Country Partnership Framework

with

THE REPUBLIC OF SOUTH AFRICA

for the period FY22–FY26

WORLD BANK GROUP

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June 24, 2021

IBRD
Eastern and Southern Africa Region
South Africa Country Management Unit

The International Finance Corporation
Middle East and Africa Region

The Multilateral Investment Guarantee Agency

THE WORLD BANK IBRD • IDA | WORLD BANK GROUP
IFC International Finance Corporation WORLD BANK GROUP
MIGA Multilateral Investment Guarantee Agency WORLD BANK GROUP

The date of the last Performance and Learning Review was 1 February 2017.

Currency Equivalents

(Exchange rate effective as of June 17, 2021)
Currency Unit = South African Rand
1.00 US$ = 14.0594 ZAR

Fiscal Year

1 April–31 March

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Abbreviations and Acronyms

AFD *Agence Française de Développement* / French Development Agency
AfCFTA African Continental Free Trade Agreement
AfDB African Development Bank
AG Auditor General
AIDS Acquired Immune Deficiency Syndrome
ALMP Active Labor Market Program
ANC African National Congress
ASA Analytical and Advisory Services
AU African Union
Bn or b Billion
BBBEE Broad-Based Black Economic Empowerment
BFI Budget Facility for Infrastructure
CAHOSCC Committee of Africa Heads of State and Government on Climate Change
CMU Country Management Unit
COFI Conduct of Financial Institute Bill
COVID-19 Coronavirus Disease
CPF Country Partnership Framework
CPS Country Partnership Strategy
CPSD Country Private Sector Diagnostic
CSP Cities Support Program
D4TEP Digital for Tertiary Education Program
DBE Department of Basic Education
DBSA Development Bank of Southern Africa
DDM District Development Model
DFID Department for International Development (from June 2020 the Foreign, Commonwealth and Development Office)
DHET Department of Higher Education and Training
DMRE Department of Mineral Resources and Energy
DoH Department of Health
DoT Department of Transport
DPE Department of Public Enterprises
DPL Development Policy Loan
DPME Department of Planning, Monitoring and Evaluation
DPO Development Policy Operation
DSD Department of Social Development
DSU Delivery Support Unit
EBITDA Earnings before Interest, Taxes, Depreciation, and Amortization
ECD Early Childhood Development
EE Energy Efficiency
EFO Externally Financed Operation
EGR Early Grade Reading
EIA Environmental Impact Assessments
ERRP Economic Reconstruction and Recovery Plan
EU European Union
FCCL Fiscal Commitments and Contingent Liability
FDI Foreign Direct Investment
FIC Financial Intelligence Centre
FSCA Financial Sector Conduct Authority
FSLAB Financial Sector Law Amendment Bill
G-20 Group of Twenty
GBV Gender Based Violence
GDP Gross Domestic Product
GEF Global Environment Fund
GFC Global Financial Crisis
GHG Greenhouse Gas
GIZ German Agency for International Cooperation (*Deutsche Gesellschaft für Internationale Zusammenarbeit*)
GNI Gross National Income
GoSA Government of South Africa
GW Gigawatt
ha Hectare
HCI Human Capital Index

HIV	Human Immunodeficiency Virus
IBRD	International Bank for Reconstruction and Development (of the World Bank Group)
ICASA	Independent Communications Authority of South Africa
ICT	Information and Communication Technology
IDA	International Development Association (of the World Bank Group)
IDP	Integrated Development Plan
IF	Infrastructure Fund
IEP	Integrated Energy Plan
IFC	International Finance Corporation (of the World Bank Group)
IFWG	Intergovernmental Fintech Working Group
IIAG	Ibrahim Index of African Governance
IIO	Infrastructure Investment Office
ILO	International Labour Organization
IMF	International Monetary Fund
InfraSAP	Infrastructure Sector Assessment Program
IPF	Investment Project Financing
IPL	Investment Policy Loan
IPP	Independent Power Producer
IRP	Integrated Resource Plan
ISA	Infrastructure South Africa
IST	Implementation Support Team
ITC	International Trade Center
ITU	International Telecommunication Union
JET	Just Energy Transition
KfW	Kreditanstalt für Wiederaufbau
LNG	Liquefied Natural Gas
m	Million
MBT	Minibus Taxi
M&E	Monitoring and Evaluation
MFD	Maximizing Finance for Development
MIGA	Multilateral Investment Guarantee Agency (of the World Bank Group)
MIS	Management Information System
MoA	Memorandum of Agreement
MSME	Micro, Small and Medium Enterprise(s)
MT	Metric tons
MTBPS	Medium-Term Budget Policy Statement
MTSF	Medium-Term Strategic Framework
MW	Megawatt
NATCOR	Natal Corridor
NDC	Nationally Determined Contribution
NDP	National Development Plan
NEES	National Energy Efficiency Strategy
NEET	Not in Employment, Education, or Training
NEMA	National Environmental Management Act
NERSA	National Energy Regulator of South Africa
NPC	National Planning Commission
NSFAS	National Student Financial Aid Scheme
NT	National Treasury
OBI	Open Budget Index
OECD	Organization for Economic Co-operation and Development
OPG	Open Government Partnership
PCCCC	Presidential Climate Change Coordination Committee
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PHP	People's Housing Program

PIDA Programme for Instructure Development in Africa

PIM Public Investment Management

PIRLS Progress in International Reading Literacy Skills

PforR Program for Results

PLR Performance and Learning Review

PPD Peak, Plateau and Decline

PPP Purchasing Power Parity

PPP Public Private Partnership

PPPFA Preferential Procurement Policy Framework Act

PSET Post-School Education and Training

RAS Reimbursable Advisory Services

RFI Rapid Financing Instrument

RE Renewable Energy

REIPPP Renewable Energy Independent Power Producers Procurement

SA South Africa

SACU Southern Africa Customs Union

SADC Southern African Development Community

SACMEQ Southern and Eastern African Consortium for Monitoring Education Quality

SANRAL South African National Roads Agency

SAPP Southern African Power Pool

SARB South African Reserve Bank

SARS South African Revenue Services

SARS-CoV-2 Severe Acute Respiratory Syndrome Coronavirus 2

SCD Systematic Country Diagnostic

SDGs Sustainable Development Goals

SECO State Secretariat for Economic Affairs

SIDS Sustainable Infrastructure Development Symposium

SME Small and Medium Enterprise(s)

SOE State-Owned Enterprise

SOFI State-Owned Financial Institution

SONA State of the Nation Address

SRD Social Relief of Distress

SSA Sub-Saharan Africa

SSEG Small-scale Embedded Generation

STEM Science, Technology, Engineering, and Mathematics

TA / TC Technical Assistance / Technical Cooperation

TB Mycobacterium Tuberculosis

TEI Tertiary Education Institution

TFP Total Factor Productivity

TVET Technical and Vocational Education and Training

UN United Nations

UNFCCC United Nations Convention on Climate Change

UNFPA United Nations Population Fund

UNWOMEN United Nations Entity for Gender Equality and the Empowerment of Women

WB World Bank

US$ United States of America Dollar

WBG World Bank Group

WPBL Workplace-Based Learning

ZAR South African Rand

I. INTRODUCTION

1. **South Africa (SA) is at a critical crossroads in its post-apartheid history.** The democratic miracle of 1994, when the country held its first free elections, was followed by 15 years of significant development progress. SA experienced macroeconomic stability, higher economic growth, a substantial reduction of poverty and the emergence of a black middle class. Millions who were previously denied their basic rights, received access to basic services. These remarkable years of prosperity were followed by institutional deterioration and socio-economic decline in the 2010s. Over the last decade, poverty, inequality and unemployment increased, which perpetuated the apartheid legacy of socio-economic exclusion. The patience of many historically disadvantaged black South Africans has been running thin. Ideological rifts have opened between and within political alliance partners and societal discontent has been fueling higher crime levels and calls for radical policies. In addition, business and consumer confidence reached new lows, investment and economic growth have stagnated and public debt has increased.

2. **SA was hard-hit by the Coronavirus Disease 2019 (COVID-19) pandemic.** It has had the highest number of infections on the continent and by mid-June 2021 nearly 55,000 South African had lost their lives to the pandemic, especially end 2020 and early 2021 as a new local variant of the virus drove the second wave. The quick Government response starting with a month-long lockdown implemented at the end of March 2020 bought government time to prepare for the unfolding health crisis by developing the relief measures for vulnerable people and businesses. However, this came at a high economic cost with Gross Domestic Product (GDP) having contracted by 7.0 percent in 2020. The COVID-19 crisis has put additional pressure on public finances which have been on a deteriorating trajectory for several years and has made restoring fiscal sustainability more urgent. The deficit is estimated to have reached 12.9 percent of GDP resulting in public debt of 78.8 percent of GDP in 2020.

3. **The social impact of the crisis has also been high.** During the initial months of the pandemic, 2.2 million South Africans lost their jobs, should this shock not have been mitigated by social protection and government relief grant programs.[1] It was estimated that an additional 2.8 million people would have been at risk of falling into poverty due to labor market disruptions since the beginning of the lock-down in March 2020. However, by the end of October 2020, a COVID-19 social protection response package may have cushioned two-thirds against this impact, protecting 1.9 million people from falling into poverty.[2] By the end of 2020, less than 40 percent of these

1. Because the analysis simulates only the impact of labor income shocks and excludes health shocks and shocks to other sources of income, the results reported here are likely to be an underestimate.

2. Reports —CRAM (cramsurvey.org)

jobs were recovered, which ended with a net loss of 1.4 million jobs and an unemployment rate of 32.5 percent. The average South African was 18 percent worse off at the end of 2020 than at the start of the year, and at an average real income level equivalent to that in 2005. The most vulnerable have been disproportionally affected by the economic fallout from the COVID-19 pandemic, resulting in even higher inequality. The number of people living in extreme poverty increased by an estimated 10 percent in 2020, with the sharp COVID-19-induced economic contraction.

4. **Since 2019, the Government of South Africa (GOSA) has embarked on a new socio-economic transformation program.**[3] At the centre of the program is dealing with the recent institutional and socio-economic disruptions and taking decisive steps for lifting SA out of the vicious cycle of high inequality and slow growth. This program builds on the National Development Plan's overarching objective of forging an inclusive economy. It focuses on restoring the fundamentals of growth by rebuilding the capabilities of the state, restoring the quality of governance, and creating an environment in which the people, the market and the state can play their respective complementary roles in the economic transition.

5. **This crisis has forced the Government to make difficult policy choices to restore macroeconomic stability, deal with the health and socioeconomic crisis, accelerate growth and make it more inclusive.** On October 15, 2020, GOSA announced its Economic Reconstruction and Recovery Plan (ERRP), aimed at dealing with immediate actions towards economic recovery amid COVID-19; and rebuilding and growing the economy to ensure sustainability, resilience and inclusion. The crisis has also opened-up areas for reforms, which have been pending for years, as well as for addressing weaknesses undermining effective government. The reforms re-emphasize the binding constraints and pathways to development progress identified in the 2018 Systematic Country Diagnostic (SCD), entitled *An Incomplete Transition: Overcoming the Legacy of Exclusion in South Africa*. Reforms have become even more urgent in the wake of the COVID-19 health and economic shocks in addressing South Africa's triple challenge of poverty, inequality, and unemployment.

6. **South Africa has strong foundations to reshape its socio-economic trajectory,** including: (a) a democratic political system and independent, constitutionally entrenched institutions such as the South African Reserve Bank; (b) modern, sophisticated sectors (e.g. finance, food and beverages, mining, agriculture, and tourism) that can serve as building blocks for the rest of the economy; (c) a well-developed infrastructure network of roads, ports and bridges; (e) abundant mineral and natural resources; and (d) a key role in the development of the African continent (and its own subregion) and an anchor in other key regional partnerships (Southern African Development Community—SADC—and the Southern Africa Customs Union—SACU).

7. **In line with the Government priorities and those presented in the SCD, the central tenet of this Country Partnership Framework (CPF) is to help South Africa continue to tackle its Apartheid legacy of socio-economic exclusion, currently complicated by the COVID-19 pandemic.** Economic growth can only be higher if it is also more inclusive, while more inclusivity will be indispensable for a lasting new consensus on the policy directions taken to address significant macroeconomic and fiscal imbalances in a post-COVID-19 environment.

8. **The CPF's overarching goal is to support SA in stimulating investment and job creation to achieve economic and social convergence for an inclusive and resilient society.** The CPF's three

3. SA National Treasury, www.treasury.gov.za/comm_media/press/2019/Towards a Growth Agenda for SA.pdf; Various Presidential State of the Nation addresses President Cyril Ramaphosa: Speeches | The Presidency; 2019-2024 MTSF Comprehensive Document.pdf (dpme.gov.za)

strategic focus areas support GOSA's vision to move towards a new socio-economic transformation model and are designed to respond to the impact of COVID-19, particularly in the short run. They are: to cooperate with GOSA and other stakeholders in

- **Promoting increased competition and improving the business environment for sustainable growth,** through improving the competition framework, contestability of selected sectors and the business environment; and greater climate change resilience and environmentally sustainable investments in selected sectors;

- **Strengthening MSME and skills development to support job creation,** through more job-creating, selected value chains; strengthened ecosystem for MSME creation and growth; and strengthened employment and skills development services; and

- **Improving the infrastructure investment framework and selected infrastructure services,** through an improved infrastructure investment framework, improved infrastructure services by selected state-owned enterprises (SOEs); and improved planning and delivery of infrastructure services in targeted cities. Governance, Gender and the Digital Economy are cross-cutting themes.

9. **The CPF program is designed to support SA in its quest to successfully end this unprecedented crisis and lay the foundations for more sustainable growth.** In the context of the COVID-19 health and socio-economic crisis, there is a unique opportunity to re-engage in South Africa at a moment when the country is facing unprecedented economic and social challenges and is committed to undertaking needed reforms. This CPF builds on four previous CPFs which were essentially knowledge based, with financing primarily from the IFC and MIGA. While the knowledge emphasis is going to be continued in the current CPF, there is a possibility for broader access to IBRD resources for the GOSA. The content and the process of this CPF will leverage the WBG's strength as a knowledge partner, as demonstrated by its long track record of delivering high-quality Analytical and Advisory Services (ASA) and technical cooperation with South Africa. The collaborative development of the World Bank 2018 SCD and the International Finance Corporation (IFC) 2019 Country Private Sector Diagnostic *Creating Markets in South Africa: Boosting Private Investment to Unlock South Africa's Growth Potential* (CPSD) helped build trust with government and clearly demonstrates what the WBG (collectively as IBRD, IFC, and Multilateral Investment Guarantee Agency—MIGA) can offer by engaging with South Africa on an integrated agenda of support.

10. **The proposed CPF for South Africa covers the five-year period from FY2022 to FY2026.**[4] The program has been designed with significant flexibility to take into account (i) the uncertainties related to the COVID-19 pandemic; and (ii) the possibility for GOSA to request IBRD lending. Right now, there are no immediate plans to borrow, but if the government so chooses, the World Bank is willing to provide lending through the IBRD envelope. The IFC currently has a portfolio of US$2.1 billion as of 22 June 2021 and through its new IFC 3.0 strategy can deliver a 5-year program of between US$1.4 billion and US$3.4 billion for the period FY2022-FY26[5] depending on the level and pace of reforms. Noteworthy within the COVID-19 pandemic context is the IFC's support for vaccine manufacturing in South Africa. During the CPF period, MIGA will continue to support foreign private investors and cross-border commercial lenders in establishing

4. The last Country Partnership Strategy for South Africa (Report No. 77006-ZA) was discussed by the Board in October 2013, and a Progress and Learning Review was discussed in February 2017.

5. The period for the IFC 3.0 strategy is currently FY2020-FY24.

new businesses in South Africa, with particular attention paid to those that promote competition and employment growth. The CPF will thus be a flexible strategy that adapts to the country situation and resulting demand.

11. **The overall risk to achieving the development objectives identified for the WBG during the coming CPF period is *substantial* given the uncertainty of the duration of the COVID-19 pandemic and the substance and pace of post-pandemic reforms** (see Section IV). Given SA's economic spillovers into the sub-region and the African continent more broadly, despite the substantial risk of achieving the identified development objectives, the partnership promises high returns for both SA and the region.

II. COUNTRY CONTEXT AND DEVELOPMENT AGENDA

II.1. Social and Political Context

12. **In 1994, South Africa demonstrated that a peaceful, negotiated path from injustice to cooperation and reconciliation was indeed possible.** The new democracy inherited a deeply fractured society. Apartheid was not only a political process of disenfranchising the black majority, but also a social engineering system, systematically excluding the majority from access to socio-economic opportunities. In addition, sanctions had cut the country off from regional and international relationships, leaving it isolated from trade and financial flows, with protectionist economic policies and practices distorting markets. As President Nelson Mandela noted in his State of the Nation Address of 24 May 1994, *"The democratic miracle had to go beyond political rights to create a people-centered society of liberty, which binds us to the pursuit of the goals of freedom from want, freedom from hunger, freedom from deprivation, freedom from ignorance, freedom from suppression and freedom from fear."*

13. **The Social Contract forged in 1994 between government, labor, the private sector and community-based organizations and the new Constitution with its enshrined Bill of Rights, adopted in 1996, have enabled South Africans to work towards forging a common identity and, through its public services and institutions, to progressively advance the rights of the disenfranchised while safeguarding democracy, human rights, nonracialism and non-sexism.** Democratic South Africa has had six consecutive national and provincial elections and five municipal elections over the past 25 years. All political parties have accepted the outcomes of these elections as reflecting the will of the people.

14. **In the first decade under the new Constitution, the reconstruction of the country focused on improving access to education, electricity, water, sanitation, health care, housing and social protection for millions of people.** Equity in employment and affirmative action allowed for the emergence of a black middle class, and the end of the boycotts enabled South Africa to integrate into the continent and global institutions. In addition, a strong monetary and fiscal management framework allowed the Government to achieve macroeconomic stability, leading to economic growth.

15. **Fifteen years into the new democracy, it was clear that the Social Contract was unravelling.** Persistent structural factors worked against achieving sustained progress toward inclusion and prosperity for all South Africans. State capture weakened institutions and caused an increasing

loss of confidence in government, parliament, and public and other institutions, with the notable exception of the independent judiciary and South African Reserve Bank (SARB). Failure to increase contestability of markets; to adapt to climate change; to deliver better human development and labor market outcomes and to forge meaningful racial, gender and spatial equity, further contributed to a loss of confidence in the development model. As a result, over the last decade, the country has experienced declining growth, a reversal of gains in poverty reduction, increased unemployment and inequality, and rising social discontent and crime.

16. The new leadership in Government has outlined clear priorities to reverse the socioeconomic decline and get the structural transformation project back on track. These priorities include:

- *Restoring the fundamentals of growth* by rebuilding state institutions, improving governance, and creating an environment in which the people, the market and the state all play a role in the economic transition. Unsustainable fiscal dynamics, exacerbated by the COVID-19 pandemic; weak performance of SOEs; the unfriendly business environment; policy uncertainties and the low level of human capital, also need to be addressed; and public-private partnerships, particularly in infrastructure, need to be promoted.

- *Changing the growth pathway* through greening of the economy, progressive digitalization, support for entrepreneurship and innovation, rebalancing the roles of the public and private sectors, and using its vast human and natural resources to help foster development of the continent (Box II.1).

Box II.1 **South Africa in the Region — Engine of Growth and Regional Power Broker**

A stable and prosperous South Africa is essential for growth and poverty reduction on the continent. In the subregion, a dynamic and outward-looking South Africa can be an engine of growth for its neighbors, while a stagnant and inwardly absorbed South Africa could curtail regional growth and development. South Africa's neighbors have much to offer as well, including rapidly growing markets (the biggest source of South African export growth in the last few years has been expansion into neighboring markets), investment opportunities, an expanded supply of skilled labor, transport links (such as port access through the Maputo corridor), and natural resources to relieve critical shortages within South Africa (such as the water provided through the Lesotho Highlands Water Project).

In 2019, South Africa's nominal GDP accounted for around one fifth of Sub-Saharan Africa's (SSA) total, and half the GDP of the Southern African Development Community (SADC). From 2014-18, South Africa was the fifth-largest investor in SSA, with more than US$10 billion invested in 199 projects. South Africa's exports to the SADC region almost doubled from 12.1 percent of total exports in 2008 to 23.5 percent in 2019, and exports to the entire African continent made up 26.7 percent of the total in 2019. In banking, construction, tourism, retailing and many other sectors, South African companies are instilling new service standards and opening up new opportunities across the continent. Its level of development, weight in the sub-regional and regional economies, and degree of regional market integration contribute to South Africa being a driver of regional growth. Both external and internal shocks to the South African economy spill over to the region through trade, cross-border investment, remittance flows and fiscal transfers to neighboring countries that are part of the Southern African Customs Union (SACU).

South Africa is one of the driving forces behind African Union initiatives. Together with three other countries, South Africa has been the main driver for the African Continental Free Trade Agreement (AfCFTA). South Africa was also the Chair of the African Union for 2020, and is also chairing the Africa Peer Review Mechanism, the Programme for Infrastructure Development in Africa (PIDA), and the Committee of African Heads of State and Government on Climate Change (CAHOSCC). Internationally, SA is one of the developing countries participating in multilateral fora and chaired the G-20 Summit in 2007.

Note: For growth spillovers, see Vivek Arora and Athanasios Vamvakidis 2005, The Implications of South African Economic Growth for the Rest of Africa, IMF Working Paper No. 05/58; and Francisco Arizala, Matthieu Bellon and Margaux MacDonald 2019; Regional Growth Spillovers in Sub-Saharan Africa, IMF Working Paper No. 19/160.

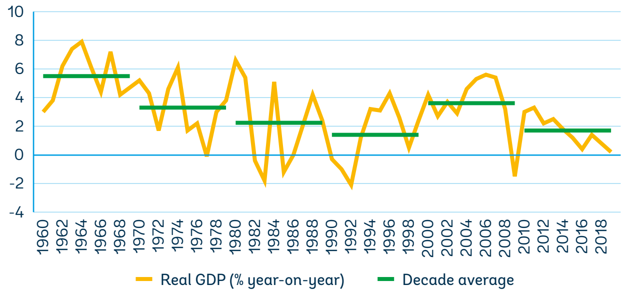
II.2. Recent Economic Developments

II.2.1. Dynamics of economic growth in South Africa

17. **Since the end of apartheid, there have been two distinct periods of economic development with the transition point coinciding with the global financial crisis of 2008.** Until 2008, the economy grew robustly benefiting from the commodity super cycle and greater openness to the world which led to high growth in trade and foreign direct investment. High growth and macro stabilization gains led South Africa to reach sovereign investment grade rating in 2000. However, the less favorable global environment in the context of the Global Financial Crisis from 2008 combined with adverse domestic political, institutional, and economic factors led South Africa to lose most of the drivers of growth leveraged since 1994 (see Figure II.1). The country thus experienced a decade of low growth while inequality and poverty remained persistently high.

Figure II.1 South Africa's Long-Term Economic Growth Rate

Percent of GDP



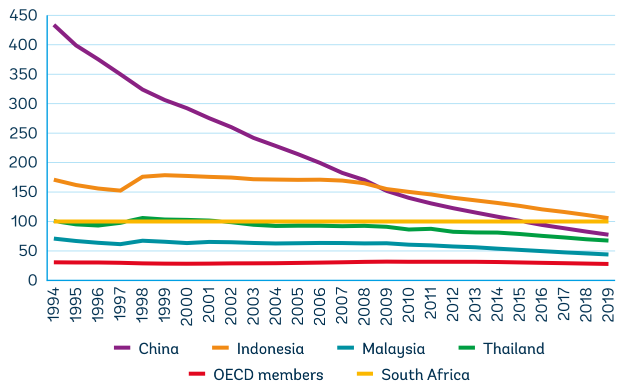
Source: World Bank, World Development Indicators (WDI), South Africa National Treasury and SARB data bases

Note: Should 2020 data be included, the average growth rate decreases to 0.7 percent from 2010 – 2020, due to the severe economic impact of the COVID-19 shock.

18. **As a result, South Africa fell behind its middle-income peers in the past decade.** Among comparable middle-income economies, SA's GDP growth has been the slowest since 2010 with per capita GDP now lower than in 2005. At the start of the decade, SA's real per capita GDP in purchasing power parity (PPP) terms was 140 percent that of China but only 77 percent by 2019. Similarly, while per capita PPP GDP was roughly on par with that of Malaysia in 1990 and that of Thailand in the early-2000s, by 2019, it was only 44 percent of that of Malaysia and 68 percent of that of Thailand (see Figure II.2). Relative to the average of Organization for Economic Co-operation and Development (OECD) countries' per capita Purchasing Power Parity (PPP) GDP in 2010, South Africa's GDP fell from 32 to 28 percent between 2010 and 2019.

