institutions, particularly with respect SMME clearing house deployment (web based platform)

Action areas	Summary of intervention/ Intended Impact/ Policy objective	External Partnerships/ social compacting implications
	level) to reduce the pressure on bulk services.	

[i] COGTA "SA Economic Recovery Plan for Municipalities in Response to COVID-19", Intervention 1e.
[ii] National Treasury Municipal Borrowing Bulletin, Issue 14, Sep 2019, Figure 3
[iii] The DBSA has been engaging with the African Development Bank, New Development Bank and French Development Bank (AFD) re joint financing of SA municipal infrastructure