Program Information Document (PID)

Concept Stage | Date Prepared/Updated: 16-Jul-2020| Report No: PIDC29502

BASIC INFORMATION

A. Basic Project Data

Country	Project ID	Project Name	Parent Project ID (if any)
South Africa	P174246	South Africa Covid-19 Response Development Policy Operation (P174246)	
Region	**Estimated Board Date**	**Practice Area (Lead)**	**Financing Instrument**
AFRICA EAST	Sep 22, 2020	Macroeconomics, Trade and Investment	Development Policy Financing
Borrower(s)	**Implementing Agency**		
Republic of South Africa	National Treasury		

Proposed Development Objective(s)

To protect jobs, businesses and vulnerable households from the adverse socio-economic impacts of the COVID-19 pandemic and open the economy to competition.

Financing (in US$, Millions)

SUMMARY

Total Financing	750.00

DETAILS

Total World Bank Group Financing	750.00
World Bank Lending	750.00

Decision

The review did authorize the preparation to continue

B. Introduction and Context

Country Context

The proposed stand-alone Development Policy Operation (DPO) of US$ 750 million supports the response of the Government of South Africa to the socio-economic crisis resulting from the COVID-19 pandemic. South Africa is now among the world's ten countries with most COVID-19 infections. The global COVID-19 pandemic exacerbated South Africa's existing economic woes. The economy is expected to shrink significantly in 2020, after five consecutive years of negative per capita growth. Before the pandemic, the unemployment rate was already 29.1 percent, with youth unemployment almost double that. Inequality is deeply entrenched and the highest in the world by any measure. Almost a fifth of South Africans live in extreme poverty. A range of structural and regulatory factors has constrained growth prospects by impinging on labor markets, competitiveness, the investment climate and the financial sustainability of state-owned enterprises. GDP is expected to fall by 7.1 percent in 2020 and the fiscal deficit in 2020/21 to be more than twice its level in 2019, reflecting in part government's measures to fight the pandemic. Public debt is expected to rise from 62 percent in 2019 to reach 90 percent of GDP in 2022. COVID-19 threatens to push 3 million South Africans into poverty.

Recognizing the severity of the crisis, the National Treasury took the unprecedented step of reaching out to the WB and other IFIs for budget financing. The proposed budget support operation is the World Bank's first in South Africa. It marks the beginning of a new relationship with the WBG. It represents a unique opportunity to address longstanding constraints to broad-based growth, while mitigating the immediate adverse socio-economic impacts of the pandemic.

Relationship to CPF

The proposed budget support operation for South Africa balances a short-term emergency response with long-term economic transformation. The first Pillar of the CPF focuses on competition, investment and job creation. The Program Development Objective of this operation is similarly to open key sectors of the economy to competition and improving the business environment for job creation.

C. Proposed Development Objective(s)

The Program Development Objectives of this operation are (i) to protect jobs, businesses and vulnerable households from the adverse socio-economic impacts of the COVID-19 pandemic and (ii) to open the economy to competition. The proposed operation consists of three pillars for a total of nine prior actions.

Key Results

Key results in this operation include reducing the number of days to register a business from 40 days to 10 days, and the number of procedures from 7 to 3; increasing the number of small-scale embedded generation installations from 29 MW to 100 MW; increasing competition, regulatory certainty and efficiency in the ICT sector; preserving 3 million jobs in 300,000 firms; and keeping 1.8 million people out of poverty.

D. Concept Description

The first pillar supports the opening of key sectors of the South African economy to private sector competition. It consists of four measures. The first measure is the launch of a one-stop-shop portal for business registration that significantly improves the ease of doing business. The second measure establishes a Deposit Insurance Scheme to protect depositors in South African banks. The third measure introduces private competition in the power market by raising by ten-folds the limit for small-scale embedded generation (SSEG) installations to generate power without a license. The bulk of these SSEG rely on renewable energy. The fourth measure also addresses competition issues, by temporarily releasing high demand spectrum (HDS) to meet the spike in demand for broadband services enable licensees to lower cost of access to consumers through a competitive and innovative application process.

The second pillar of the DPO includes measures to mitigate the adverse socio-economic impact of the COVID-19 crisis on businesses, jobs and vulnerable households. The first measure in this pillar supports the launch of an $11.7 billion Guaranteed Loan Scheme for SMEs with private banks, to help SMEs cover their operational costs. The second measure discourages layoffs, hence retaining jobs, by subsidizing wages of temporarily laid-off (furloughed) formal sector workers during the shutdown through monthly cash payments of no more than 363 USD per beneficiary until the end of lockdown. The third measure in this pillar channels relief payments to 17 million existing beneficiaries of the child support, old age, and disability grant for a period of 6 months, and provides cash grants of 19 USD per person to about 3 million unemployed people/ informal sector workers who do not receive any other assistance for a period of 6 months. The fourth measure introduced digital technology to enhance the coverage, transparency, targeting, and efficiency of a poverty-targeted COVID-response cash-transfer program.

The third pillar of this DPO supports South Africa's commitment to create a pathway for a resilient economic recovery by fostering opportunities for green growth and, in particular, mitigating climate change. In line with the government's Nationally Determined Contribution (NDC) to the Paris Climate Agreement and its ambitious commitment to peak its greenhouse gas (GHG) emissions by 2025, this pillar's measure focuses on strengthening the country's Carbon Tax Act, a core policy in the country's plan to build a low-carbon economy. Specifically, this measure establishes regulations for GHG emission intensity benchmarks in the industrial and mining sectors, emission allowances for sectors with respect to their trade exposure, and eligibility criteria and a procedure for accessing carbon offset allowances. It also provides a notice to support the purchasing of renewable energy.

The elements of government's programs this operations supports are: (a) protecting the poor and vulnerable; (b) protecting jobs and businesses; and (c) restructuring the economy and opening it to competition.

E. Poverty and Social Impacts, and Environmental, Forests, and Other Natural Resource Aspects

The impact of the first Prior Action is positive as jobs will be created and poverty would fall as a result. The impact of the second Prior Action is also positive because energy prices would fall which would benefit the poor. Increased competition will also create more jobs, which should also have positive impact. The impact of the third Prior Action is also positive as it will increase access to ICT and digital financing that in terms boost human capital and reduce poverty. The impact of all four Prior Actions in Pillar 2 is positive. PA 5 support SMEs and low-income business, generates job and raise incomes. PA 6 retains jobs which should benefit the poor.PA 7 has a direct impact on poor and vulnerable households. The impact of PA 8 is also positive as better SP targeting will support the poor and translate in further poverty reduction. The poverty and social impact of Prior Actions 4 and 9 is neutral.

Prior Actions 1, 3 and 5 are likely to have negative impacts on the country's environment, forest and other natural resources, if suggested mitigation strategies are not put in place. For example, investments in digital infrastructures, business registration and support for SMEs are expected, when applicable, to consider environmental and social due diligence. On the other hand, Prior Actions 9 and 2, are directly linked to strengthened environmental management and country's climate change resilience and, qualify for climate Co-Benefits.

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APPROVAL

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