Figure II.2 GDP per capita — South Africa relative to peers, since the end of the Apartheid

PPP, constant 2017 international US$, percent

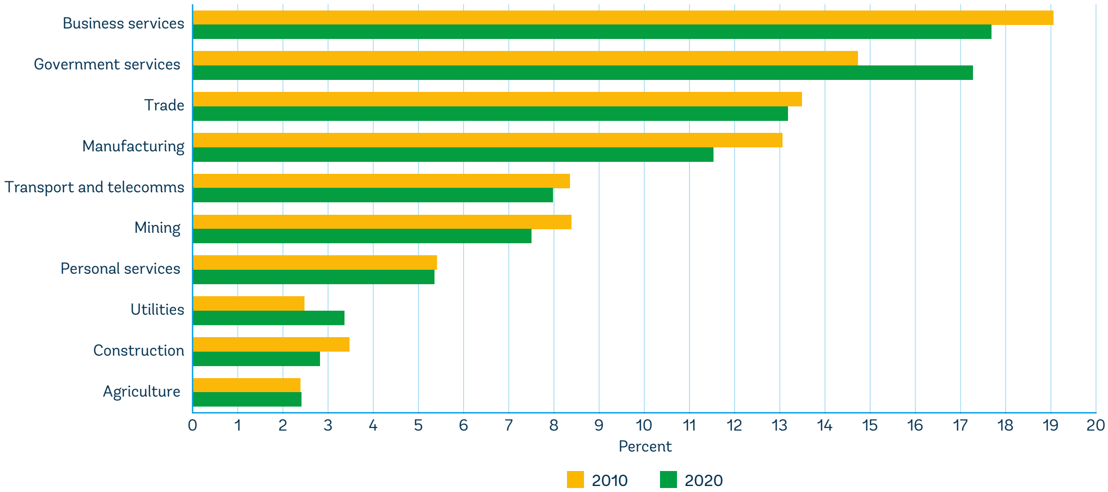


19. The legacy of an economy structurally based on import substitution, with SOEs dominating critical sectors, a concentrated market structure, has led to low productivity growth with a weak track record on innovation and factor market allocative efficiency. This was starkly revealed after 2008 when other growth drivers lost steam. Massive currency depreciation since 2008 has not improved the country's export competitiveness, already hampered by high risks to investing in tradable sectors and by the persistence of Apartheid-era structural and regulatory issues. Concentrated ownership structures have inhibited competition in key sectors, with adverse impacts on new firm entry, firm productivity, and employment growth. In addition, extensive government participation in the economy through state-owned enterprises has continued. The

large SOE presence in the market, combined with weak regulation and oversight, has made it difficult for the private sector to compete in certain markets, with negative implications for consumers, employment, and the economy as a whole. In this context, well-intentioned industrial policies of localization within a deficient enabling environment have combined to further lower business competitiveness. In future, South Africa's carbon-intensive model of production, if left unaddressed, will further undermine its competitiveness in advanced markets.

20. **The pattern of growth has favored the expansion of services while labor-intensive manufacturing as well as the primary sectors—mining and agriculture—have stagnated.** At the beginning of the decade, SA's economy was already heavily dependent on services, accounting for 61 percent of GDP in 2010. This dependence on services growth has increased over the decade, with especially rapid growth in financial and business services towards the end of the period. However, the financial and business services sectors absorb highly educated South African who represent a small share of the labor force. This sectoral pattern of growth has resulted in a growing gap between the skills in the labor force and those required for the jobs created, resulting in weak labor market performance.[6]

Figure II.3 **Sectoral Composition of nominal GDP**



Source: Statistics South Africa and SARB

21. **Fiscal balances have deteriorated during the past decade with the shares of public sector wages and transfers to public corporations rising.** The fiscal deficit widened from 4.3 to 6.4 percent of GDP between 2010 and 2019. As alarming was the deterioration in the primary balance between 2010 and 2019—from 1.5 percent to -2.4 percent of GDP. This deterioration in fiscal balances was particularly stark in the latter part of the decade. It reflected continued increases in public spending, while revenue growth declined despite relatively stable and high revenue-to-GDP ratios, on the back of weaker economic growth. The poor financial performance of major infrastructure SOEs has contributed to increased government spending, fiscal deficits and public sector debt through large budgetary transfers and growing contingent liabilities. The composition of spending has continued to be biased towards current expenditures, with a large public sector wage bill. At the same time, interest payments on public debt have been growing fast.

6. Bhorat, H, 2020. The South African Economy in Review: Five Key Long-Run Growth Concerns in CBPEP Colloquium 2020, Employment Growth in South Africa: Constraints and Opportunities https://www.cbpep.org/

22. **Low investment has been a major drag on economic expansion.** The shares of gross investment and savings in GDP have fallen over the decade from their already low levels—from 19.3 percent and 18 percent respectively in 2010 to 17.9 and 14.6 percent in 2019. Persistently high levels of inequality have contributed to these low and falling investment levels by underpinning demands for radical redistribution of wealth, which in turn exacerbated policy uncertainty and deterred private investment. Finance (at the macro level) is not the constraint—the FDI balance has been negative or slightly positive for years. The more binding risk for investors is the loss of expected returns and possibly the loss of capital.

23. **Public and external debt levels have risen on the back of higher fiscal and current account deficits.** With higher fiscal deficits, financed primarily through domestic borrowing, public debt as a share of GDP rose from 36 percent in 2010 to about 63.5 percent in 2019, higher than the average for emerging market economies. The persistence and recent widening of current account deficits and their financing through foreign bank lending also caused total external debt as a share of GDP to rise sharply—from about 29 percent to over 50 percent between 2010 and 2019.

II.2.2. Recent economic performance

24. **The COVID-19 crisis hit South Africa when its economy was already in a weak position.** Since the recovery from the Global Financial Crisis (GFC), GDP growth has been on a declining trend, highlighting South Africa's deep-rooted structural challenges. It reached 0.2 percent in 2019 before falling sharply to -7.0 percent in 2020 as a result of the COVID-19 shock. Real GDP per capita, already falling since 2015, is now back to its 2005 level. Business confidence has recovered from the record lows reached at the onset of the pandemic but had already been weak pre-pandemic. Investment has contributed negatively to growth over the last three years. Net foreign direct investment (FDI) flows have remained relatively small. After recording deficits over 2003–2019, the current account registered a surplus in 2020 supported by favorable terms of trade and weak domestic demand in context of the COVID-19 pandemic.

25. **South Africa has been severely affected by the COVID-19 pandemic with the highest number of infections on the African continent.** It had a first wave of infections that peaked in July and a second wave over December-January, with the highest number of confirmed daily cases at 21,980. Daily confirmed cases were brought under control rapidly with some tightening of restrictions but no drastic lockdown. On March 1, 2021, the country reported the lowest number of confirmed cases (566 per day) since May 2020 (see Box II.2), bringing the total number of infections to more than 1.6 million. On 30 May 2021, President Ramaphosa announced that 4 provinces—Free State, Northern Cape, North West and Gauteng had entered the third wave of a surge in infections. A significant increase in daily infections was announced on June 2, 2021 with a total of 5,782. The death toll has been significant: close to half of total COVID-19-related deaths have happened since December and over 56,000 South African have now lost their lives to COVID-19.

26. **There are still significant uncertainties about the likely trajectory of the disease that will depend in part on the pace of vaccination and the efficacy of existing vaccines in protecting against new variant of the virus.** The country has embarked on a vaccination program, aiming to inoculate 67 percent of its population to achieve herd immunity. To date, SA has confirmed purchase of 30 million doses of the single-dose Johnson and Johnson vaccine and 30 million doses of the Pfizer vaccine. By June 2, 2021, 1 117 569 vaccines have been administered of which 637 801 being the first dose of the Pfizer vaccine, requiring a second dose within six weeks of the first to ensure the inoculation effort is effective.

Box II.2 Impact of COVID-19

The COVID-19 crisis in South Africa at a glance (as of June 12, 2021):

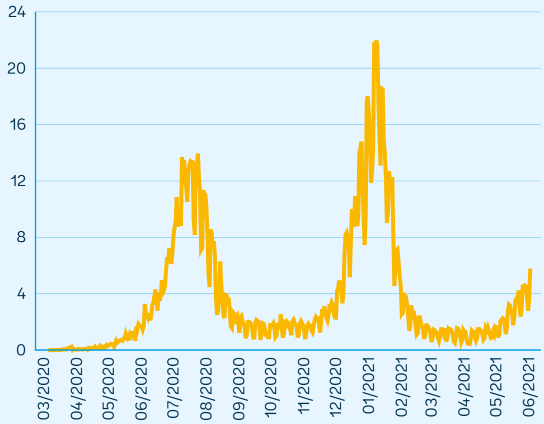
Tests conducted: 11,667,916
Number of infections: 1,669,231
Deaths: 56,601
Recoveries: 93.5%.
GDP contraction, 2020: 7.0%
Relief package: US$30 billion; 10% of GDP

Poverty:
- Additional people in poverty, before relief: 2.8 million (WB est.)
- People escaping poverty due to relief package: 1.9 million (WB est.)

Jobs:
- Immediate impact: 2.2 million jobs lost (StatsSA)
- Short term impact Q4 2020: 1.4 million jobs lost
- Unemployment: 32.5% Q4 2020 (StatsSA)

Figure BII.2.1 Daily Change in Positive Cases

March 5, 2020 to June 2, 2021, thousands



27. **As a result of COVID-19, South Africa experienced a sharp recession in 2020.** GDP contracted by 7.0 percent, compared to projected growth of around 1 percent before the pandemic (see Table II.1 for key economic indicators). The scale of the economic decline is similar to some emerging market economies, including Mexico and India, but is significantly larger that the contractions experienced by others, including Brazil and Russia. Government spending has risen substantially, while the collapse in economic activity has reduced tax revenues resulting in the estimated fiscal deficit more than doubling in 2020 at 12.9 percent of GDP, and public debt increasing from just over 63 percent of GDP in 2019 to about 78.8 percent in 2020.

Table II.1 Economic and Financial Indicators, 2019 – 2022 (current and pre-COVID-19 estimates)

			Projected		Pre COVID-19	
	2019	2020e	2021p	2022p	2020p	2021p
National income and prices			Annual percentage change, unless otherwise indicated			
Real GDP	0.2	-7.0	4.0	2.1	1.0	1.3
Consumer price inflation	4.1	3.3	4.2	4.5	5.3	4.7
Fiscal accounts			Percent of GDP			
Revenues	29.6	28.2	28.5	28.5	29.2	29.2
Tax revenues	26.9	25.5	26.3	26.4	26.8	26.9
Non-tax revenues	2.7	2.6	2.1	2.1	2.4	2.3
Other revenues	0.0	0.0	0.0	0.0	0.1	0.1
Expenditures	36.0	41.0	36.9	35.6	36.0	35.4
Current expenditure	31.5	36.6	32.8	32.2	31.5	31.4
Capital expenditures	3.0	2.6	2.8	2.9	3.0	3.1
Other expenditures	1.5	1.8	1.3	0.6	0.2	0.4

			Projected		Pre COVID-19	
	2019	2020e	2021p	2022p	2020p	2021p
General Government Balance	-6.4	-12.9	-8.4	-7.1	-6.8	-6.2
Total Public debt	63.5	78.8	80.0	84.3	65.6	69.1
Balance of Payments			Percent of GDP			
Current Account Balance	-3.0	2.2	1.5	-0.8	-3.4	-3.5
Trade Balance	0.5	4.9	6.6	3.7	0.3	0.2
Exports (f.o.b.)	29.9	30.5	32.6	30.7	30.4	30.6
Imports (f.o.b.)	29.4	25.5	26.0	27.0	30.1	30.4
Gross Reserves (US$ million)	55,058	55,013	54,638	54,529	51,500	51,700
Other memo items						
GDP nominal (US$ millions)	351,539	301,924	378,871	379,260	377,591	387,234

Sources: World Bank staff calculations/estimates based on official data provided by the authorities.

28. **The COVID-19 shock has exacerbated economic imbalances and is elevating the urgency of reforms to ensure a rapid and sustainable recovery.** The South African Government's fiscal response to the pandemic amounted to 10 percent of GDP in 2020 and consisted of measures to (a) protect lives by curbing the spread of the virus; (b) support the poorest and most vulnerable; and (c) mitigate the impact on jobs and businesses. In parallel, the Government has relaxed the monetary policy stance to support the economy. The Government's comprehensive pandemic response package launched in April 2020[7], reached 36 million South Africans or 63 percent of the population—a remarkable effort within such a short period of time. During this period and mindful of the urgency of reforms, Government also prepared and released its ERRP aimed at addressing longstanding constraints to inclusive growth, to be implemented over the next years, while pursuing fiscal consolidation.

II.2.3. Medium-term Outlook

29. **Higher growth in trade partners and favorable global commodity prices will support growth in South Africa.** South Africa should benefit from stronger external demand, especially from China and the United States. The terms of trade are expected to remain very favorable, supported by global commodity prices which will support the external sector.

30. **However, the potential for full recovery remains constrained by domestic drawbacks.** Growth momentum continued in Q1 and early indications point to sustained recovery into Q2. However, weak business confidence and electricity shortages will continue to weigh on growth. Private sector investment remains depressed, contracting by 15.1 percent y-o-y in Q1. At the same time, depressed labor market and tighter fiscal policy may limit households' consumption, a major driver of pre-pandemic growth. There are also long-term impacts of the pandemic on some sectors that remain largely unknown (tourism, aviation, hospitality sectors for example) and could constrain the growth rebound. On the policy side, while monetary policy is likely to remain accommodative as long as inflationary pressures are contained, the overall policy mix will be constrained by

7. The comprehensive response package included a diverse set of support measures for different time periods. These ranged from a Credit Guarantee Scheme, Wage Protection (TERS) to revenue-side support measures for vulnerable households, health and other frontline services, municipalities, basic and higher education, job creation, SMEs and informal businesses and public entities.

the deteriorated fiscal position. Nevertheless, the recent announcement of the increase of the licensing threshold for embedded electricity generation from 1 MW to 100 MW could have a significant positive effect on investment and confidence and translate into higher growth in the short term and contribute to alleviate the electricity supply constraint in the medium term.

31. **To reflect the uncertainty around the outlook, the World Bank developed three macroeconomic scenarios (based on World Bank Macro and Fiscal Model—MFMod).** These scenarios show how economic outcomes over the medium term will depend not only on the evolution of global economic conditions, but also on the effectiveness of reforms aimed at fostering growth and consolidating the fiscal balances while controlling the pandemic (See Table II.2).

- **The base case scenario assumes continued progress in controlling the pandemic in South Africa and elsewhere, as well as the initiation of fiscal consolidation and structural reforms in 2021.** As a result, growth is projected to rebound to 4.0 percent in 2021, although GDP will remain below its pre-COVID-19 level. The pace of fiscal consolidation and structural reforms is informed by the government's plans. As described in the 2021 Budget Review, efforts to reduce the fiscal deficit and stabilize debt will span over a five-year period. These measures will focus on reallocating public resources towards capital investment and social development and on containing the overall growth in the expenditure envelope. This is planned to come primarily from reducing public sector compensation, as well as reducing leakages. Structural reforms will be modest and aimed at addressing only some of the barriers to higher investment and faster productivity growth, such as SOE regulation and the business climate. In this context, the growth potential will remain constrained over the medium term, around 1.5 percent annually. Real GDP per capita in 2023 will still be below its 2019 level. Debt levels in this scenario will reach 87.3 percent in 2023/24 and will not be stabilizing before 2025/26.

- **The optimistic scenario also assumes a containment of the pandemic but coupled with stronger reform momentum.** Raising South Africa's low growth potential is key to reducing poverty and inequality and stabilizing debt over the medium term. More rapid and inclusive growth will be indispensable in forging the needed consensus to address the macroeconomic imbalances and structural problems that currently characterize the economy. As discussed in the World Bank's 2018 SCD, reforms to spur productivity growth and boost private investment will be critical in this regard and need to cover a range of complementary areas. Of highest priority will be measures to: raise contestability in key product markets, including financial sector and digital services; restructure network industries that provide key infrastructure services, including energy and transport; strengthen the financial autonomy of local governments to borrow for infrastructure; enhance the enabling environment for agriculture and labor-intensive services, including relaxing limits on immigration of skilled workers; and facilitate private sector participation in the provision of tertiary education. Improving the business environment, especially for MSMEs and export-oriented enterprises would reinforce the inclusiveness of reforms, as is underscored in the Government's recently announced ERRP. While higher growth translates into higher fiscal revenues, the containment of expenditures over the Medium-term Expenditure Framework (MTEF) as planned in the Budget would allow for a faster reduction of fiscal deficits over the CPF period. Lower debt levels, in turn, would help reduce interest expenditure and improve the allocation of spending towards pro-poor expenditure, fostering higher inclusive growth. In this regard, the Government's pledge in its October 2020 MTBPS to shift to zero-based budgeting is a step in the right direction. Under this scenario, GDP growth would remain dynamic after the post-pandemic rebound and average more than 3 percent over the CPF period. Debt in this scenario would stabilize earlier and at a lower level than in the base case. Higher growth would translate into higher revenues while expenditure would remain broadly unchanged compared to the base case. Lower interest payments on debt would free up resources for developmental spending. In this scenario, South Africa would start to generate primary surpluses from 2023.

- **The downside scenario captures the impacts of several medium-term risks, the most significant of which is a longer-than-expected duration of the pandemic in South Africa as well as weaker implementation of structural reforms.** A serious and prolonged third wave in South Africa combined with slow vaccine roll-out would translate into further restrictions on economic activity in 2021 and early 2022, with the economic recovery delayed and muted relative to the base case. In this context, fiscal consolidation could prove challenging to implement due to the unfavorable economic conditions and opposition from vested interests. An additional source of fiscal risk is the high and rising level of contingent liabilities from SOEs and other public entities, which reached 19 percent of GDP at the end of FY2019 (Eskom accounts for more than 30 percent of the total), and could rise to 26 percent of GDP if the loan guarantee scheme is fully implemented. A longer and deeper pandemic could result in these liabilities being realized as the financial position of key SOEs could be weakened further. The protracted slowdown in the economy could also further delay implementation of the Government's structural reform program. Weak implementation of planned structural reforms would also translate into weaker investors' confidence and translate into slower growth over the medium term. The net result would be lower revenues and the need for larger public outlays, resulting in an even larger fiscal deficit. In 2022, the deficit would be around 8.6 percent of GDP, compared to 7.1 percent in the base case. Debt levels in this scenario would continue to rise rapidly throughout the CPF period and would not stabilize by 2025/26. This debt spiral highlights the heightened risks in the downside case. A longer and deeper crisis that delays implementation of the Government's structural reform program could also further erode the social contract and is likely to strengthen calls for radical policies.

Table II.2 **Summary of CPF Macroeconomic Scenarios**

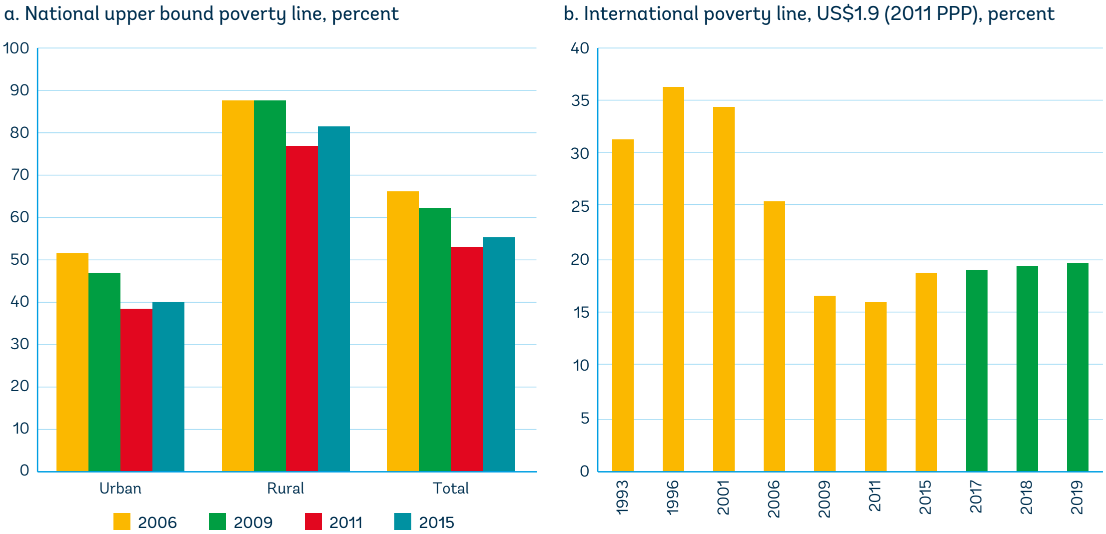
Scenarios	If…	Then…	However…
1. Base Case Macroeconomic stability with low growth	• there is rapid progress in controlling the pandemic in SA and most of SA's trading partners with health impacts brought under control during 2021; and • gradual fiscal consolidation is achieved with structural reform initiated	• Overall and primary deficits improve gradually to -6.1 percent and -0.5 percent of GDP by 2023/24. • debt levels will stabilize by 2025 but will peak at close to 95 percent of GDP • GDP growth 1.5% — 2025	• there will be little impact on poverty and unemployment levels and on living standards and although debt will stabilize by 2025, its share of GDP will be about one and a half times that in 2019
2. Downside Case Unsustainable macroeconomic imbalances	• the pandemic continues into 2022 with severe health and economic impacts; and • no fiscal consolidation occurs with little structural reform	• a primary fiscal deficit will remain in 2025 • debt levels will continue to rise and get close to 100 percent of GDP by 2025 • GDP growth will be slightly below 1% — 2025	• living standards will fall substantially below their pre-crisis levels • and prospects for financing the fiscal deficit will be bleak with a likely macroeconomic crisis
3. Optimistic Case Rapid growth and macroeconomic stability	• there is rapid progress in controlling pandemic in SA and globally, with health impacts brought under control during 2021; and • there is rapid fiscal consolidation and comprehensive structural reform	• Faster consolidation with primary surpluses from 2023 • Structural reforms unlock growth potential, GDP growth 3% –2025 • With higher revenues from higher growth and contained expenditure growth, deficits fall faster, and debt levels are lower. Lower interest payments also free-up resources for development spending.	• living standards will improve relative to the base case, A Sustained pace of reform and level of fiscal consolidation will mean that difficult policy choices will be required

II.3. Poverty, Inequality and Unemployment Profile

II.3.1. Poverty is high, with racial, spatial and gender dimension

32. **Poverty has worsened since 2011** (Figure II.4). The national upper bound poverty rate increased from 53.2 percent of the population in 2011 to 55.5 percent (around 30.3 million people) in 2015. Using the international extreme poverty line of US$1.90 per person per day (in 2011 PPP terms), the poverty rate increased from 16.2 percent in 2011 to 18.7 percent in 2015, and it reached an estimated 19.7 percent in 2019. The high and rising poverty levels in South Africa reflect its weak economy. Household consumption growth has softened as unemployment has risen to an unprecedented 32.5 percent in the fourth quarter of 2020.

Figure II.4 **Long-Term Poverty Trends**



Source: Calculations based on the Income and Expenditure Surveys for 2005/06 and 2010/11 and the Living Conditions Surveys for 2008/09 and 2014/15. The national upper bound poverty line was ZAR 992 per person per day in 2015 prices. For the international poverty rate: PovCalNet for the years 1993, 1996 and 2001.

Note: The national upper bound poverty line of ZAR 992 per person per day in 2015 prices was equivalent to about US$83 per person per day at market exchange rates. The international poverty rates for 2016 to 2019 were based on projections using the Income and Expenditure Surveys for 2014/15.

33. **Chronic poverty and economic vulnerability are high, posing a threat to sustained poverty reduction.** Between 2008 and 2015, only one in four (24 percent) South Africans were considered likely to maintain a nonpoor standard of living in the event of negative shocks, while 76 percent were either poor or at an elevated risk of falling into poverty. These patterns reflect the high level of income polarization—a high concentration of low-income earners (the poor) and a few very high-income earners (the rich or elite), with the small middle class at risk of falling into poverty. Education and formal employment are key determinants of a household's ability to achieve economic stability. Although gender parity has been achieved in literacy and education, it has not translated to gender equitable employment outcomes. Women's poverty levels are higher than those of men. Women, and particularly black women, comprise most low-paying job holders, and they receive a large majority of government's cash assistance. Women tend to be landless, and they are often subject to multiple forms of violence and harassment in the workplace, in public spaces, using public transportation, and in the home. There are also important distinctions between various groups of black women—rural and urban, older, and younger—each posing distinct challenges that need to be understood and addressed in order to achieve gender equality in SA.

34. **Poverty is a multidimensional phenomenon, with poor people being deprived of many basic needs.** They are less likely to have access to employment, education, health care and other basic services, and they bear a disproportionate burden of malnutrition, particularly stunting. According to the South African Multidimensional Poverty Index, the overall multidimensional poverty rate declined from 17.9 percent in 2001 to 7.0 percent in 2016. Most of this had occurred by 2011, when the multidimensional poverty rate was only 8.0 percent. It then stagnated between 2011 and 2016, and is likely to have risen since, driven by high unemployment, and worsening of learning outcome indicators, which was found to be the most important driver of multidimensional poverty.

Box II.3 South Africa's Human Capital Index is Low

Human capital formation and economic growth are the dual prerequisites for a stable, prosperous SA. Meaningful economic growth cannot be realized or sustained without a skilled and healthy labor force. Thus, SA has been investing significant resources in human capital development. In one generation after Apartheid, it has managed to achieve almost universal access to basic education and significantly expand access to health services. Public spending on education was 6.1 percent of GDP in 2018; about 4.0 percent in health and about 5.0 percent in social protection.

However, human development outcomes are not commensurate with these investments, and are well below what could be expected for the country's level of development, signaling inefficiency and ineffectiveness. Based on the *World Bank Group Human Capital Index 2020 Update*, South Africa's 2020 Human Capita Index (HCI) is only 0.43, slightly above the average for Sub-Saharan Africa (0.40) and significantly below the HCI for countries at similar income levels (0.56). Moreover, despite significant public spending, the HCI has not changed relative to 2010 – making South Africa one of very few countries in Sub-Saharan Africa whose HCI has not improved.

South Africa does not perform well on most indicators of the HCI:

- *Three out of 100 children will die before the age of 5 (this is an improvement from 2010 when it was 5 out of 100 children dying before age high).* Despite the improvement since 2010, the probability of survival to age 5 is lower than in many countries with a similar income level.
- *Thirty-one percent of 15-year-olds will not survive until age 60 (significant improvement since 2010 when it was 42 percent).* High HIV/AIDS and TB prevalence, violence, road traffic accidents, poor living conditions, unhealthy diet and growing prevalence on non-communicable diseases, all contribute to short life expectancy.
- *Twenty-seven percent of children below the age of five are stunted (it was 25 percent in 2010),* which increases their risk of cognitive and physical limitations that can last a lifetime. Teenage pregnancy and associated low birth weight are associated with high stunting rates.
- *There is a large learning gap.* A child who starts school at age 4 can expect to complete 10.2 years of school by her 18th birthday. Students score on tests were 343 in 2015 (381 in 2010) on a scale where 300 represents minimum attainment and 625 advanced Factoring in what children learn, expected school attainment is only 5.6 years, showing a large learning gap of 4.6 years.
- *Learning poverty is high.* In 2016, 80 percent of 10-year-olds could not read and understand a simple text. This is the same as the average for the Africa region (80 percent learning poverty) but higher than the average for countries with similar

35. **Race and geography are strong predictors of poverty[8].** The spatial patterns of poverty still reflect the legacy of Apartheid. Poverty rates in rural areas (81.3 percent) are more than double the rate in urban areas (40.6 percent). Most of the poor live in rural areas. There is also a clear difference in poverty levels between two sets of provinces: Free State, Gauteng and the Western Cape versus the Eastern Cape, KwaZulu-Natal and Limpopo. The latter provinces, which had larger proportions of homelands under Apartheid, are still the poorest. At 72.9 percent, the Eastern Cape

8. https://documents1.worldbank.org/curated/en/530481521735906534/pdf/124521-REV-OUO-South-Africa-Poverty-and-Inequality-Assessment-Report-2018-FINAL-WEB.pdf

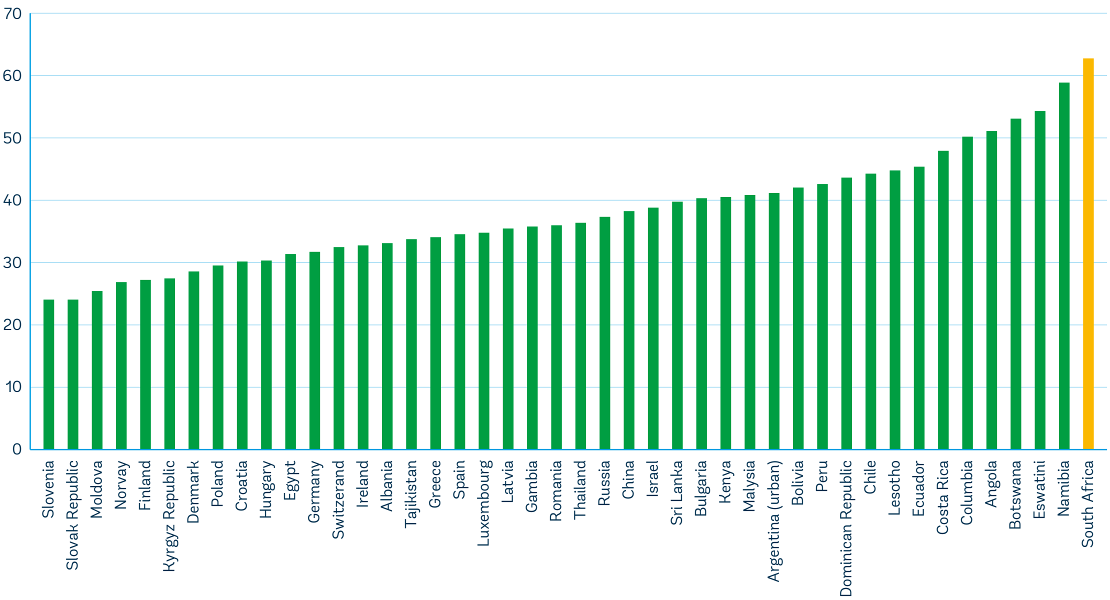
had the highest poverty rate in 2015, as against only 33.3 percent in Gauteng, which consistently has the lowest poverty rate. The former homeland provinces also have the highest levels of multidimensional poverty. Public service delivery and infrastructure in these areas have long been poor, and they remain weakly integrated into the national economy. Overall, poverty is consistently highest among black Africans, the less educated, the unemployed, female-headed households, large families, and children[9].

II.3.2. Inequality is the highest in the world

36. **Inequality is high and persistent, and as progress stalled between 2011 and 2015, it is now higher than in 1994.** The consumption-based Gini index was 63 in 2015, up from around 60 in 1994. By any measure, South Africa is the most unequal country in the world (Figure II.5). Inequality manifests in disparities in access to basic public services across income groups and across geographical locations. Inequality of opportunity, measured by the influence of circumstances beyond an individual's control (race, gender, parents' education and occupation, place of birth), is high. This is compounded by low intergenerational mobility—the life outcomes of a given generation tend to mirror those of the previous one. South Africa also lags its peers in the inclusiveness of consumption growth, in terms of the relative rate of consumption growth for the bottom 40 percent of the population. Although the poorest 40 percent saw annual consumption growth of 3.5 percent between 2006 and 2011, their consumption declined by 1.4 percent a year between 2011 and 2015. This does not compare well with the median for the world (3.9 percent) for the earlier period, or with Sub-Saharan Africa (1.9 percent) since 2015. Overall, high levels of inequality and low intergenerational mobility slow poverty reduction.

Figure II.5 **Inequality — Comparison to Other Countries**

Gini Index, 2015–2018



Source: https://documents1.worldbank.org/curated/en/530481521735906534/pdf/124521-REV-OUO-South-Africa-Poverty-and-Inequality-Assessment-Report-2018-FINAL-WEB.pdf and World Development Indicators and data bases

9. Statistics South Africa, Various Quarterly Labour Force Surveys and special reports, including, www.statssa.gov.za/publications/Report-03-10-19/Report-03-10-192017.pdf

II.3.3. Unemployment is exceptionally high and persistent[10]

37. **The South African labor force is characterized by high levels of unemployment, low participation and many discouraged work seekers and non-seekers (Box II.4).** Unemployment rates, as measured by Statistics South Africa in the Quarterly Labor Force Survey (QLFS), have hovered around 25–26 percent in the last decade, and have followed a moderate but increasing trend. By the fourth quarter of 2020, 7 million people (32.5 percent of all those in the labor force) were unemployed. This is based on the strict or narrow definition of unemployment under which people are considered unemployed if they do not have a job and have taken active steps to look for one or start some form of self-employment. The South African unemployment story is, however, broader than what is captured by the strict definition of unemployment. There is a large share of the working age population that do not have a job but are not actively searching for one as they are discouraged. Using the expanded definition of unemployment which includes the discouraged jobseekers (unemployed people available for work and want work but have stopped looking for work or given up finding work), indicates that there are about 11.2 million (42.6 percent) unemployed. Racial differences in unemployment are significant.

38. **Labor market inequalities are reflected in stark disparities in unemployment rates across races, regions, and gender.** In the last quarter of 2020, the unemployment rate among whites was just 8.8 percent, while it reached 36.5 among black South Africans. Similarly, while unemployment affected 22.5 percent of the labor force in the Western Cape, it reached 47.9 in the less developed Eastern Cape. For women and men, the unemployment rate reached 34.3 and 31 percent, respectively.

39. **South Africa's informal sector is relatively small and does not play the labor absorption role that it plays in other developing countries.** Only about 2.5 million people (16.8 percent of all employed) work in the informal non-agricultural sector. This is relatively lower than in other middle-income developing countries; the share of employment outside the formal sector reaches 33.2 in Botswana, 70.9 in Ghana, 77.2 in Senegal, 23.6 in Ethiopia, 63.1 in Egypt, 46.4 in Thailand, 51.6 in Indonesia, 34.4 in Brazil, and 37.8 in Argentina (International Labour Organization Statistics—ILOSTAT 2021). While in other countries the informal sector helps lower unemployment by absorbing part of the labor force, in South Africa this role is muted.

40. **Youth unemployment is very high and has increased sharply over the past year.** For the youth, succeeding into the labor market represents a steep challenge. Labor force participants of age 15–24 have faced unemployment rates of over 50 percent in the last decade. Job prospects deteriorated even more over the past year. By the last quarter of 2020, the unemployment rate for youth had reached 63.2 percent. In addition, unemployment affects 41.2 percent of those aged 25–34. In sum, 4.3 million people (60 percent) of the unemployed are between 15 and 34 years of age. In addition, 4.2 million people in this age bracket is neither economically active nor in education and training, resulting in 8.5 million of the youth being outside the labor market. The vast majority (90.7 percent) of the unemployed have, at most, a high school education, but even those who graduate often lack appropriate skills, competencies, and knowledge needed to find a job. Technical and vocational education and training (TVET) colleges have expanded rapidly (some 50 colleges with 364 campuses catered to around 700,000 learners in 2018/19), but most do not impart the skills needed by the labor market.

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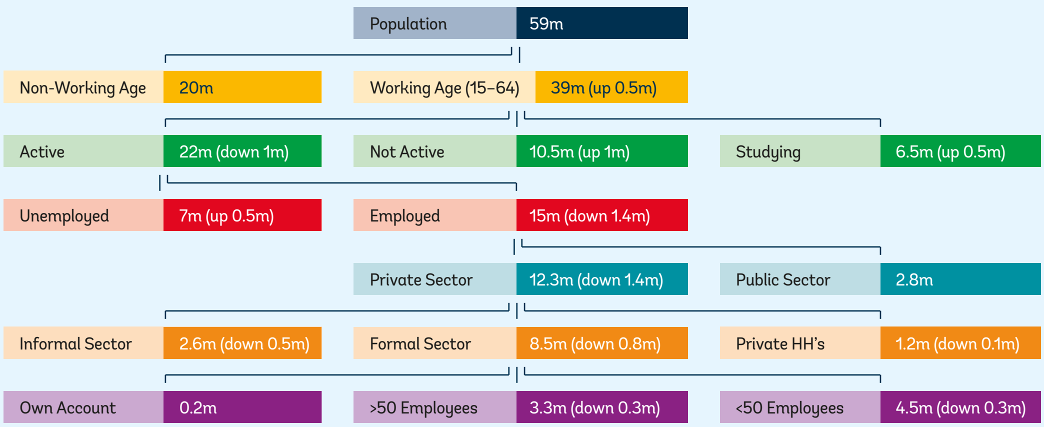
10. Statistics South Africa, Various Quarterly Labour Force Surveys and special reports, including, SA economy sheds 2,2 million jobs in Q2 but unemployment levels drop | Statistics South Africa (statssa.gov.za)

41. **Fertility and mortality rates in South Africa are declining, and this could boost economic growth by reducing the extent of dependency on working-age adults.** This trend is expected to continue as the working-age population is expected to grow by 6.7 percent (from 34.2 to 36.5 million) by 2030. To benefit from the demographic dividend, the economy needs to create employment and improve the labor market prospects of younger working-age people. Higher employment would raise mean incomes, enhance investment in education and savings, and boost capital accumulation and growth.

Box II.4 The South African Employment Cascade, 2020



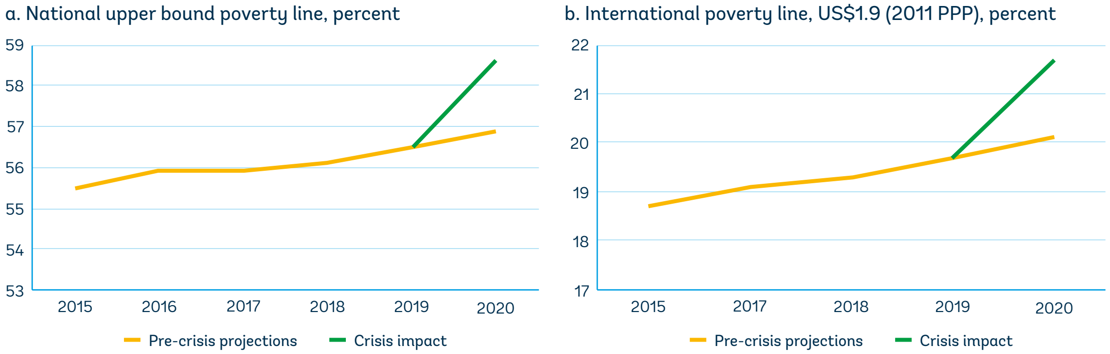
Note: World Banks calculations using Quarterly Labour Force Statistics Q4 2020 (www.statssa.gov.za)

II.3.4. COVID-19 is projected to worsen poverty, inequality and unemployment

42. **The COVID-19 pandemic is projected to increase poverty and inequality, mainly through lower incomes and higher prices.** Due to a well-designed COVID 19 social protection package two-thirds of the 2.8 million[11] most vulnerable, estimated at risk of falling into poverty, have been protected. Nevertheless, extreme poverty, measured at the US$1.9 per person per day poverty line, is projected to rise from 19.7 percent in 2019 to 21.7 percent in 2020. The poor and middle-class are likely to bear the brunt of the crisis, worsening the already extreme inequality. The worst-affected would be urban residents, black and colored South Africans, those with at most a secondary education, and those employed in the construction, manufacturing, private services, trade, and transport sectors. Women have been disproportionately affected by the closure of childcare centers and schools, and their burden of care has increased. Employment data show that women have not recovered their lost jobs as quickly as men have, due largely to this care responsibility. The extremely high inequality also means that growth-to-poverty elasticities are low; poverty reduction therefore requires both economic growth and a reduction in inequality.

11. Because the analysis simulates only the impact of labor income shocks and excludes health shocks and shocks to other sources of income, the results reported here are likely to be an underestimate.

Figure II.6 **Poverty Impact of COVID-19**



Source: Authors' calculations.

Note: The projections up to 2019 use the Income and Expenditure Survey data for 2014/15. The projection for 2020 is based on a microsimulation model using data from the National Income Dynamics Study (NIDS) Wave 5 (2017/18), NIDS | South Africa Income Dynamics | National Surveys — | NIDS (uct.ac.za). Households receive a shock to their expenditure based on the wage shock faced by wage earners among members of the household, with an assumption of full pass-through from income to expenditure. The wage earner faces a shock if they work (primarily, secondarily, or in self-employment) in a sector not exempt from the ongoing lockdown.

II.4. Challenges to Accelerating Poverty Reduction and Boosting Shared Prosperity[12]

43. **While South Africa's political transition was successful, its economic transition is still incomplete, and the COVID-19 pandemic has only exacerbated these challenges.** Democracy in 1994 represented the achievement of the first two tenets of the ANC's Freedom Charter, the democratic vote and equal rights for all South Africans. However, only partial progress has been made on the third tenet: economic participation. This was underscored by the 2018 SCD, which identified the following key binding constraints to reducing poverty and boosting shared prosperity: (a) insufficient skills *(labor markets)*; (b) the skewed distribution of land and productive assets, and weak property rights *(land and capital markets)*; (c) low competition and low integration in global and regional value chains *(product markets)*; (d) limited spatial connectivity and underserved historically disadvantaged settlements; (e) climate shocks—the transition to the low-carbon economy and growing water insecurity, and its inhibiting effect on service delivery; and (f) governance. These constraints have been re-emphasized by the COVID-19 crisis. Each of these constraints is discussed below.

II.4.1. Insufficient skills (labor supply)

44. **The SCD found that the importance of gender and race in explaining poverty and inequality has declined, while the importance of education, skills and labor market incomes is increasing.**[13] It also found that opportunities in terms of education, skills and labor market outcomes are not available to all South Africans driving inequality up.

12. All findings reported in this section, unless noted otherwise, are based on the 2018 SCD: World Bank Group. 2018. *An Incomplete Transition : Overcoming the Legacy of Exclusion in South Africa.* Systematic Country Diagnostic;. World Bank, Washington, DC. © World Bank. https://openknowledge.worldbank.org/handle/10986/29793 License: CC BY 3.0 IGO."

13. Other factors contributing to household welfare include urbanization, demographic changes, and service provision.

45. **Education is key to equalizing opportunities and promoting intergenerational mobility.** The overall population has attained more education over time, which has helped reduce poverty. Education and skills promote intergenerational mobility: being born to educated parents has a positive effect on upward mobility, as does being born to a parent in a higher-skilled occupation.

46. **South Africa has achieved almost universal access to basic education, but many students drop out of school before completing secondary education and the schooling system fails to adequately build foundational skills of literacy and numeracy.** Primary school enrollment was 99 percent in 2015 and the Government's pro-poor policies such as the National School Nutrition Program has benefitted nine million learners (out of 12 million). However, estimates from 2019 suggest that of 100 children that start school, approximately 60 will reach and write matric, 37 will pass and 12 will access university. These low retention rates and weak performance in secondary schools are rooted in weak foundations from primary school level already, where 78 percent of primary school children did not learn to read in Grade 1–3, and 61 percent of Grade 5 learners could not do basic mathematics in 2015/16. Lack of money for fees is the leading cause of school dropout, but gender variances do exist. For girls, family responsibilities and issues such as teenage pregnancy are the second leading cause of dropout.

47. **The overall post-secondary education and training (PSET) sector does not generate the skills needed by labor markets in sufficient numbers and has, largely, not been accessible to the poor.** In 2015, a total of 985,000 students were enrolled in universities—including 338,000 at the distance learning University of South Africa (UNISA)—representing 19 percent of the population aged 19–23 which is comparing poorly with both other upper middle-income and with lower middle-income countries. Nonetheless, universities only constitute one part of the broader PSET sector, in which a total of 2.2 million students were enrolled in 2015, including Technical Vocational and Education Training (TVET) institutes and community colleges. The quality of PSET varies considerably by institution—TVET institutes are costly to operate, given the high dropout rates and low employment outcomes of graduates. In contrast, the university system seems to generate skills demanded by markets at a reasonable cost, even if this average assessment probably conceals wide differences between universities of excellence and historically disadvantaged universities. Further, poor students were underrepresented among students that were academically eligible to enroll in PSET institutions in 2015 when compared with their proportion in the total population. This is likely to change in future, though, since the announcement in December 2017 that students from poor and working-class families would be entitled to free higher education through the National Student Financial Aid Scheme (NSFAS).

48. **Labor income made the largest contribution to reducing poverty and inequality between 2006 and 2015, especially at the national level and in urban settings.** But labor markets face several challenges: insufficient job generation; persistent spatial, racial and gender disparities; and high labor market polarization. The labor market is split into two extremes. At one extreme is a small number of people in highly skilled, high-productivity, well-paid jobs, mainly in larger dynamic-sector enterprises and government entities. At the other extreme, most of the population works in low-skilled, low-productivity, low-paid jobs, often in lagging sectors and also the informal sector. This duality is accompanied by a structural mismatch between labor demand and supply, particularly for semi-skilled workers. The reduction in semi-skilled employment points to a "missing middle" in the labor market—the rise in skills-intensive employment has hollowed out the middle of the labor market distribution.

49. **Inequities in the labor market, together with inequities in education and skills, reinforce exclusion and reduce the ability of the labor market to support poverty reduction and shared prosperity.** Overall, improving both the quantity and quality of employment opportunities and

quantity and quality of workers to benefit from those opportunities are prerequisites for the growth of a larger and more stable middle class. Given that casual and precarious forms of work do little to reduce the risk of poverty, policymakers are likely to face an important trade-off between flexible labor market arrangements to foster job creation, and the creation of fewer but better and more stable jobs that would allow more South Africans to escape poverty in the long run.

II.4.2. The skewed distribution of land and productive assets, and weak property rights (land and capital markets)

50. **The SCD identified the skewed distribution of land and productive assets as a constraint to the attainment of the twin goals.** It also identified the slow implementation of land reforms and the historical exclusion of people from the accumulation of productive and financial assets as barriers to the accumulation of intergenerational wealth. Poor people have limited access to financial assets, while those with lower incomes and young to middle-aged people have high rates of indebtedness, which makes it difficult for them to participate in asset accumulation and wealth building.

51. **Land ownership remains highly unequal.** The allocation of land to white owners under colonialism and Apartheid resulted in spatial segregation: the majority of historically disadvantaged South Africans still live in townships on the outskirts of urban areas and in the former homelands ("reserves"), where titling systems tend to be weak, contributing to slow transformation in property holdings. Few women own land, with the last land audit showing that just 13 percent of farms and agricultural holdings owned are owned by women despite women making up the majority of rural populations. The current land reform and agricultural models espoused, have also paid insufficient attention to the potential for employment growth through land redistribution aimed primarily at smallholders and small-scale commercial black farmers. With land ownership remaining racially skewed, also for housing as part of the urbanization process, the sense of historical injustice has intensified and calls for expropriation (including without compensation) have increased, putting pressure on the property rights regime.

52. **Many businesses are still white owned, although the Government has been trying to make asset ownership more representative through programs such as Broad-based Black Economic Empowerment (BBBEE) and sector-specific BEE codes.** While the program has not been comprehensively evaluated, it is perceived to have benefited only a relatively small percentage of black South Africans, and some of its requirements have deterred investors. Financial inclusion has increased significantly since the end of Apartheid. A credit boom in the 2000s supported, to some extent, the rise of a black middle class. Yet credit growth has stalled, and households are highly indebted. While poor households borrow to remain liquid, richer households tend to borrow to build assets, which exacerbates asset inequality.

II.4.3. Exclusion in markets reduces competition and hurts SMEs

53. **While South Africa's economy is the most developed and diversified in Africa, its concentration has led to lack of contestability of markets and limited access to new entrants.** During colonialism and Apartheid, the state shaped the development of the economy. While this economic model created the key pillars of the economy, from the power utility, Eskom, to the rail,

road, and port network, it left a market structure dominated by large companies, many of them (formerly) public. On the one hand, large companies are an asset—they are more likely to be high-growth firms and job creators, as they can overcome market failures, attract talent, and muster scale to compete globally. However, South Africa remains relatively isolated from world markets, a source for external demand and innovation. On the other hand, the dominant presence of large firms can also undermine competition. South Africa has relatively few SMEs, few young firms, and little market entry of new firms. Although government promotes SMEs, black entrepreneurs are constrained by factors such as market structure, weak aggregate demand, an unequal education system, restricted access to finance, and location-specific factors affecting historically disadvantaged markets, including higher crime levels and poorer public services.

II.4.4. Limited spatial connectivity and underserved historically disadvantaged settlements

54. **Despite significant progress in the provision of social protection and public services, more is needed to ensure inclusion spatially and across income groups.** To support purchasing power and a basic level of public services, SA has introduced the concept of a "social wage." One element of the social wage is access to basic services, which are free to households under a certain income threshold. The Government has dramatically advanced the electrification of historically disadvantaged areas and has made progress in expanding access to water and sanitation, especially in rural areas.[14] However, gaps remain. Another element of the social wage is the social grants system, with grant-based age-old pensions, child grants, and grants for foster children, disabled people and veterans. About 17.6 million grants are registered (some recipients are entitled to more than one grant). These grants, which are well targeted, are key reasons for the reduction in poverty since 1994. Black women living in rural areas make up the largest proportion of recipients of grants. Without the grants, inequality would have been even higher. Coverage rates among the poorest 60 percent of society are very high, far above the average for upper-middle-income countries. While the social wage has provided a powerful "democratic dividend" to historically disadvantaged South Africans, this tool for social progress is increasingly strained by budget constraints (the relatively small tax base reflects both high inequality and the small number of large companies) and implementation issues, including the need to create an integrated social protection information management system.

55. **Spatial convergence and connectivity are critical to overcoming the legacy of exclusion in South Africa.** Two-thirds of SA's population live in urban areas marked by extreme social and spatial inequalities. Fragmented cities and unplanned urbanization perpetuate poverty traps on the periphery of cities. Poor urban infrastructure and transport connectivity deepen the inequality, and urban sprawl raises the costs of service delivery to the marginalized poor. In addition, while more jobs, especially for women and youth, are needed to support rapid urbanization and a growing population, the spatial mismatch between housing and jobs remains a serious challenge. In rural areas, poor infrastructure connectivity limits access to markets and services for smallholder and emerging farmers, exacerbating the rural-urban divide and historical inequality among citizens.

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14. In 1990, 56.5 percent of South Africans had access to electricity; by 2014, coverage had increased to 86 percent. The improvement is particularly impressive in rural areas, where access increased from 28.4 percent to 71.5 percent. Access to improved water supply already stood at 98.1 percent in cities, which were largely white settlements. In rural areas, where most black South Africans live, access increased from 66.3 percent to 81.4 percent by 2014, although there are still gaps in access to flush toilets (World Bank Group 2018).

II.4.5. Climate shocks—transition to a low-carbon economy and growing water insecurity

56. **Climate change poses a critical constraint to inclusive and sustainable economic growth.** SA already faces water scarcity and associated challenges.[15] Increasingly frequent drought and heavy rainfall have put basic services and infrastructure under additional threat.[16] Climate-related damage to infrastructure, in turn, affects economic sectors, strains public budgets and reduces the country's attractiveness to private investors. The 2015/16 drought is estimated to have reduced GDP by nearly 1.5 percent and employment by 1.3 percent, while future climate change is likely to increase the frequency and severity of droughts by up to 39 percent per year. If not addressed, climate-related risks could jeopardize SA's economic growth and financial stability, while disproportionately affecting the poor and vulnerable.

57. **South Africa needs decisive reforms to mitigate and adapt to climate change.** In addition to its high susceptibility to climate change, SA is also a major emitter of CO_2. The 2012 National Development Plan (NDP) clearly commits SA to a low-carbon economy, but proposals to move away from fossil fuel-based power generation have been opposed by both industry and organized labor. The coal mining industry accounted for about US$3.3 billion in exports (2020) and more than 90 percent of total power generation and is a key employer in some provinces. However, the negative externalities associated with coal—such as damage to health from air pollution, water quality and environmental degradation—could cost SA as much as 6 percent of current GDP[17]. These are some of the reasons for transitioning to a greener economy.

58. **A climate-smart transition offers new economic opportunities.** New climate-smart investment opportunities can create jobs, improve basic services, make the economy more resilient, and ultimately become new engines of economic growth. These investment opportunities in SA is estimated at US$588 billion by 2030[18].

II.4.6. Governance as a cross-cutting constraint

59. **As a cross-cutting issue, the SCD emphasizes the importance of better governance.** Issues of exclusion and unequal services and distribution of resources may persist in SA in the absence of governance strengthening and completing the economic transition. SA is undertaking a major clean-up of the pervasive system of corruption (state capture) that has undermined governance in several SOEs (e.g. Eskom and SAA) and other vital institutions (e.g. prosecuting and law enforcement agencies and the South African Revenue Service). In SA, state capture is consistent with the notion of an incomplete economic transition and will remain a risk. Overcoming exclusion is critical to accelerating the transition and thus mitigating the risk of more state capture. Additional measures are needed to bolster the integrity of institutions and regain lost capacity in both the

15. South Africa ranks among the top 30 driest countries in the world with an average rainfall of about 40 percent less than the annual world average (https://www.gov.za/speeches/government-water-scarcity-and-drought-13-Nov-2015-0000?gclid=EAIaIQobChMI7N7V59jb7AIVl1VgChobogqcEAAYAiAAEgLUevD_BwE).

16. Droughts affected 15 million people in South Africa between 1980 and 2013; around 1,700 bridges, 900 dams, and 900 powerline crossings were at risks of flooding (Department of Environmental Affairs 2016).

17. Burton, J. et al. 2018. Coal transitions in South Africa: Understanding the implications of a 2C-compatible coal phase-out plan for South Africa, Energy Research Center, University of Cape Town.

18. International Finance Corporation (IFC). 2016. Climate Investment Opportunities in Emerging Markets: An IFC Analysis, Washington D.C

public and the private sectors. Beyond the institutional damage from state capture (although possibly amplified by it), capacity gaps have widened across government. This has further constrained the ability of the state to deliver and maintain vital social and economic infrastructure.

II.4.7. Summary

60. **The SCD argues that exclusion could explain the poor growth performance (outside of commodity booms):** low labor force participation and high unemployment (exclusion in *labor markets*), low savings (exclusion in *capital markets* and spending pressures on government undermining public savings), policy uncertainty, and a volatile currency (undermining investment). The COVID-19 shock is reinforcing the imperative of breaking the vicious cycle of high inequality and low growth, through addressing the root causes of the structural weaknesses, or binding constraints, in order to encourage greater economic participation, and drive inclusive and sustainable growth.

III. WORLD BANK GROUP PARTNERSHIP FRAMEWORK

III.1. Government Program and Medium-term Strategy

61. **The NDP, initiated in 2012, lays out the Government's vision of eliminating income poverty and reducing inequality by 2030 (Vision 2030).** This vision is in line with the WBG's twin goals of eliminating extreme poverty and boosting shared prosperity, and with two of the Sustainable Development Goals (SDG 1 and 10). The NDP is being implemented through a series of 5-year Medium-Term Strategic Frameworks (MTSFs), which are translated into performance contracts for the heads of ministries and reflected in the budget. The Government's second MTSF (2019–2024)[19], released after the 2019 national elections, the President's State of the Nation Addresses (SONA) of 2019 and 2020, and the National Treasury document entitled *Economic Transformation, Inclusive Growth, and Competitiveness: Towards an Economic Strategy for South Africa*, have set up the priorities for the first three years with a focus on restoring the fundamentals for growth by rebuilding the capabilities of the state, restoring the quality of governance, and creating an environment in which the people, the market and the state can play their respective and complementary roles in the economic transition. This includes dealing with unsustainable fiscal dynamics, weak SOE performance, the unfriendly business environment, policy uncertainties; strengthening public-private partnerships; and forging structural transformation to change the pathways to growth.

62. **With the global COVID-19 health and economic shock having exacerbated South Africa's long-term structural challenges, it has also created opportunities for the GOSA to consider how best to rebuild the country.** The Economic Reconstruction and Recovery Plan (ERRP) released on 15 October 2020, embedded in the NDP and 2nd MTSF, and SONA 2021 are setting out a bold vision to rebuild the economy of the future. It has two aims, namely: (i) to deal with immediate actions towards economic recovery amid COVID-19; and (ii) to rebuild and grow the economy ensuring sustainability, resilience, and inclusion. Its core elements are:

19. https://www.nationalplanningcommission.org.za/assets/Documents/Frameworks/mtsf-2019-2024.pdf

- **Priority interventions for economic recovery:** the plan sets out eight priority interventions to ignite SA's recovery and reconstruction effort. These are regarded as flagship initiatives for all of society to rally around towards building a new economy. They focus on infrastructure investment, energy security, the Presidential employment stimulus initiative, strategic localization, industrialization and export promotion, tourism recovery and growth, the green economy, food security and gender equality and economic inclusion.

- **Enabling conditions for growth:** these are the growth-enhancing reforms and other preconditions for an inclusive, competitive and growing economy.

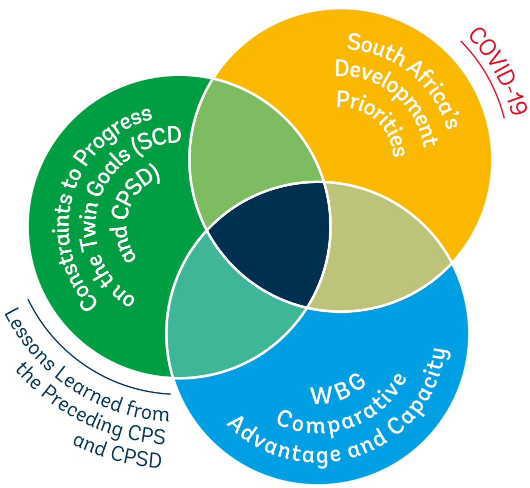
- **Macroeconomic framework:** the plan emphasizes that economic reconstruction and recovery would require careful mobilization of resources to ensure fiscal sustainability. The fiscal framework set out in the 2020 MTBPS of October 28, 2020, has found further expression in the February 2021 National Budget, and is focusing on measures for narrowing the budget deficit and stabilizing debt over the next five years to return the public finances to a sustainable position.

- **Institutional arrangements:** the plan focuses on execution and is supported by enhanced institutional arrangements to ensure implementation and accountability.

III.2. The WBG Country Partnership Framework

63. **The new CPF for FY2022–26 offers an opportunity to strengthen the relationship between South Africa and the WBG.** MIGA and IFC already have relatively large exposure in South Africa: it is MIGA's largest client in Africa and third largest globally, and IFC's second largest portfolio in Africa. On the other hand, the IBRD program has so far been limited to two loans, an active portfolio of trust-funded activities, and Reimbursable Advisory Services (RAS). The COVID-19 health and economic impact presents an opportunity to develop an integrated knowledge-finance partnership to support the Government in addressing both short term COVID-response needs and longstanding constraints to broad-based growth and development, should the Government request IBRD financing.

Figure III.1 **CPF Foundations**



64. **The CPF program is selective.** Selectivity is based on a combination of principles and priorities that reflect: (i) The Government's development priorities as reflected in its National Development Plan, 2nd MTSF and ERRP and related cooperation with the World Bank; (ii) The WBG's assessment of the most important constraints to progress towards the twin goals in its 2018 SCD and 2019 CPSD; and (iii) Self-assessment of the WBG's comparative advantage. Moreover, in selecting the CPF program, the WBG also takes into account the lessons learned—what has and has not worked well in the WBG's experience over the past five years as well as new cooperation opportunities for the WBG.

III.2.1. Lessons learned from past implementation and from consultations

65. **The proposed CPF incorporates the following lessons from the previous CPS (FY2014–18) and the Completion and Learning Review:**

- **The Knowledge Hub facilitated the delivery of key products such as the Eradicating TB in Mines initiative.** The knowledge approach should be further strengthened to promote access to just-in-time policy advice and knowledge sharing;

- **The Bank should offer a cohesive and programmatic portfolio of selective RAS engagements in areas where it has a comparative advantage.** The use of local experts would help ensure that any diagnosis and recommendations are adapted to the country context;

- **To convey the World Bank Group's value in the South African context and to make WBG products and services better known, sustained, differentiated communication is required with various constituencies, such as local governments, Parliament, youth, academia and the private sector.** South Africa, as emerging economy with a strong domestic financial market and access to international financial markets has had limited lending engagement in the past with the World Bank. However, early and sustained involvement of relevant stakeholders in the design and production of the SCD and CPSD have resulted in increased appreciation and greater interest in the WBG's diversified portfolio. MIGA's engagement has been fruitful in expanding MIGA's portfolio across the range of its products. IFC's range of knowledge services (for example on climate finance, green buildings, sustainable banking project, responsible lending framework, resource efficiency and competition policy) and continued dialogue with the Government have been important for familiarizing the authorities with the WBG range of services and Cascade concept and in helping increase the private sector role in addressing the country's challenges.

- **A strong results measurement system enhances accountability and learning, develops a feedback loop, and strengthens future planning.** Experience with the power sector suggests that we should target results in sector policy and institutional reforms rather than, as in the case of the Eskom loan for the Medupi coal-fired power plant, focusing more narrowly on the project investment. Since then our engagement has intensified with strong dialogue with key policy makers informing the new CPF.

66. **To better understand the development context and needs of the country, design a better-informed strategy, and identify potential**

Box III.1 The CPF Consultation Process, 2019/20

A series of face-to-face consultations were held with the National Treasury and main line ministries in late 2019 and early 2020 to determine areas of focus in the CPF. This was followed by visits to the Universities of Cape Town and Witwatersrand, respectively, for roundtable discussions in February 2020, which validated the WBG's approach to using a governance filter to better understand the local context and inform its engagement, and highlighted the need to focus on two or three areas that could help consolidate the country's plan to boost the economy. A high-level interaction between the Government, development partners and the private sector in February 2020, focused on the country's infrastructure needs, also informed the CPF.

Due to the onset of the COVID-19 pandemic in March 2020, a virtual consultation was held with Business Unity South Africa, which in the past has supported the role of the WBG in helping to improve the business environment, attract investment, and provide direct support for job creation. Discussions were also held with youth, who were strongly in favor of the WBG convening stakeholders around policy areas regarding youth employment, in line with one of the focus areas of the CPF.

The findings of the Country Opinion Survey align well with the 2018 SCD, emphasizing the importance of jobs, growth, and education. The survey found that those who collaborated with the WBG in SA were more positive about the institution's work, highlighting the need to move beyond the WBG's hitherto inner circle to build broader support for WBG-SA cooperation.

risks to achieving the CPF objectives, consultations were held with a variety of stakeholders. Furthermore, the Country Opinion Survey conducted in FY19 provided valuable feedback on perceptions of the WBG and the country's development (See Box III.1).

III.2.2. Alignment with Government's priorities and SCD/CPSD Findings

67. **The SCD and CPSD findings are well-aligned with the GoSA's own diagnostics, strategy and priorities as represented by its various plans since 1996, the 2012 NDP and detailed sectoral and issue plans, focused within the MTSF (2019-2024). The focus areas of the CPF also fall squarely within the ERRP and SONA 21, which augers well for implementation of the CPF objectives through integrated knowledge-financing support to SA.** Economic growth can only be higher if also more inclusive (effective demands for more redistribution and expropriation will otherwise continue to scare investors). Building on the SCD and CPSD findings, it is anticipated that reforms engaged from 2021 could have a significant positive impact on factor productivity and private investment, at little fiscal cost. These reforms would inter alia comprise measures to raise contestability in key markets (e.g. digital, financial services), restructure network industries (electricity, transport), strengthening frameworks for private sector participation in infrastructure and services on all levels of government, and measures to relax skills constraints. Business environment reforms and introducing measures to foster the financial inclusion of MSME would reinforce the inclusive nature of this reforms package. More inclusiveness and efficient markets would also facilitate the implementation of reforms identified to accelerate the Just Energy Transition, and to stabilize the debt dynamics, as envisaged in the 2020 MTBPS.

68. **All CPF activities will be selected based on their capacity to address constraints to socio-economic inclusion and shared prosperity.** Only a few things can accelerate growth in the short run (e.g. competition, imports of skills); while building human capital and transitioning out of carbon will only deliver higher growth in the longer run. Fiscal consolidation is unlikely to boost growth in the short run and will need to be supplemented with other sources of inclusive growth to be politically sustained. Therefore, the CPF aims to build an engagement that emphasizes specific SCD constraints (Table III.1) in a dynamic way over the 5-year period, thus maximizing the impact of WBG interventions on the GOSA's National Development Programs, including the ERRP, and the WBG twin goals, while taking into account the fiscal constraints of GOSA:

- Its objectives address selected aspects of four of the five main identified constraints critical to revive inclusive growth with a focus on creating jobs; improving competition and strengthening value chains; continuing to support service delivery in disadvantaged settlements and cities; and a strong emphasis on a "Just Energy Transition" from coal-based energy to greener forms of energy production and usage;

- The CPF acknowledges that accelerating human capital development is one of the key determinants of inclusive growth and improved equality of opportunity. Hence, one of the CPF Focus Areas emphasizes strengthening skills development and employment services to support job creation, reinforcing more job-creating, selected value chains; and a strengthened ecosystem for MSME creation and growth. In addition, a key aspect of the knowledge agenda during the first two years will be to strengthen the partnership between the World Bank and GOSA, through: (i) the Department of Basic Education regarding early childhood development and early grade reading (the scope of this engagement is defined in section 3.3.6 under the knowledge agenda of the CPF); (ii) the Department of Social Development and related implementation agencies; (iii) the Department of Health; and (iv) the Office of the President of South Africa towards a possible deeper engagement in the outer years of the CPF;

- The CPF acknowledges GOSA's long-standing efforts on land reform with the recent announcement of redistribution of 700,000ha of state land to black farmers in one year to accelerate the land reform program. Building on these efforts the CPF focuses on the use and productivity of land already allocated to emerging black farmers, particularly through area-based planning, integrated infrastructure services, well-targeted financial support and effective extension services, and then through initial demonstration in one of the poorest provinces, the Eastern Cape.

69. **The CPSD (alongside the SCD) informed the overarching CPF theme of boosting private investment to unlock South Africa's growth potential.** Its analysis and recommendations helped to update and expand the analytical basis on private sector issues in SA to inform policy dialogue and guide transformational private investment. The CPSD findings on cross-cutting constraints (regulatory obstacles to competition; business environment and investment policy; as well as limited integration into global value chains and weak connectivity) and opportunity sectors (education and skills; infrastructure; capital markets for infrastructure finance; agriculture and agribusiness; the automotive industry; as well as information and communication technologies) as well as its subsequent recommendations are fully reflected in the CPF focus areas and inform ongoing and planned operations.

70. **Strong country ownership and demand are the most important determinants of specific activities included in the CPF program.** Only the first two years of the program have been firmly defined, jointly with government, as **flexibility** is required mainly as South Africa faces an uncertain social and economic period as it navigates the COVID-19 pandemic. Therefore, the CPF will be a living business strategy that continually adapts to country circumstances and unforeseen or changing priorities. The definition of the program in outer years will remain flexible to allow it to respond to such changes and shocks; this will be discussed during the mid-term review.

Table III.1 SCD Binding Constraints: Root Causes and Manifestations and Links to the CPF

Binding Constraint	Root Causes and Manifestations	CPF Focus Areas and Objectives
Insufficient skills	Intergenerational and spatial legacy of Apartheid educational system; limited teacher accountability; increased access not translating into strong learning outcomes due to quality issues, mismatch in the supply and demand for skills; insufficient access to and quality of TVET and workplace-based learning programs.	**Focus Area 2, Objective 2.3:** Strengthened employment and skills development services
Skewed distribution of land and productive assets; weak property rights	Slow implementation of reforms to address apartheid land policies, historical exclusion from the accumulation of other productive assets, resulting in fewer opportunities to build intergenerational wealth	**Focus Area 2, Objective 2.1:** Increased development of selected value chains with strong job-creating potential

Binding Constraint	Root Causes and Manifestations	CPF Focus Areas and Objectives
Low competition and limited integration into global and regional value chains	• Overhang of import-substitution model; legacy structural and behavioral competition issues and unfair playing field for new firms and MSMEs. • High public ownership of vertically integrated, inefficient SOEs and government underinvestment raise barriers to private investment; poor governance affects the quality and cost of services. • Deteriorating business environment and competitiveness undermined by dearth of appropriate skills, high unit labor costs, and low technological innovation and absorption	**Focus Area 1, Objective 1.1:** Improved competition in selected markets and the business environment **Focus Area 2, Objective 2.1:** Increased development of selected value chains with strong job-creating potential **Focus Area 2, Objective 2.2:** Strengthened ecosystem for MSME creation and growth **Focus Area 3, Objective 3.1:** Improved infrastructure investment framework **Focus Area 3, Objective 3.2:** Improved infrastructure services by selected SOEs
Expensive connectivity and underserved disadvantaged settlements	Apartheid spatial and public services legacy; spatial policies post-1994 inadvertently entrenched apartheid patterns and patchy, unsustainable basic services like water and sanitation, refuse removal and electricity	**Focus Area 3, Objective 3.3:** Improved planning and delivery of infrastructure services in targeted cities
Climate shocks: transition to low-carbon economy and increasing water insecurity	Climate change, resource endowment and demand (coal, minerals and water), and industrial policy supporting energy-intensive production and carbon-intensive power system	**Focus Area 1, Objective 1.2:** Greater climate change resilience and environmentally sustainable investments in selected sectors.

III.2.3. Comparative Advantages of the World Bank Group

71. **Consistent with the WBG's value proposition for upper-middle-income countries, the CPF is aligned with WBG corporate and regional priorities.** These include Creating Jobs and Transforming Economies, Building the Digital Economy, Supporting Climate Change Mitigation and Adaptation, and Building Partnerships and Working across the African Continent. It is also aligned with the relevant SDGs.

72. **The WBG (collectively as IBRD, IFC, and MIGA) has engaged with South Africa on an integrated agenda of cooperation in the design of the CPF.** During implementation of the CPF, this close collaboration will continue with IBRD, IFC and MIGA interventions that will take place in a complementary way. The prospect for the WBG to engage in the areas of market competition, job creation and infrastructure opens opportunities to apply the Maximizing Finance for Development (MFD) approach, and which GOSA is already applying for mobilizing private finance. This will enlarge the role of the private sector in the SA economy, ease government's fiscal constraints and provide space to the government for addressing the needs of the vulnerable. Continued reform of capital market infrastructure could help mobilize long-term private financing for priority sectors. It could also enable SOEs with sound governance and financial performance to actively access capital markets. The WBG will seek to maximize leveraging of private risk-taking ability and finance across the CPF objectives. Both the IFC and MIGA will continue to fulfil a pertinent role in the MFD. MIGA's existing portfolio in the renewable energy sector has benefited from the MFD principle, where its de-risking instruments have combined with interventions by IBRD and IFC to usher in foreign investors. Going forward MIGA will continue to explore opportunities to apply its de-risking instruments in the context of MFD engagements by the WBG in the energy and in other sectors. The WBG will also continue strengthening partnerships with other development partners to build on their respective comparative advantages to avoid duplication of efforts and help scale up impact.

73. **Programming will focus primarily on areas and sectors where existing knowledge, advisory programs and country dialogue provide a strong basis for future financing and investment** (Business Environment Improvements, Competition and Investment Policy, Digital Economy Diagnostic, Cities Partnership, Nationally Determined Contribution, market and SOE reform). **It is however expected that knowledge will remain the bedrock of the partnership, similar to previous partnership strategies with South Africa.**

III.3. Focus Areas and Objectives Supported by the WBG Program

74. **In line with the main findings of the SCD, cooperation with SA to overcome exclusion is the core focus of the CPF** (Figure III.2)**.** To maximize impact on investment, job creation and economic growth, the CPF is structured around three strategic focus areas: (a) Promote increased competition and improved business environment for sustainable growth; (b) Strengthen MSME and skills development to support job creation; and (c) Improve the infrastructure investment framework and selected infrastructure services. In addition, a major emphasis of the CPF will be a continued deepening of the Knowledge Agenda in important areas, also where the WBG has had less traction in its dialogue with key stakeholders.

Figure III.2 **CPF Overarching Goal, Strategic Focus Areas and Objectives**

Overarching Goal: To support South Africa in stimulating investment and job creation to achieve economic and social convergence for an inclusive and resilient society.	
Focus Area 1: Promote increased competition and improved business environment for sustainable growth	**Objective 1.1** Improved competition in selected markets and the business environment
	Objective 1.2 Greater climate change resilience and environmentally sustainable investments in selected sectors
Focus Area 2: Strengthen MSME and skills development to support job creation	**Objective 2.1** Increased development of selected value chains with strong job-creating potential
	Objective 2.2 Strengthened ecosystem for MSME creation and growth
	Objective 2.3: Strengthened employment and skills development services
Focus Area 3: Improve infrastructure investment framework and selected infrastructure services	**Objective 3.1** Improved infrastructure investment framework
	Objective 3.2 Improved infrastructure services by selected SOEs
	Objective 3.3 Improved planning and delivery of infrastructure services in targeted cities
Cross-cutting Themes: Gender, Digitalization and Governance	

75. **The three strategic focus areas cover the thematic pillars of the COVID-19 Crisis Response Approach paper where the WBG has comparative advantages in South Africa.** This includes the economic response for *saving livelihoods, preserving jobs, and ensuring more sustainable business*

growth and job creation by helping firms and financial institutions survive the initial crisis shock, restructure and recapitalize to build resilience in recovery (*Focus Areas 1 and 2)* and focused WBG support for strengthening policies, institutions and investments for resilient, inclusive and sustainable recovery (*Focus Areas 1 and 3*).

76. **Within the WBG, it has been the IFC that significantly contributed to SA's immediate COVID-19 response to protect poor and vulnerable people.** Immediate responses included support and financing for the rollout of modular mobile Covid-19 testing and treatment infrastructure across South Africa in partnership with a leading logistics company. Existing clients in the real and financial sectors were supported through its global US$8 billion Fast Track Facility. This support included, among others, a US$660 million loan to a municipality to deal with Covid-19 related challenges, US$185 million for COVID-19 relief to one of the four large commercial banks, another US$10m working capital facility to a smaller bank and an investment of US$600 million in a bond issuance by a municipality during a period of market disruption caused by the onset of Covid-19. Advisory support included those for insolvency regime reforms to deal with an anticipated rise in distressed assets, surveys of the Covid-19 impact on affected sectors such as tourism and MSMEs and input to the Investment Promotion Agency and industry/ SMEs to deal with the COVID-19 crisis. IFC would also work with the private sector to strengthen the vaccine manufacturing capacity of the country.

III.3.1. Focus Area 1: Promote increased competition and improved business environment for sustainable growth

77. **While South Africa has made important strides in implementing its competition law over the last two decades, there is still room to enhance a broader set of pro-competition policies.** Insofar as competitive markets are central to investment, efficiency, innovation and inclusive growth, addressing the anticompetitive effects of SOEs and other dominant firms is essential to promote new and retain existing investment as well as to allow MSME to compete and expand. In addition, regulation of network industries in a way that can foster competition and thereby address national social and economic objectives are important. In the energy network industry, climate risk imperatives as well as technological innovation and price advantages of cleaner energy technologies are providing an additional impetus for change in energy sector institutions and markets. This focus area is organized around two objectives: *(a) Increased competition in selected markets and improved business environment, and (b) Promotion of climate change resilience and environmentally sustainable investments in selected sectors*.

Objective 1.1: Improved competition in selected markets and the business environment

(a) Promoting competition reforms

78. **The CPF will support reforms to policy frameworks that hinder competition across the economy as well as in key sectors and assist the Government in playing a more pro-competition role in markets.** In order to make significant headway in opening South Africa's markets to new entrants, greater investment and more dynamic competition, the government is striving to ensure that pro-competition reform is elevated in the policy agenda, which is seen as the responsibility of a broad

range of sector regulators and line ministries that control markets. Recently, the Competition Law was amended under the Competition Amendment Act (18 of 2018). The Competition Commission has been relatively successful in tackling anti-competitive behavior, but to fully address issues with South Africa's market structures, policies and regulations will need to be explicitly designed to help boost competition and level the playing field. A cross-governmental approach to competition policy could build on the experiences of countries such as Mexico, Korea, Australia and the United Kingdom, which have successfully implemented national competition policies.

79. **Transformative actions could include:** (i) supporting policy departments to create an enabling environment and implement programmes or interventions that enable the recommendations of competition authorities to be realised; (ii) developing mechanisms to assess behavioral incentives of state-owned operators under market scenarios; (iii) supporting the strengthening of regulations to foster efficient service delivery; and (iv) contributing to the design of industrial incentives and support schemes to facilitate entry of new players. Interventions can have economy-wide scope or can also target specific sectors. For example, through IFC Advisory Services supported by the Swiss State Secretariat for Economic Affairs (SECO) and the UK Prosperity Fund, the WBG is currently supporting work to embed competition principles in the design of agricultural support schemes and in extension of broadband services. The WBG will also continue to provide diagnostics, advocacy and advisory services in the financial, Information and Communication Technology (ICT) and infrastructure sectors, which underpin South Africa's competitiveness as a regional hub.

80. **In the *financial sector*, diversification and transparency are important for promoting competition.** South Africa has a sophisticated financial sector that has a high degree of concentration and interconnectedness, with the top five banks owning over 90 percent of banking assets. To promote access to financial products and services, recent policy decisions seek to promote competition and support diversification of the financial system. For instance, the SARB and NT have drafted the National Payments System Bill aimed at, *inter alia*, creating an enabling framework for the provision of payment services by banks and non-banks as well as enhancing financial inclusion, and are also considering introduction of a tiered licensing framework for the banking sector to encourage more new entrants. Further, to enhance transparency of financial offerings, NT together with the Financial Sector Conduct Authority (FSCA) are working on the Conduct of Financial Institutions Bill. Under the CPF, the WBG will continue to provide advisory services that support financial sector diversification and transparency, including through the trust-funded Financial Sector Development and Reform Program.

81. **Financial stability and inclusion are foundational to contestable markets.** To maintain financial stability the authorities adopted the Financial Sector Regulation Bill in 2017 and implemented the twin peaks model with SARB as prudential regulator and FSCA as market conduct regulator. In June 2020 the Financial Sector Law Amendment Bill was adopted, which gave SARB the mandate to implement a bank resolution and deposit protection framework. To increase financial inclusion the NT issued the Financial Inclusion Policy in October 2020 (for public consultation) and will develop and implement a Financial Inclusion Strategy and Action Plan with measurable results. The scope of the Financial Inclusion Policy covers use and affordability of transaction accounts, payment, credit, saving, and remittances products, credit infrastructure, the financial cooperative and micro finance sector, the role of the state in financial inclusion, and Fintech for financial inclusion. The WBG will continue to provide support in the areas of financial stability and financial inclusion.

82. ***In the ICT sector*, a limited competitive environment for the mobile broadband market has resulted in high prices and poor quality of services in some parts of the country, contributing to a persistent digital divide.** Following the Digital Economy Country Diagnostic for South

Africa and other policy analysis, the WBG has been engaged in a dialogue with the ICT regulator, the Independent Communications Authority of South Africa (ICASA). Support would focus on accelerating access to affordable high-speed internet through private sector-led expansion of networks combined with upstream regulatory reforms to improve services and encourage more competition. These can be supported by both technical cooperation and financing. Beyond the telecom sector, improvements in the broadband market can have a major positive contribution to the business environment overall and help growth of the digital economy.

(b) Promoting investment

83. **South Africa strives to have a clear strategic vision with competitive FDI policies, sector prioritization, and appropriate institutional arrangements to address investment retention and generation.** Declining FDI inflows[20] are attributed to receding investor confidence arising from critical issues such as policy uncertainty, the visa regime and related barriers to investment including perceptions of erosion of investor and property rights protections. This has been exacerbated by the COVID-19 pandemic, which has disrupted global supply chains, and deferred investment decisions. The CPF will support the efforts of the government towards improving investment policies. The WBG will, through ASA programs, provide support to Government's policy development efforts to enhance institutional and regulatory frameworks for investment retention and generation. This will include, where possible and where there is clear demand, support to (i) address economy-wide policy uncertainty and sector level investment barriers; (ii) boost investor confidence by strengthening investment policies, adopting and deploying active retention tools for investor tracking, aftercare and grievance management; and (iii) upgrade competencies for investment promotion including strengthening capacity and improving coordination and coherence between national and subnational investment promotion efforts.

84. **MIGA is already actively supporting foreign investors in South Africa through its political risk insurance instruments, with gross outstanding exposure attributed to them accounting for around one fifth of the total gross outstanding exposure of US$1.54 billion as of end-April 2021; the remainder pertains to credit enhancement products.** Projects currently supported by MIGA's political risk insurance span the infrastructure, energy and financial sectors and are broadly aligned with the CPF. During the CPF period, MIGA will continue to support foreign private investors and cross-border commercial lenders, including in establishing new businesses in South Africa, with particular attention paid to those that promote competition and employment growth. In doing so, MIGA will work jointly with IBRD and IFC to mobilize the foreign private sector in support of the MFD principle through its de-risking instruments. IFC will continue to support directly and help mobilize capital for new entrants and/or existing second tier players in highly concentrated sectors.

(c) Improving the Business Environment

85. **The CPF will support the Government's efforts to improve the business environment which is critical for efficient, competitive, inclusive and sustainable markets that is associated with**

20. Between 2013 and 2015, FDI inflows into South Africa dropped sharply from US$8.3 billion to US$1.7 billion, marking a 10-year low point. Deteriorating investor confidence kept FDI inflows in the US$2 billion range for two more years. The dwindling inflows were coupled with a dramatic increase in FDI outflows from South Africa. A stronger signaling and better coordinated efforts by the GOSA (including two investment summits) helped recover FDI inflows to around the US$5 billion mark in 2018 and 2019. However, this is still far from GOSA's goal set in 2018 of US$100 billion in foreign and domestic investment over 5 years, which is likely unattainable, given the impact of the COVID-19 pandemic.

better economic growth and job creation outcomes. The Government has made it a national priority to improve South Africa's business environment and appointed a team that is dedicated to supporting this agenda. In alignment with this goal, the WBG will support the Government's efforts to strengthen institutional capacity, put in place robust accountability mechanisms, updating and implementation of relevant laws and regulations, and automation of government-to-Business (G2B) services.

86. **Building on recent achievements such as the launch of the BizPortal, an integrated digital business start-up platform that permits near simultaneous registration of businesses.** Recently, the South Africa Business Environment team have recorded material improvements in areas related to the automation, streamlining, reduction in time and cost and improved transparency in the areas of starting a business, construction permits, paying taxes and registering a property, The DTIC and the Presidency are currently in discussions to agree on the priorities for improvement and required resources needed for technical working groups supporting Government in the process. The WBG will continue the dialogue and cooperation with the government on business environment improvements in areas such as (a) starting a business; (b) registering a property; (c) dealing with construction permits; (d) paying taxes; (e) trading across borders; and (f) getting electricity. COVID-19 has exposed government's low level of automation where most government to businesses services were completely stalled during the COVID-19 lockdown period due to most services and processes being mostly manual. This led to major interruptions for the private sector. Business environment improvements are particularly important to support creation of new firms in a post-COVID-19 environment as well as ensuring government to business services continuity through automation.

Objective 1.2
Greater climate change resilience and environmentally sustainable investments in selected sectors

87. **To ensure inclusive, resilient, and sustainable economic growth, South Africa has an ambitious climate change agenda and is endeavoring to carefully manage climate change-related risks** (see Box III.2). **The WBG supports the climate agenda in South Africa by leveraging a whole-of-WBG approach, organized across four themes** (see Annex 6):

- **Climate-smart Investment & Risk Management:** activities support systematic scale-up of climate-smart investment through policy implementation support and building infrastructure;
- **Just Transition in Key Sectors:** activities support key industries that are critical to a successful transition to a low-carbon economy. Focus is on preparedness and early engagement with stakeholders;
- **Private Sector's Low Carbon Investment:** activities aim to catalyze the private sector's low carbon investment through provision of loans and risk mitigation financial products; and
- **Environmental and Social Sustainability:** activities support building climate change resilience, especially through conservation and sustainable use of natural resources.

88. *Under this Pillar of the CPF, the WBG will support the GOSA in (a) integrating climate risks into macro-fiscal planning and infrastructure investment; and (b) effectively implementing its climate change policy and strategy.* This will include a gender-focus, as recent research has shown that South

Africa's climate change law and policy is not gender inclusive and risks increasing vulnerability.[21] The WBG support will also include building the demand side of climate-smart investments including at the stage of project identification, structuring, procurement and climate financing.

Box III.2 South Africa's ambitious climate change agenda

South Africa is both an important contributor to climate change and vulnerable to its impacts. It's the 14th largest global emitter to greenhouse gases (GHG), principally due to its heavy reliance on coal.[a] It is vulnerable to impacts of climate change affecting its water and food security, health, human settlements, infrastructure, and ecosystem services. As the 29th driest country in the world and with significant rainfall variation across seasons, water scarcity is an issue of great importance. Higher temperatures and a reduction in rainfall expected as a result of climate change will reduce already depleted water resources. Extreme events such as heavy storms and floods will also become more frequent under climate change conditions with significant impacts on lives and livelihoods.

To alleviate these challenges, South Africa has adopted an ambitious approach to achieve climate change mitigation and build resilience. Under the Paris Climate Agreement, the government commits (through the Nationally Determined Contribution—NDC) to a peak (by 2025), plateau (2026-2035), and decline (2036 onwards) trajectory for greenhouse gas (GHG) emissions. It plans to use several tools, including a carbon tax, sector emission and energy efficiency targets, firm-level carbon budgets, scaling-up renewable energy, and carbon capture and storage as key levers for carbon reduction. The country's national climate change response policy also includes several adaptation plans, mainstreamed across sectors and different government tiers, with strong institutional framework for coordination, monitoring and reporting. The government has established a national oversight committee—the Presidential Climate Change Coordination Committee (PCCCC), chaired by the President, to guide implementation of its climate policy.

One of the sectoral plans that the government has championed to achieve its climate change goals, is the Integrated Energy Plan (IEP) with one of its constituent plans, the IRP 2019 (Integrated Resource Plan), which sets out the electricity capacity expansion plan up to 2030, calling, among others, to reducing the share of fossil fuel in its primary energy mix, scaling up of renewable energy and optimizing the nexus between energy and water. The government also adopted a Just Transition policy (including a Just Energy Transition—JET) to ensure that its transition to a low-carbon economy has as its overriding priorities alleviating poverty and inequality as well as job creation. Moreover, the government's infrastructure development strategy, economic reconstruction and recovery plan (in response to COVID-19), and other important recent government documents stress the significance of green, resilient and just recovery.[b]

The government is making progress on its climate agenda: the carbon tax policy is in effect, energy transition is taking shape, and the climate change law has been put forward to give legal credence to many of the sectoral policies and guidelines adopted. At the same time, more work remains, including increasing the level of ambition consistent with progress to date and new science, consolidation of efforts across sectors and governments, and strengthening of climate change mainstreaming more forcefully.

a. https://www.carbonbrief.org/the-carbon-brief-profile-south-africa#:~:text=South%20Africa%20is%20the%20world's,fuel%2C%20towards%20gas%20and%20renewables.

b. https://www.gov.za/speeches/president-cyril-ramaphosa-south-africa%E2%80%99s-economic-reconstruction-and-recovery-plan-15-oct?gclid=EAIaIQobChMIzvWdhpOg7wIVgsuWCh1g9QEJEAAYASAAEgJCT_D_BwE

(a) Macro-fiscal planning

89. **A macro-fiscal framework and budget process that appropriately reflect climate risks and vulnerabilities are key to efficient allocation of resources and effective response to extreme events.** WBG activities will include: (a) conducting a diagnostic of the National Treasury's climate change-related activities, with recommendations for further integrating climate change into its macro-fiscal framework; (b) helping map out financing options and solutions for sustainable development investments, including through green and other thematic bonds; (c) updating the infrastructure framework to integrate climate-safe investments; and (d) conducting risk mapping for selected metros/cities.[22] IFC will continue to support reduction of CO_2 emissions by investing in green and blue projects.

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21. African Climate Reality Project (2020) http://climatereality.co.za/a-gendered-lens-report/

22. Supporting the Implementation of Nationally Determined Contribution (P172748).

(b) NDC implementation and Just Transition to a low-carbon economy

90. **In support of the Government's effort to transition to a low-carbon, resilient and just society, the WBG will support effective implementation of South Africa's NDC under the United Nations Convention on Climate Change (UNFCCC) using a carbon tax, sector emission and energy efficiency targets, firm-level carbon budgets, scaling-up renewable energy, and carbon capture and storage as the main levers for carbon reduction.** To help achieve this goal, the WBG will (a) support the design and piloting of new policies such as carbon budgets and sectoral emission and energy efficiency targets; (b) provide policy analysis and modeling in support of carbon pricing and the carbon tax; (c) develop an action plan for implementation of the National Climate Finance Strategy and a climate finance tracking system;[23] and (d) strengthen GHG emissions monitoring and reporting systems.

91. **The CPF will also support implementation of the Integrated Energy Plan (IEP) and 2019 IRP to achieve a secure and sustainable energy mix.** The IRP, is key to the careful management of the Just Energy Transition to mitigate any potential socio-economic impacts.[24] IRP implementation, specifically the decommissioning and repurposing of old coal fired power plants and the large scale up of renewables, will be critical to sustainably develop the power sector and to achieve South Africa's climate change and NDC targets. With the power sector in South Africa currently undergoing one of its worst electricity crises, with frequent load shedding that is damaging the macro-fiscal position as well as the competitiveness of the country, promoting private sector investment in wind and solar power generation as well as scaling-up of energy efficiency interventions on the demand side is considered one of the most promising solutions to ensure energy security while at the same time achieving rapid, ambitious and cost-effective emission reductions.

92. **In support of the IRP and NDC, the IBRD will continue to promote the just energy transition, coal plant retirement and repurposing, battery storage development, demand-side energy efficiency, carbon capture and storage and climate smart mining through the Programmatic ASA (P-ASA).**[25] IFC will support financing of renewable energy independent power producers (IPPs), embedded generation for commercial and industrial projects, smart grid infrastructure, and energy efficiency and distribution loss reduction for municipalities. It will also facilitate capital market financing of renewables, including with Green Bonds, and act as anchor for blended finance facilities to support implementation of the energy transition. IBRD can explore support to the national government and sub-national entities on the issuance of sustainable bonds based on the strategy as laid out by the National Treasury in the June 2020 Technical Paper on "Financing a Sustainable Economy."[26] Such advisory work can include helping to develop and implement a sustainable finance framework, market soundings, identifying eligible projects, preparing impact reports, and more. MIGA will continue to back both wind and solar energy-generating facilities of IPPs participating in the REIPPP. MIGA will carry on exploring and de-risking cross-border investment and lending in renewable energy projects, supporting South Africa's environmental

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23. Supporting the Implementation of Nationally Determined Contribution (P172748) and Partnership for Market Readiness—PMR project (P155885). The Partnership for Market Implementation (PMI)—a successor program of the PMR—will focus on providing larger grants to enhance countries' carbon pricing policy instruments. The PMI present a new opportunity for the WBG to provide additional support to GOSA on the implementation of carbon pricing instruments.

24. Given the current energy mix, mitigation challenges are considerable as over 80 percent of South Africa's carbon emissions come from the energy sector. Under the IRP, 10,000 MW (out of 45,000 MW) of old coal fired plants should be decommissioned by 2030. Implementation of the IRP foresees an additional 16 GW of RE to be installed by 2030.

25. Programmatic ASA for Energy Sector in South Africa (P172682); Eskom Renewable Support Project (P122329); Technical Assistance Project for the Development Carbon Capture and Storage in the Republic of South Africa (P149521).

26. http://www.treasury.gov.za/publications/other/Sustainability%20technical%20paper%202020.pdf

sustainability and the development of a low-carbon economy. This would be aligned with MIGA's strategic priority of supporting climate finance projects, as outlined in its Strategy and Business Outlook FY2021–23, with the goal of having at least 35 percent of its guarantees in support of climate finance on average for the FY2022–26 period.

93. **The CPF will also support GOSA's efforts to strengthen resilience and sustainability in the agriculture, land-use, water, wastewater, and sanitation sectors, which are highly susceptible to climate risks.** WBG support will include (a) development of a diagnostic on agriculture finance and insurance; (b) assessments, planning and investment towards resilience in the water sector with a focus on extending services for the poor in informal settlements while improving efficiency and financial sustainability of services provision in cities; (c) a regional approach on Southern Africa Drought Resilience Initiative; and (d) support for climate-smart investments by the private sector and the financial sector through services such as 30 by 30 Climate Zero initiative to encourage commercial banks to support sustainable projects. The WBG can also explore support to the Government in quantifying the financial exposures to climate hazards, designing a comprehensive and layered disaster risk financing strategy and evaluate risk financing options including contingent credit and risk transfer mechanisms, such as disaster risk insurance and catastrophe bonds. Furthermore, the WBG will support GOSA in creating an outcome-driven structured bond that channels private sector funds to increase black rhino populations in target protected areas in South Africa, as well as addressing air pollution levels in the Greater Johannesburg Area, through provision of equipment to measure PM2.5[27] and other air pollutants at existing monitoring stations.[28] Advisory and financing support for reducing Non-Revenue Water, wastewater reuse (working with IFC) and transboundary water management and infrastructure will continue, including the Lesotho Highlands Phase 2 project.

(c) Mobilizing resources to finance climate adaptation and mitigation

94. **The financial sector is impacted by climate-related financial risks but could also mobilize resources for climate finance.** The National Treasury (NT), the South African Reserve Bank (SARB), the Prudential Authority (PA), and the Financial Sector Conduct Authority (FSCA) are starting to identify and assess the impact of climate-related risks to the financial sector. This includes the impact of physical risks (i.e. climate change and extreme weather events) and transition risk (i.e., decarbonization of the economy) on financial institutions, such as banks, insurance companies, and pension funds. Doing so is important to maintain financial stability and to mobilize financial resources for climate-related objectives. This is critical since correctly pricing climate-related financial risks both supports financial institutions' prudential objectives and allows for better investment and loan origination decisions—in turn leading to capital allocation that is more in line with green and sustainable targets. Furthermore, the development of sustainable finance products and a sustainable investment framework is also expecting to mobilize resources. To enable adequate pricing and risk management, disclosure of climate-related risk data by both financial and non-financial firms is needed. The WBG is supporting the authorities via different engagements in building capacity, developing climate policies and strategies, and conducting climate risk assessments.

27. Atmospheric particulate matter (PM) that have a diameter of less than 2.5 micrometers.

28. Air Quality Management in the Greater Johannesburg Area (P170743).

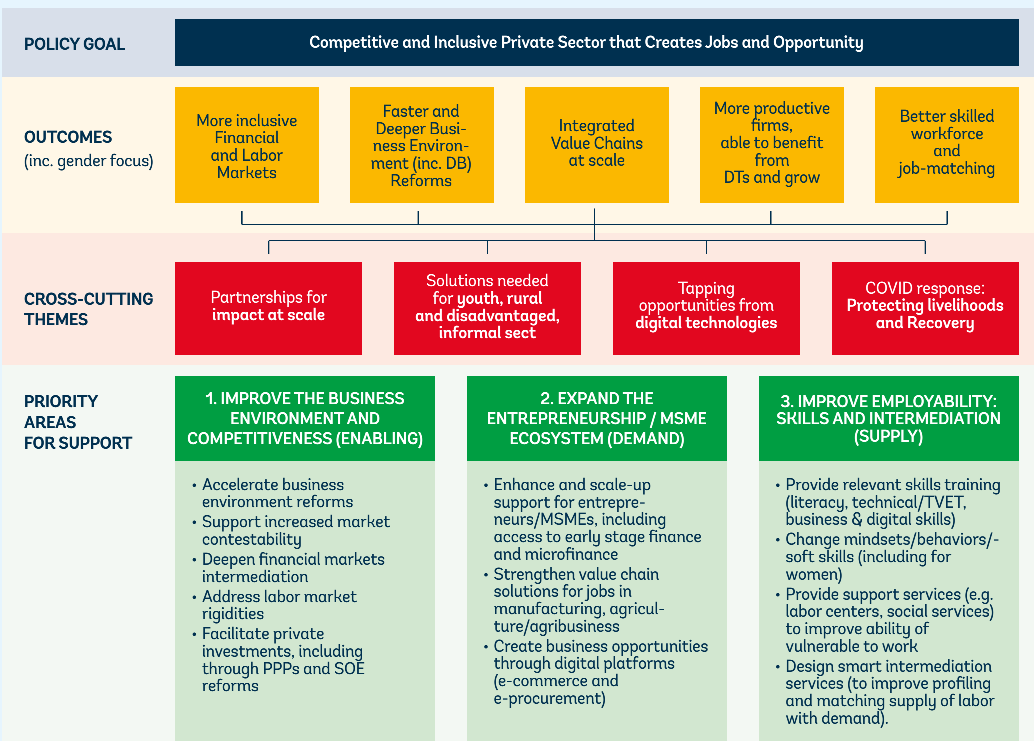
III.3.2. Focus Area 2: Strengthen MSME performance and skills development to support job creation

95. **While foreign investment, trade, and large, competitive industries are necessary for job creation, job growth could be accelerated through targeted support to MSMEs and startups in high-potential value chains, and through improved education and training to meet the skills demands emerging from economic and technological change.** It is critical that government and private sector efforts to address joblessness focus more on the most vulnerable, low-skilled youth, who are the largest group among the unemployed. *To address this complex challenge, a Jobs Platform for Inclusive Job Creation approach will be adopted. The focus areas will be on aspects of : (a) the demand-side for labor—Increased development of selected value chains with strong job-creating potential; (b) a strengthened ecosystem for MSME creation and growth; and (c) on the supply side of labor through strengthened employment and skills development services.*

Box III.3 South Africa Jobs Platform for Inclusive Job Creation

The Jobs Platform is an integrated approach to coordinating and focusing WBG support for development of a competitive and inclusive private sector that creates new and better opportunities, especially for youth. The three pillars of the Jobs Platform are: (a) improving the enabling environment and overall competitiveness, (b) expanding the entrepreneurship and MSME ecosystem, and (c) improving employability of the workforce through better skills and more effective labor market intermediation. The platform also has four cross-cutting themes: (a) establishing partnerships for impact at scale; (b) focusing solutions on the needs of rural and disadvantaged youth, especially in the informal sectors; (c) tapping into opportunities from digital transformation; and (d) ensuring that livelihoods are protected and firms are supported in recovering from the impacts of the COVID-19 pandemic.

South Africa Jobs Platform for Inclusive Job Creation



Objective 2.1
Increased development of selected value chains with strong job-creating potential

96. **Along with sound investment and sector policies, more targeted programs are needed to attract investment in value chains with a high potential for job creation, including for low/unskilled youth.** Potential value chains include those in agriculture/agribusiness, automotive sector, renewable energy, climate-smart mining, transport, tourism and digital products and services.[29] The WB will also support the efforts of national and provincial agencies in the Eastern Cape Province to: (a) identify agricultural areas of greatest potential through assessment of water availability and land suitability; (b) address land administration-related constraints to investment; (c) facilitate partnerships between agribusinesses and small and emerging farmers to facilitate their entry into horticulture and beef value chains; (d) strengthen delivery of rural infrastructure and services to improve small/emerging farmers' access to water, technology, and markets, and a strong emphasis on improving natural resource management and building resilience to climate change; (e) facilitate cooperation with the banking sector, including The Land and Agricultural Development Bank of South Africa (the Land Bank), to reduce investor risks; and (f) address investment climate constraints along value chains. With regard to rural infrastructure (such as irrigation and rural roads), the WBG will advise provincial government on approaches to (a) crowding in public investment into infrastructure around private investment opportunities that support small and emerging farmers and their inclusion in value chains; (b) identifying opportunities for public private partnerships in infrastructure rehabilitation, operation and maintenance; (c) developing more effective service delivery models for rural infrastructure and related services and (d) ensuring that infrastructure investments employ climate-smart and water efficient technology (Box III.4).

Box III.4 Strategic Agribusiness Partnerships — Support to Eastern Cape Provincial Government

The World Bank is advising the Eastern Cape Provincial Government (ECPG) on creating opportunities for greater inclusion of small and emerging farmers in horticulture and livestock value chains through partnerships with agribusinesses and improved watershed management.

Eastern Cape Province has the highest proportion of South Africa's smallholder farmers (19 percent), more than half of whom are women. Although small farmers in Eastern Cape have one of the lowest levels of access to water, in contrast to other provinces, it potentially has surplus water that could serve irrigated agriculture.

The work began in FY20 and will evolve in FY21/22 to include three core technical components: (i) **horticulture value chain** development; (ii) **beef and sheep value chain** development, and (iii) **watershed management**, all of which have strongly interlinked constraints. For example: weak linkage of smallholder beef farms to markets reduces farmer incentives to adopt pasture management plans, causing ecosystem degradation that affects downstream irrigation.

In FY20 the work has focused on identifying locations for horticulture development based on hydrological and land use suitability assessments. So far 16,500ha of potential irrigation development along a 25-50 km subtropical coastal strip has been identified. It is envisaged that the work will now evolve to a more comprehensive and integrated agribusiness development support, covering the following tasks: (i) Identify public service and infrastructure investments needs to unlock private investment; (ii) Provide advice on approaches to public infrastructure investment and services delivery to leverage private sector investment and (iii) Conceptualize a comprehensive approach to watershed management. This work is envisaged to be supported jointly by several Global Practices in the Bank and the IFC.

97. **In line with this approach, IFC will coordinate with the World Bank to (a) promote the integration of smallholder farmers into commercial value chains; (b) support the agri-food sector; and (c) facilitate regional trade integration and value chains.** A priority for IFC will be to continue working with

29. South Africa Country Private Sector Diagnostic 2019.

authorities to address the bottlenecks which hinder the inclusion of small and emerging farmers in commercial value chains, including limited access to finance, limited agriculture know-how, limited access to technology, and productivity/quality issues. In addition to agriculture, IFC will continue to support the automotive sector value chain through supplier development. MIGA has been supporting the Land Bank through its guarantee for non-honoring of financial obligations of SOEs with the aim of enhancing the Land Bank's ability to support farmers through its financial products and loans.

Objective 2.2
Strengthened ecosystem for MSME creation and growth

98. **Building a vibrant ecosystem for MSMEs and entrepreneurship can lead to better outcomes in investments and jobs.** MSMEs account for about half the country's work force and more than a third of GDP. Given the already high levels of informality of MSMEs and limited financing opportunities, there is an increasing risk that the worsening macroeconomic challenges will drive more MSMEs into decline.[30] Additionally, black and female ownership is concentrated in the micro and small business segment of the MSME sector. These firms are highly vulnerable to the impact of COVID-19 and need better coordinated and harmonized support to achieve better outcomes (Box III.5).

Box III.5 Impact of COVID-19 on MSMEs in South Africa

Two Department of Small Business Development-World Bank COVID-19 Business Pulse Surveys were conducted in May 2020 (first wave survey) and October-November 2020 (second wave survey), respectively. More than 2200 MSMEs and informal enterprises were surveyed in May 2020 of which 650 firms were re-interviewed during the October-November 2020 survey. Both surveys found that these enterprises were hard hit by the pandemic through many channels. The second wave survey found that while there were positive signs in terms of the number of firms that were open for business and making revenue gains as well as the proportion that received Government support, the situation remained very challenging with many firms either experiencing financial distress or expecting to be in the near future.

- **Firm closings and decline in sales.** Just over 50 percentage of firms surveyed remained closed during level 4 of the economic lockdown. Informal firms (70 percent) and firms in the services sector were most likely to remain closed (50 percent of firms). The second wave survey found that 85 percent of firms were either partially or fully open across all categories, but medium-sized firms were the most like to be fully open again. Female-owned businesses reported more business closures than male owned businesses, as also reflected by their expected levels of revenue loss. During the first wave survey, more than 90 percent of firms reported a decline in sales during the first wave and 80 percent during the second wave, but micro firms had a larger decline in sales than large firms.
- **Impact on employment.** Many firms made labor adjustments, primarily through reductions in wages and also working hours. Firms in the formal sector, services sector and those with majority black workers laid off workers at higher rates than other firms.
- **Digital solutions.** During the first wave, firms demonstrated increased flexibility, with nearly two-thirds reporting that they either began using digital solutions for the first time or increased their usage of digital solutions during lockdown. The second wave survey confirmed that digital platforms and solutions were increasingly being utilized, particularly by formal businesses, but that informal firms were catching up in this regard.
- **Government support.** During the first wave survey, there were many unmet demands for government support. Just 16 percent of firms reported having received support, and micro, informal, female-owned and youth-firms, and those with disabled or majority black workers have not been able to access support as effectively as other groups. The second wave survey found that 28 percent of firms received government support of any form, but that most were unsuccessful in their applications for support, particularly micro firms.

These findings are consistent with those from other surveys, including by McKinsey and StatsSA, all of which point to the need to increase MSME's access to financing opportunities as well as for targeted support to leverage new technologies and digital transformation.

30. The MSME Voice: Growing South Africa's Small Business Sector, February 2020.

99. **To improve a range of public and private sector programs targeting the growth of MSMEs and entrepreneurship, WBG support will aim at:** (a) facilitating increased collaboration among startup ecosystem actors through a Startup Community for sharing of data, knowledge and experiences and piloting innovative approaches; (b) improving monitoring and evaluation (M&E) frameworks and tools to ensure optimization of public finance support; and (c) facilitating access to markets and crowding in of early stage private financing, especially through targeted solutions for women and youth. This support will be delivered through the Jobs Platform multi-year programmatic ASA.

100. **To help MSMEs to overcome constraints resulting from limited access to collateral and early stage finance and low coverage by credit bureaus, the WBG will support:** (a) GoSA's efforts to develop and adopt the MSME Access to Finance Action Plan, improve the impact of the Partial Credit Guarantee Schemes, and establish an Online Movable Asset Registry; (b) the development of regulatory and policy responses to Fintech; (c) the assessment of state-owned financial institutions (SOFIs) to identify key constraints to the effectiveness of MSME support programs; and (d) public and private sector initiatives to strengthen the financial and non-financial support for early stage ventures. This support will be delivered through a multi-year programmatic ASA on financial inclusion and development, as well as through the SECO-funded Financial Sector Development Reform Program.

101. **IFC will work with financial institutions, including commercial banks, to channel financing to underserved MSMEs through secured loans as well as asset-based financing solutions.** IFC, for which inclusive finance is a strategic priority, is expected to provide investment and advisory support to accelerate SME lending. On the advisory side, IFC will work with financial institutions to enhance their capabilities to serve the SME segment, including to promote innovative services such as digital finance. A flexible approach will be adopted to ensure that the strategy adjusts for new developments or challenges such as COVID-19. MIGA will continue to support the financial sector through its guarantee instruments.

Objective 2.3
Strengthened employment and skills development services

102. **South Africa has many programs aimed at promoting youth employment, but they are fragmented and uncoordinated, and most target high school graduates rather than unskilled and vulnerable youth.** The President's Office has established a Presidential Youth Employment Intervention with a single-entry youth employment services platform, but proactive and coherent employment services and market-relevant skills training are still needed to help youth effectively enter the labor market. TVET colleges have expanded rapidly in recent years, and there are now some 50 colleges with 364 campuses serving around 700,000 learners, but many of these institutions are characterized by poor management, funding constraints and outdated course content. Under the CPF, the WBG will assist the Government in supporting youth employment in two main areas: (a) strengthening employment services; and (b) expanding access to relevant skills training programs.

(a) Strengthen employment services

103. **The WBG will help to strengthen and modernize employment services** by supporting (i) the development and use of modern psychometric self-assessment and matching platform tools and e-learning socio-emotional modules (e.g. one stop shop youth journey platform) for employment

services, and (ii) identification of mechanisms to improve the package of services offered through employment services such as through employment centers, active labor market programs (ALMPS including the Presidential Employment Stimulus Program), self-employment programs and skill training programs; and (iii) expansion of non-formal training through technical services to scale up incubation and entrepreneurship training centers. Particular attention will be paid to disadvantaged girls and low-skilled vulnerable youth. Technical outputs would include: a) the curation and transfer of data, tools, and models of the one stop shop platform to employment centers, b) knowledge pieces and technical cooperation on youth employment services related to strengthening their services and program delivery (e.g. jobs pantry of available opportunities for disadvantaged youth, review of public employment services); and c) a review of ALMPS including recommendations for how to strengthen these to better respond to South Africa's youth employment challenges especially for the COVID-19 recovery phase. In this context, the program will also identify training and skills requirements for value chains with high job-creating potential (Objective 2.1) and refer youth toward these opportunities. The WBG will cooperate with GOSA on the Presidential Youth Employment Intervention to support its development of an integrated youth employment platform, the Presidential Employment Stimulus Program, the Department of Labour and youth employment accelerators such as YES and Harambee. The activities will be implemented through ASAS including a SWISS SECO EFO and the Jobs Platform Cooperation.

(b) Expand access to relevant skills training programs

104. **To support strengthening of the skills development system, the WBG will cooperate with the Department of Higher Education and Training (DHET) in the following areas:**

- *An analysis of constraints to MSMES participating in workplace-based learning (WPBL) programs,* and ways to strengthen and expand informal apprenticeship training in the township economy;
- *Technical advisory services to strengthen the management information system (MIS) in post-school education and training (PSET)* and identify options to improve the monitoring of key outcome indicators;
- *A strategic review of the financing mechanism for skills development,* focusing on cost effective options to improve access to skills development programs, including by improving funding flows.

105. **IFC will support public and private universities and TVET institutions to improve strategies and services that support graduate employability and student preparedness for the job market.** IFC will partner with DHET and private sector institutions to implement the Employability Tool, which assesses how well higher educational institutions are set up to promote student employability relative to good regional and global practices. IFC will then work with higher educational institutions, DHET, industry and sector stakeholders to implement recommendations coming from assessment. In addition, IFC will continue to leverage global best practices to mainstream innovations such as project-based learning, individual learning (flipped classrooms) and the use of digital tools in education. In addition, IFC will continue to leverage global best practices to mainstream innovations such as project-based learning, individual learning (flipped classrooms) and the use of digital tools in education.

III.3.3. Focus Area 3: Improve the Infrastructure Investment Framework and Selected Infrastructure Services

106. **South Africa has developed a relatively strong infrastructure base, but gaps remain in services provision while infrastructure spending has been declining over the last years.** South Africa's infrastructure face dual challenges—one of deteriorating performance and another declining investment—leading to higher cost of infrastructure services and undermining the country's competitiveness.[31] The COVID-19 pandemic has added to SA's infrastructure challenges. With increasing fiscal deficit and debt-to-GDP ratios over the short term, the post-pandemic efforts of the Government are likely to be focused on measures to improve selection of investments and reduce overall spending while increasing impact.

107. **To address these issues, the government has introduced key and complementary initiatives to consolidate and streamline relevant policies and strategies, develop a robust infrastructure development and delivery mechanism, and a financing architecture to leverage private investment in infrastructure to meet the growing financing gap.** Accordingly, the government established Infrastructure South Africa (ISA)[32] as a single point of entry for all infrastructure projects with standard methodology to, among others, identify and appraise projects[33]; strengthening the PPP framework for improving participation of private sector in infrastructure; an Infrastructure Fund (IF) to leverage private sector financing in infrastructure to the tune of one trillion Rand by 2030; and a delivery unit, Operation Vulindlela (OV)[34], to facilitate implementation acceleration of selected priority sectoral reforms. One of the priorities for OV is to cooperate in enhancing the role of private sector participation in the water sector. The Government is also in the process of developing a long-term national infrastructure plan (NIP 2045) that would enable South Africa to meet its long-term socio-economic and environmental goals. These measures need to be coordinated under an improved infrastructure governance and investment framework.

108. **Further consolidation in institutional coordination and capacity development for project preparation and implementation are under implementation.** This will also require focusing on improving the efficiency of service delivery at both national and sub-national levels, including through building institutional capacity at sub-sovereign level, as well as critical infrastructure SOEs and to leverage the private sector when possible. While there are technical working groups established to review sectoral priority projects, technical capacity of ISA needs to be strengthened to accelerate infrastructure investment preparation and facilitation.

109. **This focus area will promote efficiency and quality of public investment management and support the restructuring of key infrastructure services.** *It is organized around three objectives: (a) Support improvement of the infrastructure investment framework through implementation support*

31. For example, despite its dominant position in Africa, the performance of the port of Durban is sub-optimal (https://www.itf-oecd.org/sites/default/files/docs/14durban.pdf).

32. ISA is modeled after the UK Treasury's Infrastructure and Projects Authority (IPA) to streamline development and delivery of infrastructure projects following good practice standards and guidelines.

33. For example, ISA uses a SIDS (Sustainable Infrastructure Development Systems) methodology, which builds on good international practices in infrastructure development, especially on the successful 5-Case Model (5CM) of the UK, and is fully aligned with the provisions of the Infrastructure Development Act (No. 23 of 2014).

34. A dedicated Vulindlela unit has been established in National Treasury in coordination with the Office of the President (drawing on additional expertise from public and private sectors as required) to monitor progress, escalate challenges, and provide support for fast-tracking priority structural reforms in the areas of energy, freight transport, water, digital communication and the visa regime.

of the mechanism contained in the Cabinet approved South Africa's Infrastructure Investment Plan and Operation Vulindlela including focusing on PPPs in the water Sector; (b) Support improvement of infrastructure services by selected SOEs through established institutional coordinating mechanisms; and (c) Support the improvement of planning and delivery of infrastructure services in targeted cities.

Objective 3.1
Improved infrastructure investment framework

110. **Under this objective, the CPF will support key actions aimed at improving the infrastructure investment framework, by providing technical and financial resources to strengthen:**

- **The overall infrastructure investment framework, focusing on** improving the framework for overall infrastructure governance, aligning investment priorities in infrastructure with policy objectives, improving controls for infrastructure financing with a focus on fiscal commitment and contingent liabilities (FCCL), and strengthening the framework and implementation of public investment management (PIM), Budget for Facility (BFI) and public-private partnerships;

- **design and implementation support for the National Infrastructure Plan, as well as required legislative and procurement reforms** to promote multi-sectoral and multi-jurisdictional infrastructure projects and programs;

- **the capacity of key infrastructure stakeholders including line ministries, sub-national entities and SOEs** for project identification, prioritization, preparation, financing, and implementation in priority sectors, including coordinating with Operation Vulindlela in accelerating sectoral reforms. These mechanisms must align with South Africa's National Infrastructure Plan and the institutional mechanisms articulated in this Plan;

- **policy, regulatory and institutional frameworks aimed at mobilizing institutional investors,** including through the development of scaled-up solutions such as investment consortiums and developing replicable financial structures and vehicles.

Objective 3.2
Improved infrastructure services by selected SOEs

111. **South African SOEs play a central role in delivering the infrastructure services necessary for growth.** However, they face efficiency and operational challenges stemming from the lack of clear sector policies and regulatory framework, poor governance and financial sustainability issues. Under the CPF, **the WBG will support the design and implementation of customized support packages for SOEs in different sectors, with an initial focus on the transport SOE, Transnet, the Passenger Rail Agency of South Africa (PRASA), and the electricity SOE, Eskom**. Support initiatives could include those for underpinning the reform of these SOEs, facilitating the introduction of the private sector in some cases, and identifying financial solutions to help some SOEs better manage their financial sustainability, including through the provision of local currency, long-term maturities, and risk management tools. This support can also be focused on exploring development of hedging programs to help manage the low-carbon transition in a way that does not lead to significant disruptions in the economy or cause undue fiscal risks.

(a) Transport

112. **South Africa has the potential to fully utilize its geographical position to become an important regional transport and logistic hub.** However, to fulfill this role, it will need to develop integrated, efficient, resilient, and sustainable transport infrastructure that facilitates both domestic and cross-border trade and transportation. The fulfillment of this potential is currently constrained by South Africa's relatively poor connectivity with regional and global markets, and sector inefficiencies that are increasing the cost of transport along the logistics value chain and hindering the country's competitiveness. The foundation stone to this aspiration are the maritime gateways, and the hinterland access routes. Whilst the performance of the bulk terminals and associated rail movements is acceptable by global standards, the performance of the container terminals is poor by both regional and global standards.[35]

113. **Transnet's Corporate plan has been revised and approved by the Board in March 2021.** This plan envisions, among others, the introduction of accounting separation of the business units, the corporatization of Transnet National Port Authority (TNPA), and the introduction of the private sector in container terminal operation and management, and in the freight rail sector, both on the main lines, and on the branch lines. The World Bank is supporting Transnet to submit an application to the Global Infrastructure Facility for grant support to assist in the identification of options, and the potential subsequent introduction and necessary public investment, of the private sector in container terminal operations in Durban and Ngqura and the freight rail sector to the Gauteng region.

114. **In terms of passenger services, PRASA plays an important role in mitigating the impacts of apartheid spatial planning on the urban poor.** However, in recent years passenger numbers have fallen sharply as the efficiency of this SOE has been largely eroded. South Africa commuter rail network transports workers long distances at very low fares. There are extensive commuter rail services in Gauteng, eThekwini and Cape Town, and limited services in Nelson Mandela Bay and Buffalo City municipalities. Urban rail, already serving a captive market, has seen a drop in usage from 646 million passenger trips in 2009 to 209 million passenger trips in 2019—a 68% decline over the past decade despite population growth. This reflects a decline in service quality, particularly with respect to reliability and overcrowding, combined with underinvestment in maintenance programs and limited upgrading of networks, rolling stock and technologies. The situation has been exacerbated by the widespread theft and damage to assets, during the lockdown. The World Bank could, if requested, support in the development of a sustainable reform plan and with a clear mandate, potentially provide support to implement the agreed plan to restore the functionality of this vital public service.

(b) Energy

115. **South Africa's power sector and electricity market value chain are dominated by Eskom, with limited competition and private sector participation in renewables generation.** The sector is experiencing many challenges, particularly with Eskom's operational and technical deficiencies resulting in periodic load shedding and an unsustainable financial and debt position. Sectoral reform and restructuring will be critical to ensure the long-term sustainable development of the electricity sector in South Africa. As indicated in Objective 1.2, the CPF will support implementation

35. The World Bank (2021) The Container Port Performance Index, 2020. The World Bank, Washington D.C.

of the 2019 IRP to achieve a secure and sustainable energy mix, particularly through support to Government's ambitious agenda to roll out its renewable energy plans and the decommissioning and repurposing of old inefficient coal plants. With regard to Eskom, the Government has responded to the SOE's operational and financial difficulties through various policies and measures, including a *9-point Generation Improvement Plan* (2018); budget support to Eskom (2019–2023); the *Eskom Restructuring Paper* (November 2019); the *Eskom Strategic Improvement Plan (Turnaround Plan)*, adopted by the Eskom Board in January 2020; and the Eskom Corporate Plan 2021–2023, approved by Eskom in March 2020 and endorsed by DPE in April 2020.

116. **Under the CPF, the WBG will be able to provide technical advisory services for the design and implementation of the Government's electricity reform and just energy transition agenda, as well as financing to support GOSA and Eskom in their reform and energy transition initiatives.** Cooperation could include those related to Eskom's corporate unbundling and debt management strategy development, coal plant retirement and repurposing, promotion of competition in power generation, improvements in the regulatory framework, establishment of an efficient electricity distribution sector, strengthening aspects of the regional power market development, and exploring financing solutions, including green bonds, for increasing renewables in the energy mix.

Objective 3.3
Improved planning and delivery of infrastructure services in targeted cities

117. **The National Development Plan calls for the urgent, well-planned and systematic pursuit of national spatial transformation in order to address inequality.** To achieve this objective, the development of planning tools and strategies is vital in order to address uneven spatial patterns and to bring multi-sectoral stakeholders together in the development of economically productive cities. With a mutual reliance between cities and their surrounding rural areas, infrastructure investment is essential to addressing South Africa's spatial injustice. Coordinated support to strategic agribusiness partnerships with small and emerging farmers (Objective 2.1), in conjunction with targeted support to building sustainable urban economies is needed.

118. **South Africa's rapid urbanization also requires a sustained focus on building institutional capacity at the municipal and metropolitan levels to manage the increasing demand for improved service delivery.** In support of this, the District Development Model (DDM) was adopted as a tool to realize greater synergies across national, provincial, and local levels of government with the objective of addressing poverty, unemployment, and inequality. Through a focus on development outcomes, the DDM enables long-term planning and targets strategic improvements in project management, implementation and accountability. The DDM will be anchored in "One Plans", which set out long-term intergovernmental plans to guide investment and delivery in relation to the 52 districts and metropolitan areas. This work builds on different tools and approaches to service delivery, capacity development and planning, including metro-level outcomes through the Urban RAS I (2013–2016) under the Cities Support Program.

119. **The CPF therefore adopts a spatially driven approach, underpinned by the strengthening of basic service delivery, to unlock the potential of urban areas across the country.** WBG support will focus primarily on the institutionalization of the Cities Support Program, within the eight metropolitan areas[36], and will encompass advisory services for improving (i) human settlements,

36. RAS for Infrastructure Investment and Integrated Urban Development (P163422).

(ii) fiscal and financial governance systems, (iii) economic development, (iv) climate resilience and sustainability and (v) public transport. Through a complementary engagement with the Development Bank of South Africa, the World Bank will also support strengthening of municipal service delivery through the development of smart city strategies. The intervention will assist four cities to develop credible smart city strategies, taking account of benchmark technologies, financing options and implementation approaches to achieve interdepartmental alignment of the smart city strategies.[37] In addition, the Bank will support policy development of the country's Circular Economy Framework around solid waste management, through multi-donor trust fund programs. Key objectives of the support include enhancing integration of the informal sector, improving management of municipal landfill sites, and contributing to the broader policy dialogue on circular economy in South Africa. The IFC, through the Africa Cities Platform, will also contribute to the engagement in the urban sector by exploring market-based infrastructure investment financing and providing advisory services directly to municipalities to help identify and assess potential bankable projects, including in the water sector. MIGA will explore supporting investment and lending to eligible cities and municipalities, with its breach-of-contract product for sub-sovereigns being particularly relevant.

120. **Development and enhancement of human settlement policies are needed to address a number of issues.** These relate to housing shortages, manifested in mushrooming of informal settlements, overpopulated inner city housing or uncoordinated backyard developments, without safe, reliable basic services like water and sanitation. To support South Africa in addressing these challenges, the WBG has identified specific policy areas such as informal settlement upgrading, People's Housing Program (PHP), scaling up affordable housing, social/rental, and inclusive housing to enhance development outcomes. The engagement will support preparation of the Human Settlements White Paper that is being developed by GOSA. In addition, through the provision of technical advisory services, the WBG will support scaling-up of city-wide and in-situ upgrading to improve security of functional tenure, safety and health security, and community empowerment and partnerships. This will be rendered through the application of the Program Management Upgrading Toolkit and design and implementation of the new Upgrading Partnership Grant.

121. **As a strategic anchor in the development of spatially inclusive cities in South Africa, urban connectivity and a well-functioning and integrated public transport are essential.** The WBG will support the development of planning instruments and the design of strategies and roadmaps for critical urban transport sector reforms. These will include national public transport grants, innovation of municipal urban transport financing, and integration of ticketing between Metro Rail and Bus Rapid Transit Systems. Working with the DBSA, the WBG will also help develop knowledge and practices on critical reforms in the Minibus Taxi sector.[38] Commuter rail reform is central to improve transport in urban areas, particularly in townships, and the Bank will continue to contribute to the national debate on the future of urban transport. MIGA will explore supporting transport/urban connectivity projects through its political risk insurance covers.

122. **Implementation of the City Infrastructure Delivery Management System (CIDMS) is important for strengthening investment planning and implementation as well as asset management practices.** The CIDMS is a framework for managing public investment projects and municipal infrastructure assets. Bank support for CIDMS implementation will assist cities to optimize performance right across the urban infrastructure value chain by offering best practice processes, techniques and tools

37. Beyond the Gap in South Africa – DBSA RAS (P171567)

38. Transcending Infrastructure Challenges – DBSA RAS (P171567)

in multiple disciplines such as asset management, risk management, construction procurement and infrastructure delivery, and program and project management. Bank support will focus on preparation of asset registers in metropolitan municipalities and the link with infrastructure and financial plans.

123. **Understanding mobility patterns and needs for men and women is essential to design differentiated infrastructure and services and ensure inclusive connectivity in cities and municipalities.** Women and men will benefit equally from road transport policies, infrastructure and services only if they are gender responsive. For example, in South Africa women are responsible for a disproportionate share of a household's transport burden but they have more limited access to safe means of transport compared to men. Safe and inclusive transportation is key for women to have equal access economic opportunities. Academic research revealed that female users of minibus taxis (MBT) and buses in South Africa suffer sexual harassment.[39] The CPF will provide technical support to the GOSA to update gender analysis in mobility and support initiatives to ensure that: (i) data is designed and collected through a gender lens, (ii) differences in mobility barriers between women and men are identified, and (iii) linkages with economic opportunities and services are established.

III.3.4. Cross-Cutting Themes

124. **The WBG will support three cross-cutting themes in its South Africa country program:** (a) Harnessing the Digital Economy for Job Creation and Stimulating Investment; (b) Gender—Empowering Women and Girls for Shared Prosperity; and (c) Governance. In addition, while regional integration is not a cross-cutting theme *per se*, the CPF will support selected activities in support of the regional integration agenda.

Cross-Cutting Theme 1
Harnessing the Digital Economy for Job Creation and Stimulating Investment

125. **South Africa is one of the digital leaders in Africa and has the potential to become one of the hubs for digital entrepreneurship on the continent.** However, nearly half the population lacks access to internet,[40] with high cost, lack of digital skills and poor quality of service being barriers for poor and rural residents. The Government has put in place a sound legal and institutional policy environment for the ICT sector, but there is a need for more private investment, digital skills training for youth, and promotion of digital technology throughout the economy. With digitalization as a cross-cutting theme, the CPF will ensure that key interventions address bottlenecks to digital development in all three focus areas:

Focus Area 1: Promote increased competition and improved business environment for sustainable growth

- The WBG will support improvements in the regulatory and business environment for digital services, and expansion of access to digital financial services.
- The WBG will support development of policies and programs aimed at enabling access to government data by citizens and companies to encourage digital innovation and development of new digitally enabled services.

39. Marianne Vanderschuren, Sekadi Phayane, & Alison Gwynne-Evans. (2019). P*erceptions of Gender, Mobility, and Personal Safety: South Africa Moving Forward*, Vol. 2673 (11) 616-627.

40. Based on ITU 2017 data.

Focus Area 2: Strengthen MSME performance and skills development to support job creation

- The WBG will support digital entrepreneurship and innovation to enhance competitiveness and job creation; and look at ways to improve digital skills for employability, especially among unemployed youth.

Focus Area 3: Improve the infrastructure investment framework and selected infrastructure services

- The WBG will support digital transformation in the energy, transport and agriculture sectors, including by mobilizing private investment, potentially through de-risking instruments. Through the Smart Cities Initiative, the Bank will strengthen the use of digital technology for urban planning and inclusive service delivery. It will also make a renewed effort to promote digital economy development in townships.

- The WBG will support enhanced implementation of policies to ensure universal access to fast, affordable, and reliable digital infrastructure and broadband internet services.

Cross-Cutting Theme 2
Gender — Empowering Women and Girls for Shared Prosperity

126. **South Africa has made significant progress in moving towards gender equality and women's empowerment over the last 25 years.** There is gender parity in education; women occupy high government posts; many run their own businesses; and women's access to financing, land and assets has improved. Yet significant gaps remain: enrollment in science, technology, engineering, and mathematics (STEM) education is lower for girls than for boys; women are less likely than men to participate in the labor market; women earn less than their male colleagues; the high rate of teenage pregnancy causes girls to leave education early, often with lifelong impacts; women's voice is still not heard in public life; women are still disadvantaged in accessing resources (financing, land, businesses); women are more likely to be infected by HIV/AIDS; and gender-based violence (GBV) is rampant (Box III.6). Moreover, GBV and women's poverty have increased as a result of the pandemic.

127. **Acknowledging the role of both UN WOMEN and the United Nations Population Fund (UNFPA) in addressing gender-based violence in SA, the CPF will focus on two other priority dimensions of women's equality: economic empowerment and skills development.** The CPF will systematically include education/skills development and economic empowerment of women in all relevant ongoing and forthcoming investment operations, RASs, and trust-funded and Bank-funded technical support under each of the focus areas. For example:

Focus Area 1: Promote increased competition and improved business environment for sustainable growth

- The WBG will support gender-sensitive strategies for climate adaptation and resilience of women and girls in South Africa. Impacts of climate change affect men and women differently, and unequal gender opportunities and structural barriers for women to seek economic opportunities will limit resilience of women and girls making them a more vulnerable population to climate shocks.

- Supporting a just transition for women and girls in SA building on gender equality gains achieved thus far during the past 25 years and supporting the development of NDC relevant gender targets and outcomes during its implementation.

Focus Area 2: Strengthen MSME performance and skills development to support job creation

- The WBG will systematically consider gender equality, educational attainment of vulnerable girls and economic empowerment of women in all its SME support interventions and skills development programs, and in the assessment of value chains. This will include, among others, targeted business funding and procurement support for women-owned businesses and identifying incentives for private sector support for emerging women-owned businesses.

Focus Area 3: Improve infrastructure investment framework and selected infrastructure services

- The WBG will promote gender-smart solutions in transport systems, to give women more flexibility in their working hours, increase safety, and expand opportunities for different types of employment.

- The WBG will also promote gender-sensitive budgeting on the city and municipal level, and the integration of gendered outcomes in their Integrated Development Plans (IDPs).

128. **The gender cross-cutting CPF theme will benefit from the Southern Africa Gender and Social Inclusion Platform.** This is an approach to securing strategic support at a program level and project specific support for task teams to enhance attention to gender and social inclusion issues in the World Bank's operations and policy dialogue in the Southern Africa countries. It applies a three-pronged approach that focuses on: (i) operational support to task teams including support on the gender tag and targeting pipeline operations suitable for more focused interventions on narrowing priority gender gaps that have been identified in country; (ii) technical and frontier analytical work, including evaluation of existing interventions on gender and social inclusion across the portfolio to contribute to the evidence base of what works; and (iii) capacity building and partnerships to build on systematic policy dialogue with clients, develop external partnerships with relevant stakeholders in priority sectors and support knowledge sharing both internally within the Task Teams and externally with government counterparts and other stakeholders.

Box III.6 Challenges to Gender Equality in South Africa

South Africa has made substantial progress toward gender equality since 1994, but women continue to face significant barriers. While gender gaps in education are closing, the gains have not resulted in more secure and better paying jobs for women, who continue to have higher unemployment rates than men and a higher concentration in low-paying jobs, mainly in the care economy. In 2020 (prior to the COVID-19 crisis), labor force participation was 53.8 for women compared to 65.9 percent for men. Men still earn significantly more than women. The median gender wage gap is between 23–35 percent for women and men with the same amount of schooling. This gap has not been declining over time.

The number of women in science, technology, engineering, and mathematics (STEM) jobs is limited, as women tend to enroll in care-economy subjects such as education, social science, psychology and health. The largest gender gap in STEM is in the field of engineering, with men having a graduation rate of 15 percent compared to 3.9 percent for women. Social norms play a key role in girls' educational choices and thereafter in their choices regarding the transition from school to work.

Marriage, childcare, and social norms are key drivers in the uneven gendered outcomes in labor force participation. Apartheid and the resulting migrant labor system made it more likely that fathers would be absent from households, particularly in rural areas, and that mothers would be responsible for child rearing and domestic labor. These patterns continue, with long-term impacts on women's participation in the labor force. According to the International Labour Organization (2018), women living with children under six years of age have the lowest employment rates (34.6 percent). The latest time-use survey (2020), found that the presence of children in the home keeps women in a state of long-term unemployment. The IMF recently reported that globally, gender gaps in labor markets have been remarkably resistant to change despite progress in other dimensions of gender equality. Focused policy reforms are needed to address these gaps.

The country's high level of gender-based violence also has a negative impact on women's labor force participation. Sexual and domestic violence are extremely common and extract an enormous social and economic cost. Reported figures represent only part of the picture. The violence is driven by many risk factors which exacerbate women's safety concerns at school, at home, at university, and in particular in the workplace, where sexual harassment discourages women from taking jobs. A 2019 survey by the research agency Columinate found that more than 30 percent of women and 18 percent of men experience sexual harassment in the workplace, while only 37 percent of South African firms have a clear process to report sexual harassment.

Source: South Africa Gender Background Note 2020, World Bank.

Cross-Cutting Theme 3
Governance

129. **The performance of South Africa's strong institutional framework, which has been recognized in Africa and worldwide has eroded over time.** The quality of its public financial management and budgeting systems still ranked first in the world in the 2017 and 2019 Open Budget Index. It ranks 7th out of 54 African countries on the Ibrahim Index of African Governance (IIAG), with a score of 68/100, higher than the African average (49.9). South Africa's score on IIAG, while still good, has eroded sharply since 2007. South Africa only ranks 70th among 180 countries on the 2019 Corruption Perception Index by Transparency International, down from 43rd in 2007. A decade of state capture and corruption from 2008 to 2018 exposed and exploited some institutional vulnerabilities. These have started to be addressed in 2018 following the change in political leadership. A main governance challenge is intergovernmental coordination, particularly across the three levels of government. Another set of challenges concerns long delays in policy formulation, a weak track record in policy implementation and the resultant policy uncertainty.

130. **This CPF will address selected cross-cutting governance topics including the monitoring and evaluation of government performance; building the capacity of the state through collaborative leadership and coalition-building; and a systematic governance approach to activities with the use of a governance filter** (Box III.7), that provides an opportunity to understand both the political economy and institutional bottlenecks to implementing reform.

Box III.7 South Africa Governance Filter

Political economy and governance constraints can threaten progress towards development objectives. These arise due to coordination problems, implementation gaps, misaligned incentives, weak authorizing environment; legal, policy or regulatory obstacles; ineffective allocation of resources; corruption and collusion; and conflict and tension between stakeholders and political factions.

The SA Governance Filter is a CMU wide approach to support task teams in identifying, addressing and strengthening knowledge around governance and political economy constraints. The focus of the filter will be to provide support and solutions to operational teams through: knowledge sharing on targeted governance challenges; just-in-time governance support through expert round-table discussions, stakeholder mapping; and hands-on operational support through diagnostics and assessments.

The Filter's primary objective is to support the South Africa CMU leadership and select task teams to navigate governance and political economy constraints affecting delivery of development policy lending and analytical work in key sectors. The Filter's approach will leverage lessons learned from the design and implementation of previous "Governance Filters" in Nigeria and Maghreb. It will also be grounded in existing knowledge and good practice as gathered through the World Bank publications on the political economy of centers of government and sector reforms; past political economy work informing lending; and experience of governance experts and sector tasks teams. The design and methodology will also leverage analytics such as the SCD, the Country Policy and Institutional Analysis (CPIA), and the Equitable Growth, Finance, and Institutions (EFI) Vice Presidency's Scope Notes.

Governance analysis will address political economy drivers of economic transformation in South Africa and recommend approaches for World Bank engagement, particularly in the early stages of the CPF cycle. Analysis will be focused on key factors relevant to World Bank policy dialogue and program/project design, considering four overarching issues: (i) incentives and capabilities of state actors to undertake meaningful reform in areas identified by the CPF; (ii) options for fostering meaningful improvements across core public sector functions and select sectors; (iii) entry points for sustainable change that lasts beyond the current political and economic disruptions; and (iv) the role of external actors in incentivizing performance.

- **Monitoring and Evaluation:** The WBG, the Department of Planning, Monitoring and Evaluation (DPME) at the Presidency of the Republic and the National Planning Commission have agreed to work together on monitoring and evaluation since most of the World Bank activities fit well within the MTSF. One first application of this collaboration will be in the joint monitoring of the implementation and effectiveness of two programs of the government's COVID-19 socio-economic response, the Social Relief of Distress (SRD) social grants program, and the support to SMEs. The WBG will help DPME build a dashboard to monitor select indicators of these two programs. This dashboard will also help contribute to the tracking of relevant indicators around CPF outcome and objectives. It will partner with the Open Government Partnership (OGP) to pilot social accountability and participatory monitoring at the local level, with a focus on selected provinces;

- **Open Government:** In addition, DPME is particularly interested in the Open Government Partnership (OGP) model that ensures the empowerment of citizens to monitor government interventions and stimulus safety net packages in the context of COVID-19. In this way, citizens' trust is built by ensuring that government social relief efforts reach people. The World Bank will partner with OGP to help DPME enhance its capacity in the following areas: (i) big data analysis; (ii) citizen auditing, monitoring and evaluation; (iii) integrated reporting of national, provincial and local government interventions; (iv) technology-enabled M&E; and (v) increasing awareness of OGP principles among government officials and other role players. DPME is equally interested in global OGP processes of grants monitoring, open contracting, and in the OGP fiscal transparency approach in addressing the delivery of crucial services by municipalities, including through piloting social accountability and participatory monitoring at the local level, with a focus on selected provinces;

- **Collaborative Leadership Approaches:** To help address the challenges of coordination, multi-stakeholder approaches centered on collaborative leadership will be developed to help build coalitions for reform, promote consensus in policy making and facilitate policy coordination and implementation. This CPF will apply such approaches to complex problems that involve multiple stakeholders outside government like trade unions, organized business, and community leaders. One application of collaborative leadership is the building of a delivery unit at the Department of Public Enterprises (DPE) to monitor the reform of SOEs. Technical Cooperation with the planned Delivery Support Unit (DSU) in the DPE will be aimed at addressing bottlenecks to the implementation of SOE reform in selected areas such as contract management and municipal arrears, monitoring progress on a set of reform priorities and facilitating multi-stakeholder engagement and coalition building. This builds on a knowledge exchange on successful DSUs in the world during FY2020–21 with the CEOs and senior management of Eskom and Transnet;

- **The CPF will continue to support South African Cities' capacities including through the RAS with National Treasury (NT).** Emerging areas under this RAS include intergovernmental fiscal transfers, the monitoring of local delivery of essential public services such as in the water and sanitation sector, and the monitoring of COVID-19 response at the local level.

III.3.5. Supporting Regional Integration

131. **In alignment with the WBG's *Supporting Africa's Recovery and Transformation: Regional Integration and Cooperation Assistance Strategy Update* for the period FY21–FY23, the CPF will promote opportunities for regional and global integration and cooperation in order to:**

- *Increase and broaden gains from intra-regional trade,* by enabling smaller producers to integrate into and benefit from cross-border and global value chains;
- *Reduce trade and transport costs* along some of the main corridors linking South Africa to the region and addressing inefficiencies in South Africa's transport network and ports;
- *Promote infrastructure connectivity,* with a focus on electricity (including renewable energy) trading, transport, digital connectivity, and facilitation of trade and transport;
- *Address common region-wide problems* such as climate change and disease pandemics;
- *Increase the effectiveness of regional cooperation institutions,* by working with the SADC and SACU Secretariats on issues and mechanisms supporting their cooperation functions;
- *Integrate MFD principles into regional projects* by working with the Government, national and international development banks and regional organizations to mobilize private sector resources.

132. **ASA and technical cooperation services during the first two years of the CPF period will complement the Africa regional integration and cooperation strategy and work program.** The focus will be on strengthening regional trade and market integration in SACU and SADC through analytical work on leveraging trade for recovery from COVID-19 and inclusive long-run growth in South Africa as well as trade facilitation, the development of regional value chains for jobs and industrialization, integrated trade and transport corridors and disaster risk management. IFC's financing of private sector renewable energy generation projects will also boost regional power market development through regional electricity trade, and MIGA will continue its support to South African investors for intra-regional investment.

III.3.6. Maintaining and Deepening the Knowledge Agenda

133. **The CPF will continue to provide a strong analytical and advisory program, convening services and knowledge exchanges.** This is consistent with South Africa's strong interest in the global knowledge agenda. Reimbursable Advisory Services (RAS), complemented where possible by grant-funded analytical and advisory work, will remain important instruments for the provision of knowledge services. This activity will be structured as follows:

- **Programmatic analytical and advisory services.** Building on past experiences, the CPF will strengthen the programmatic approach to knowledge services, bundling tasks across sectors toward a common objective in the areas of jobs, skills, and a Just Energy Transition.
- **Knowledge exchange.**
  - The WBG will continue to organize various South-South and South-North knowledge exchanges, including study tours for public servants to deepen knowledge in areas where

dialogue and partnerships need to be nurtured to support government programs in youth employment, urban infrastructure and digital technology, among others;

— Where appropriate and on demand, the WBG will continue to combine knowledge exchange with other knowledge activities such as advisory services as in the case of South Africa's public debt and management program. The global Government Debt and Risk Management (GDRM) program is expected to enter into its third phase in 2022. South Africa has been a very active partner in the program and the WBG will maintain a strong role. The WBG has worked closely with the National Treasury's Asset and Liability Management (ALM) Division under the GDRM program funded by the Swiss Government (SECO). The overall focus of the program is strengthening of the institutional arrangements and capacity in debt management. Examples of activities are the establishment of a framework for evaluating and monitoring government guarantees, an evaluation of the retail borrowing program, and development of analytical tools to provide the framework for the medium-term debt management strategy. Currently, ongoing activities include the establishment of an operational risk management framework and an aligned institutional arrangement.

- **Knowledge support and development.** In areas deemed important in the SCD but where the WBG needs to better understand sector dynamics and develop partnerships with key counterparts, the CPF will focus on knowledge development, which can translate into full-fledged programs during the outer years of the program. One such area is human capital development, particularly for young children. The objective of this knowledge support is to strengthen policies, programs, and delivery systems to accelerate foundational human capital formation in young children, focusing on supporting Early Childhood Development (ECD) and Early Grade Reading (EGR) and Assessment. The World Bank's knowledge support to the Department of Basic Education is expected to contribute to: (a) development and implementation of an Integrated Service Delivery Model for ECD provision; (b) enhanced dialogue on EGR program implementation in South Africa; and (c) development and implementation of a national policy on assessment of reading levels in early grades.

III.4. Implementing the CPF

III.4.1. Program Summary

134. **The five-year CPF implementation period is FY22-FY26.** The CPF program is designed to support SA in its quest to successfully end this unprecedented crisis and lay the foundations of a more sustainable growth. In the context of the COVID-19 health and socio-economic crisis, there is a unique opportunity to re-engage in South Africa at a moment when the country is facing unprecedented economic and social challenges and is committed to undertaking needed reforms. This CPF builds on four previous CPF's which were essentially knowledge based, with financing primarily coming through the IFC and MIGA. The knowledge outlook is going to be continued in the current CPF, with the possibility to access IBRD resources if the government would like to do so.

135. **The IBRD support in areas of engagement would build on the Government's priorities.** Initial areas of support include South Africa's business recovery and inclusive growth, energy and transport sector reforms, and cooperation on South Africa's resilience and adaptation agenda to climate change. This support will build on an existing portfolio of RAS, technical cooperation, grants and programmatic ASA in these areas. IFC currently has a portfolio of US$2.1 billion as of April

30, 2021 and through its new IFC 3.0 strategy can deliver a 5-year South Africa program between US$1.4 billion to US$3.4 billion up till FY24, depending on the level and pace of reforms. IFC's next strategy will cover the last two years of the CPF period. MIGA is already actively supporting foreign investors in South Africa with gross outstanding exposure of US$1.53 billion as of April 30, 2021. During the CPF period, MIGA will continue to support foreign private investors and cross-border commercial lenders in establishing new businesses in South Africa, with particular attention paid to those that promote competition and employment growth. A mid-term Performance and Learning Review will evaluate the progress and continued relevance of different aspects of the WBG program, and adjustments will be made as needed to achieve program objectives.

136. **The approach to ASA-RAS will focus on selectivity, impact and delivery of core analytical products** (Table III.2). An internal review of ASA-RAS suggested greater selectivity in new RAS engagements; therefore, the focus will be on engagements that help deliver on the core CPF objectives and help position the World Bank in the policy arena. There will be a greater focus on core diagnostics such as a Public Expenditure Review, Debt Management Assessment, Climate Change and Development, as well as Economic Policy updates. Ongoing analytical work will be consolidated under an integrated, cross-Group Practice platform such as the Job Platform. All new trust funds will be associated with existing global trust funds, in line with the Bank's trust fund reforms. The WBG and the Government of South Africa, through the line departments and relevant entities, will coordinate closely in areas where global knowledge-sharing and South-South exchanges can support the reform.

Table III.2 Selected WBG Advisory and Analytics by Focus Area, FY2022–23

CPF Focus Areas	FY22	FY23
Focus Area 1 Promote increased competition and improved business environment for sustainable growth	Promoting prosperity through investment climate and policy reform (IFC)	SA Government Debt and Risk Management SA FSAP update *
	SA Private Sector Competitiveness Project (IFC)	Country Economic Memorandum *
Focus Area 2 Strengthen MSME performance and skills development to support job creation	Support to the Jobs Platform	Support to the Jobs Platform
	Programmatic ASA on skills for employment	Programmatic ASA on skills for employment
	Supporting Innovations for youth employment	Supporting Innovations for youth employment
	Analytical underpinnings for greater financial Inclusion	
	SA Student Housing Program (IFC)	SA Automotive Linkages/Local Supplier Development Program) IFC)
Focus Area 3 Improve Infrastructure investment framework and selected infrastructure services	Supporting SOE governance reform framework	SA RAS for Infrastructure Investment
	SA PPP Review	Programmatic ASA for Energy Sector in South Africa
	COVID-19 and Air Transport ASA	Urban Mobility
	Africa Cities Platform (IFC) Environmental performance and market development (IFC) Eastern Cape Integrated Project	TA carbon capture and storage Supporting Implementation of Nationally Determined Contribution (NDC) SA Infrastructure Engagement with ISA

Cross-cutting Areas Digital, Gender & Governance	Strengthening the knowledge base for digital development	Strengthening the knowledge base for digital development
	Gender and Inclusion Assessment *	Gender and Social Inclusion Platform
	Governance filter for SA	Governance filter for SA
Knowledge Agenda	ECD service delivery mapping and integrated policy	Public Expenditure Review*
	Early grade reading in Southern Africa Review of Social Protection Systems in SA	Climate Change and Development Report*

Note: Core ASA marked with *

137. **To ensure maximum development impact during CPF implementation, the WBG will selectively apply the South Africa Governance Filter** (Box III.7) **to key operations and new engagements.** In addition, the Southern Africa Gender and Social Inclusion Platform will support incorporation of a gender lens in the design and review of operations.

III.4.2. Financial Management

138. **South Africa's financial management system meets Bank requirements.** The 2014 Public Expenditure and Financial Accountability (PEFA) assessment found that the country's PFM system, as guided by the PFM Act, provides a sound basis for resource allocation according to priorities, and clearly outlines the responsibilities of different national, provincial and municipal governments and public entities for service provision. However, the PEFA, as well as annual Auditor General (AG) reports over the past few years, also found weaknesses in supply chain management, resulting in irregular, unauthorized and wasteful expenditures; non-compliance with legislation; and poor quality of financial statements produced by some entities. Reforms to remedy these weaknesses are being supported by the WBG and other partners, including the European Union, German Agency for International Cooperation (GIZ), Department for International Development and from June 2020 the Foreign, Commonwealth and Development Office (DFID), USAID, France, Ireland and Belgium. A proposed Public Expenditure Review (PER) during the CPF period will help to identify further areas for improvement.

III.4.3. Procurement

139. **Public works, goods and services account for US$40 billion a year or more than 20 percent of South Africa's economy.** This makes public procurement a powerful vehicle for improving the business and competitive environment and promoting private sector development, job creation and economic growth. However, the public procurement regime is in need of modernization to be more efficient and responsive to social, economic and technological changes. A new Procurement Bill, now in the process of consultation, will promote the use of e-procurement and digital technologies to strengthen governance and open up the system to MSMEs. The Bank will continue to provide technical advice and support to the government on procurement reforms as part of the ongoing process around the Procurement Bill.

140. **Public procurement is also a vehicle for socio-economic development.** The Preferential Procurement Policy Framework Act (PPPFA) and the Broad-based Black Economic Empowerment Act (BBBEE) provide the framework for implementing preferential procurement policies and

promoting opportunities for historically disadvantaged groups participating in public procurement. However, there is a need for a rigorous evaluation system that measures the impact of the BBBEE on target groups. Following a dialogue with Eskom, the Bank has agreed to the application of PPPFA and BBBEE-based criteria in a major Bank funded procurement contract under the Eskom Investment Project (116410).[41] The outcome of this contract will be closely monitored with respect to the impact of using Eskom's suggested sustainability requirements and may inform similar decisions in future Bank-funded procurements.

141. **As part of enhanced monitoring of COVID-19-related procurement, the National Treasury has issued General Emergency Procurement instructions to prevent and combat the abuse of supply chain management processes and ensure that monies go where intended.** These instructions also specifically outline required control measures in relation to COVID-19 spending, such as reporting frameworks, internal measures between and within departments, the establishment of audit committees, and reporting on a monthly basis what has been procured, by whom and in what amounts. The President also announced a high-level committee, that includes law enforcement agencies, the Special Investigating Unit, and the Financial Intelligence Center to investigate anti-corruption cases involving COVID-19 funding.

III.4.4. Monitoring and Evaluation

142. **The preparation of the CPF Results Matrix has been a collaborative effort between the Government and the World Bank Group.** Given the flexible nature of this CPF, some indicators and milestones are set only until 2022. Following WBG guidance, some objectives go beyond what the WBG program will deliver on its own and are aligned with the client's Development Objectives as expressed in the 2012 NDP and the MTSF, 2019–2024, from the Department of Planning, Monitoring and Evaluation (DPME). A joint monitoring plan involving members of key Government departments as well as WBG has been designed. to facilitate the annual reviews that will be conducted to assess progress towards achieving milestones and outcome indicators. A full-fledged mid-term review will allow for a complete assessment of performance during the first two years as well as any adjustments needed to reflect new activities and changing circumstances.

III.4.5. Partnership and Development Partner Coordination

143. **In support of SA's development agenda, the WBG will continue to develop partnerships with other development partners to ensure that interventions are based on respective comparative advantages and contribute to scale up impact.** Several partners are supporting implementation of the SDGs. The European Union (EU), African Development Bank (AfDB), and New Development Bank (NDB), the GIZ and Kreditanstalt für Wiederaufbau (KfW) and UK are supporting South Africa's just energy transition. The UN, GIZ and EU are targeting health systems, TVET, and education sector reforms (See Annex 5). The Government's priorities of stimulating job creation are supported through MSME development and ecosystem programs under IFC, the UN and EU. South Africa is also a beneficiary of joint action plans under regional integration frameworks supported by multiple development partners. Recently, partners have also adopted a coordinated approach to supporting South Africa's COVID-19 crisis response.

41. The Bank's 2016 Procurement Framework stipulates that "Borrowers may include additional sustainability requirements in the Procurement Process, including their own sustainable procurement policy requirements, if they are applied in ways that are consistent with the Bank's Core Procurement Principles."

144. **The WBG will continue to work with other multilateral and bilateral lenders and partners, while IFC and MIGA will crowd in private sector investors and financiers.** IBRD has already co-financed activities in the electricity sector, together with the AfDB, KfW, the AFD, the European Investment Bank and others. Support has also been provided to agriculture finance through the Land Bank. The WBG will continue to develop joint and complementary initiatives on a strategic partnership for infrastructure delivery with the DBSA, the AfDB and NDB as well as bi-lateral financing institutions.

IV. MANAGING RISKS TO THE CPF PROGRAM

145. **The overall risk to achieving CPF development objectives is rated *Substantial*.** There are three main areas of risk: (a) Future country demand for WBG support is uncertain, depending on the duration of the COVID-19 pandemic and its impact on the Government's policy choices and the momentum for structural reform. (b) The relationship between South Africa and the WBG has deepened and has potential to mature further. (c) The unfinished transformation agenda, exacerbated by the pandemic and high levels of inequality, crime and GBV, could lead to social discontent, which could impact program implementation. Risks will be closely monitored throughout the CPF period, and deepened consultations with a broader constituency and capacity to adjust will allow for mitigation measures and adjustments to be made.

Table IV.1 **Systematic Operations Risk-Rating Tool (SORT)**

Risk Category	Rating (H, S, M, L)
1. Political and Governance	S
2. Macroeconomics	S
3. Sector strategies and policies	S
4. Technical design of project or program	S
5. Institutional capacity for implementation and sustainability	S
6. Fiduciary	S
7. Environment and Social	S
8. Stakeholders	S
Overall	S

146. **Political and governance risks are rated *Substantial*.** Since 2018, the Government has taken decisive steps to overcome the effects of recent disruptions and is going through a period during which governance (state capture) issues are being tackled and where the government intends to strengthen the social contract. Agreeing on a reform package that will necessarily hurt some short-term vested interests is made even more delicate during a recession. These risks will be

mitigated through continuous monitoring of political developments amongst others through the governance filter to assess the political feasibility of various interventions, and adjustments to the program as necessary. More efforts at demonstrating / communicating the intended results of WBG interventions may help build social consensus.

147. **Macroeconomic, fiscal and financial risks are rated *Substantial*.** Fiscal risks are related to deteriorating public finances and rising debt, exacerbated by the severe COVID-19 pandemic. These would negatively affect business confidence and slow the recovery. Higher interest payments on debt would also further crowd-out much needed capital and social spending. However, current favorable external sector developments could support stronger public revenue and a faster reduction of budget deficits. Financing requirements remain high but are mitigated in the short term by government large accumulated cash balances and over the medium term by the favorable debt profile (long maturity profile and small share of foreign currency debt). Weak growth potential in the absence of structural reforms would also weigh on the macroeconomic outlook. However, recent decisive reforms implemented (electricity generation, SAA) should boost confidence in the short term and contribute to raise growth in the medium term. Financial sector risks stem from sovereign-bank nexus and increases in vulnerabilities in the non-financial corporates and household sector in the context of the pandemic. Nevertheless, non-performing loans remain moderate at 5.2 percent at the end of February 2021 and capital buffers appear adequate, though the full extent of asset deterioration is not known yet due to forbearance measures.

148. **Sector strategy and policy-related risks are rated *Substantial*.** South Africa has developed strong strategies in economically important sectors, but implementation remains challenging with more scope for strengthened cross-departmental and intergovernmental coordination, which are particularly required for complex, and synchronized cross-sectoral reforms. The concentrated market structure in some sectors may reduce the pace of outcome achievements, such as access to markets / finance by MSMEs and previously disadvantaged groups important for reducing inequality. The WBG will mitigate these risks through technical cooperation and strong engagement to support implementation across the CPF focus areas.

149. **Implementation and sustainability risks are rated *Substantial*:** South Africa has a number of strong institutions, including the Reserve Bank, the National Treasury and key accountability structures. However, the broader public sector lacks sufficient capacity along the chain of design, financing, implementation, and monitoring and evaluation of development operations. There is also room for strengthening intergovernmental coordination, particularly across the three levels of government; long delays in policy formulation; a weak track record in policy implementation; and policy uncertainty, which constrains private investment. Specific attention will be paid throughout World Bank interventions on governance topics including the monitoring and evaluation of government performance; building the capacity of the state through collaborative leadership and coalition-building; and a systematic governance approach to activities with the use of a governance filter.

150. **Fiduciary risks are rated *Substantial*:** South Africa has a satisfactory financial management system as evidenced by its public financial management system consistently ranking among the best worldwide on the Open Budget Index of the International Budget Project. However, allegation of collusion, bid rigging, and corruption in public procurement, result in a substantial fiduciary risk downstream. These risks are mitigated through the planned DPME enhanced monitoring and evaluation measures and by government's commitment at the highest level to use its Special Investigating Unit to investigate complaints.

151. **Environmental/social risks are rated *Substantial*.** South Africa made significant strides in developing its framework for environmental management and mainstreaming environmental sustainability into decision making processes. However, because of the important role of fossil fuels in South Africa's economy, the low-carbon transition will need to be managed in a manner that does not lead to significant disruptions in the economy. To mitigate the risks of disruption, the World Bank will support Government efforts to implement adequate social action plans.

152. **Stakeholder risks are rated *Substantial*:** To mitigate the risk of stakeholder opposition or lack of buy-in to the CPF program, the WBG will expand collaboration and conduct regular consultations with the Government and its social partners: business, civil society, and trade unions. To ensure the relevance of the program, the WBG will engage in regular knowledge exchanges across academia and strengthen relationships with key players in strategic bodies such as the Presidential Economic Advisory Council, the President's Office, the National Planning Commission, think tanks, and the SA-WB Country Consultative Board.

ANNEXURES

Annex 1
Results Framework (FY22 – FY26)

In South Africa, the significant convergence between South Africa's 2012 National Development Plan (NDP) and the SDGs is often emphasized. According to an unpublished analysis by the Department of Planning, Monitoring and Evaluation (DPME) and the UN Development Program (UNDP), 74% of the SDG targets are directly addressed by the NDP, and sectoral programs address 19% of the remaining targets (DPME, 2019). Seen in this way, the SDGs have the potential to accelerate the realization of the NDP's vision, notably by fostering greater policy coherence and reducing duplication and inefficiencies.

The CPF is closely aligned with the NDP, implemented through a series of 5-year Medium-Term Strategic Frameworks (MTSFs). The Government's second MTSF (2019–2024)[42] reflects the priority programs of the current administration, which it is directly linking to achieving SDG targets (Sustainable Development Goals: Country Report 2019 for SA). Specific SDGs supported by the CPF include the following:

- *Focus Area 1:* This focus area has an impact on the government's efforts to achieve some of SDG goals such as *SDG 1 (No poverty), SDG 5 (Gender Equality), SDG 7 (Affordable and Clean Energy), SDG 8 (Decent Work and Economic Growth); SDG 12 (Sustainable consumption and production) and SDG 13 (Climate Action).*
- *Focus Area 2:* This focus area contributes to the government's efforts to achieving a few of the Sustainable Development Goals: *SDG 1 (No Poverty); SDG 4 (Inclusive and equitable quality education and lifelong learning opportunities); SDG 5 (Gender Equality) and SDGs10 (Reduced Inequalities); SDG 8 (Decent Work and Economic Growth)*
- *Focus Area 3:* This focus area contributes to the government's efforts to achieve *SDG 1 (No Poverty); SDG 5 (Gender Equality), SDG 7 (Affordable and Clean Energy), SDG 9 (Industry, Innovation and Infrastructure), (SDGs 11) (Sustainable Cities and Communities), SDG 13 (Climate Action).*
- *Cross-cutting CPF themes* contribute among others to SDG 16 (Inclusive Societies) and SDG 17 (Implementation and Global Partnership)

Focus Area 1: Promote increased competition and improved business environment for sustainable growth

Objective 1.1: Improved competition in selected markets and the business environment

Intervention Logic

This objective will help to improve the conditions to stimulate competition, create a more business-friendly environment, increase private sector investment and promote sustainable growth. This is particularly important in the post-COVID environment when all efforts must be made to reinvigorate growth and whereby the private sector will play a critical role in economic recovery considering the government fiscal constraint. In order to make significant headway in opening South Africa's markets to new entrants, greater investment and more dynamic competition, the government must ensure that the business environment is more conducive to investment and that pro-competition reform is elevated in the policy agenda and is seen as the responsibility of a broad range of sector regulators and line ministries that control markets. The concentrated market structure of economic ownership across South African markets—both within the private sector and between the private sector and public sector—has perpetuated the country's legacy of exclusion- by limiting opportunities for small or previously excluded entrepreneurs to enter and by making it difficult for small firms to compete with large firms. Anticompetitive effects of SOEs are caused not merely by the presence of SOEs per se, but by regulatory or financial advantages sometimes provided to SOEs that create a lack of level playing field and competitive neutrality across domestic markets. While South Africa has made important strides in implementing its competition law over the last two decades, there is still room to enhance a broader set of public policies—such as regulation of network industries and the financial sector—in a way that can foster competition and thereby address national social and economic objectives.

Insofar as competitive markets are central to investment, efficiency, innovation, and inclusive growth, regulation of competition (through overarching competition policy and implementation) and regulation for competition (through sectoral regulation) are central to efforts to promote new and retain existing investment, as well as to preserve and promote supply chains connecting foreign and domestic (often SME) suppliers. Eliminating or reducing the administrative cost on businesses would reinforce the outcomes of regulatory measures for increased competition in key markets.

The WBG will support reforms to policy frameworks that hinder competition across the economy (including frameworks regarding SOEs and investment incentives), but particularly in key sectors: (a) In the financial sector, the WBG will work towards a competitive, inclusive and resilient financial sector. The focus of this engagement will be on (i) acceptance of new players and innovative products in order to strengthen competition; (ii) implementation of the National Financial Inclusion Strategy in order to diversify financial products and providers, and increase financial inclusion for individuals in underserved segments of the market; and (iii) establishment of a resolution framework for weak financial institutions and introduction of deposit insurance coverage for individual savers, in order to strengthen business environment and financial resilience. (b) In the ICT sector, the WBG will facilitate accelerated access to affordable high-speed internet especially in townships and rural areas. The focus of this engagement would be on private sector led digital infrastructure expansion, including paving the way for deployment of next generation 5G networks. Completing the long-standing mobile spectrum auction in a way that incorporates pro-competition principles, alongside licensing a new national Wholesale Open Access Network, are expected to improve quality of broadband services and improve market entry for service-based operators, resulting in reduced market concentration. Ultimately improved competition is expected to contribute to lower data prices for consumers and to have a major contribution to the business environment overall and help growth of the digital economy. The WBG will provide support for technical design and implementation of government programs and regulatory instruments.

The CPF, through its ASA programs, will support the efforts of the government towards improving investment policies in order to achieve the national investment target, by (i) removing policy uncertainty at economy and sector levels in areas such as licenses, the BBBEE regime, land,trade and investment policies; (ii) boosting investor confidence by strengthening investment protection and retention policies and deploying tools for investor tracking, aftercare and grievance management, (iii) addressing binding constraints and inhibitors to investment in priority sectors, and (iv) upgrading the investment promotion framework. MIGA will continue to actively support in-bound foreign private investors.

42. https://www.nationalplanningcommission.org.za/assets/Documents/Frameworks/mtsf-2019-2024.pdf

The WBG will also continue the dialogue with the government to broaden the scope and deepen the efforts on creating an enabling business environment in areas such as (i) starting a business; (ii) registering a property; (iii) dealing with construction permits; (iv) paying taxes; (v) trading across borders; and (vi) getting electricity. Reforms are particularly important to support creation of new firms in a post-COVID-19 environment as well as ensuring government to business services continuity through automation

Expected Results

WBG support is expected to help improve the overall competition and investment framework, increase contestability of markets and tackle regulatory and governance bottlenecks in the business environment. In financial markets acceptance of new players and innovative products will strengthen competition. Overall, support for these measures should result in positive impacts on the economy through broadened ownership and market entry, increased productivity and competitiveness, less red tape, lower costs and increased employment. Key milestones expected to achieve these results include:

(i) Completion of the auction and licensing process for high-demand radio spectrum for mobile broadband use, in line with the Policy Direction which was issued in July 2019 and the recommendations from the Competition Commission Data Market Inquiry.

(ii) Enactment of revised National Payment System Act to allow non-bank financial institutions to issue e-money and compete with banks (2022).

(iii) Establishment of tiered banking framework to promote competition in the market for (digital) financial services including the issuance of e-money (2022).

(iv) Publication and implementation of National Financial Inclusion Strategy 2023 – 2025 (2025)

(v) Enactment of Financial Sector Law Amendments to establish a resolution framework and enable the establishment of Deposit Insurance Scheme (2020)

(vi) Improving the business environment by cooperating with GOSA in implementation of five areas by 2025: selecting from (1) starting a business; (2) registering a property; (3) dealing with construction permits; (4) paying taxes; (5) trading across borders; and (6) getting electricity..

CPF Objective Indicators	WBG Program
1. Cost of 1 gigabyte of mobile broadband data as % of Gross National Income (GNI) per capita. *Baseline:* 2.17% (Q2/2019) *Target:* 1.3% (2025) (Based on ITU methodology) 2. Concentration ratio of the 2 largest firms in the 4G wireless broadband market (based on number of connections) *Baseline:* 75% (Q2 2020) *Target:* 65% (2025) 3. Value of digital transactions by non-bank financial institutions as percentage of total value of digital transactions by bank and non-bank financial institutions" *Baseline:* 0% (2020) *Target:* 5% (2025) 4. Adults (age 15 years +) making or receiving digital payments (Percentage) *Baseline:* 60 percent (2017) *Target:* 70 percent (2025) Rural Population *Baseline:* 60 percent (latest Findex Survey 2017) *Target:* 65 percent (2025) Women *Baseline:* 61 percent (latest Findex Survey 2017) *Target:* 65 percent (2025) Income (poorest 40 percent) *Baseline:* 52 percent (latest Findex Survey 2017) *Target:* 60 percent (2025) 5. Eligible deposits insured by deposit insurance scheme *Baseline:* 0 (2020) *Target:* 80 percent (2025) 6. Time and # of procedures to start a business (2020) *Baseline:* 40 days and 7 procedures to register a business *Target:* 10 days and 3 procedures to register a business by 2025. 7. Time and # of procedures to obtain a permit in the construction sector *Baseline:* 155 days and 20 procedures *Target:* 120 days and 15 procedures by 2025 8. Time taken (hours per year) to complete tax payments *Baseline:* 210 hours per year *Target:* 168 hours per year by 2025	**Financing: Ongoing** • MIGA Guarantees: ongoing support for infrastructure / finance sector projects in MIGA's portfolio in South Africa **New Financing: Pipeline** • IFC Infrastructure: ICT, transport, water, mining • Target: US$150million Advisory: US$1million **AAA/TA/TF/Others: Ongoing** • Private Sector Competitiveness Advisory Project (IFC #602710) • Prosperity for Investment Advisory Project (IFC #602781 • Financial Sector Development and Reform Program II (P169126); US$4.3m donor funded (SECO) ASA supporting implementation of financial sector resilience, competition and financial inclusion reforms. • Financial Sector Assessment Program Update-FSAP (P170707); Joint IMF-WB assessment of Financial Sector stability and development issues. • SADC Cross-border Crisis Simulation RAS (P172847). • Southern Africa Financial Inclusion Follow-up ASA (P172042). • Southern Africa Digital Engagement (P172813) **AAA/TA/TF/Others: Pipeline/Indicative** • South Africa future drivers of growth, economic modeling and economic policy notes FY21 • Technical Cooperation on competition • Agricultural finance and insurance • TA South Africa Credit Reporting & Financial Inclusion Program (IFC) 605106

Objective 1.2: Greater climate change resilience and environmentally sustainable investments in selected sectors

Intervention Logic

Extreme climate events, such as severe droughts and floods, have put basic services and infrastructure and economic sectors such as agriculture under threat. In addition to its vulnerabilities to climate change impacts, South Africa is also a major emitter of greenhouse gases, mainly CO_2. About 91 percent of its total power generation is coal based with significant associated negative externalities—such as damage to health from air pollution, water quality and environmental degradation. The Government has committed to ambitious NDC targets under the Paris Agreement and has adopted detailed plans (e.g., IRP2019) to achieve it. A climate-smart and just transition is critical. Such transition also offers new investment opportunities that can create jobs, improve basic services, make the economy more resilient, and ultimately become new engines of economic growth.

The CPF will

- support GOSA in the integration of climate risks into macro-fiscal planning and infrastructure investment by increasing the capacity of GOSA to mainstream climate change into fiscal and budget processes, institutionalize the integration of climate and transition risks into the infrastructure delivery framework, as well as support sustainable finance and greening of the financial sector.
- support key measures of the NDC through designing and piloting key new climate policies underlying the NDC along with the provision of necessary tools such as a climate finance planning and tracking system, and action roadmaps in selected sectors/metros.
- provide IRP2019 implementation support to GOSA for a secure and sustainable generation mix to enable a just transition pathway for the electricity sector, particularly through more renewable energy, battery storage and decommissioning and repurposing of aging coal plants. IFC will continue to support the reduction of CO_2 emissions, the financing of renewable energy independent power producers (IPPS), embedded generation for commercial and industrial projects, smart grid infrastructure, and energy efficiency and distribution loss reduction in municipalities. MIGA will continue to support IPP wind and solar energy-generating facilities participating in the REIPPP and explore and de-risk cross-border investment and lending in renewable energy projects.
- support GOSA in its efforts to increase investments and actions towards a just transition and climate resilience in the agriculture, water and sanitation services, and land-use, as well as an increase in private sector investment and participation in these sectors.

Expected Results

WBG support will contribute to a transition to a low-carbon and climate resilient economy, as well as supporting achievement of the country's NDC. This will be measured through a secured and sustainable energy mix, through use of battery storage, carbon capture and storage, demand side energy efficiency and reductions of carbon emissions throughout the energy value chain. In addition, WBG interventions will lead to greater resilience through improved land and water use and drought management. Key milestones include:

(i) Awarding of battery storage supply and installation contracts; 10 metric tons (MT) carbon capture, storage and utilization.

(ii) Implementation of carbon tax; and IFC supporting the private sector with US$400 million new finance in climate mitigation and adaptation, to reach private sector investment of US$1billion by 2025

(iii) Operationalization of the SAGERS by DEFF and finalization of a GHG reporting and assessment framework for the energy and mining sectors by DMRE.

(iv) Completion of the Southern African Power Pool Drought Sensitivity Assessment and Adaptation Strategy; and completion of a Watershed Management Plan for Livelihood Resilience in at least one transboundary River Basin.

(v) Revised NDC includes specific gender targets by 2025.

(vi) Climate budget tagging system implemented at three levels of government—one each on municipal, provincial and national level (NT)

(vii) Three provinces supported in prioritizing irrigation investments and putting in place arrangements for the financing and implementation of irrigation improvement in three irrigation schemes.

(viii) At least five partnerships supported between agribusiness and small and emerging farmers to prepare and implement plans to increase inclusion (black shareholding) in partnerships and adopt climate smart agricultural practices

CPF Objective Indicators	WBG Program
1. New battery energy storage capacity installed to scale up renewable energy integration *Baseline:* 0 MW (2020) *Target:* 300 MW (2023), absorbing energy generation by an equivalent of up to 1350MW renewable energy capacity 2. Greenhouse gas emissions reductions achieved from a) Carbon tax *Baseline:* 0% (2020) *Target:* 3% (2025) and b) Greenhouse gas emissions reductions achieved from private sector investments in clean energy (US$1 billion FY21–25) *Baseline:* 0 (2020) *Target:* 1.5MT CO_2/year (2025) 3. Greenhouse gas emissions reporting and assessment framework *Baseline:* National Atmospheric Emissions Inventory System (NAEIS) *Target:* Implementation of South Africa Greenhouse Gas Emissions Reduction System (SAGERS) and Development of a GHG reporting and assessment framework for the energy and mining sectors by 2025	**Financing: Ongoing** • Partnership for Market Readiness (P155885) • Eskom Renewable Support Project (P122329 • MIGA Guarantees: ongoing support for 13 renewable sector projects • Market Acceleration for Green Construction African Regional Program (IFC) **New Financing: Pipeline/indicative** • IFC private sector investment in climate mitigation and adaptation: $400 million new investment FY 21–25, Advisory:US$1.2m **AAA/TA/TF/Others: Ongoing** • Programmatic ASA on Energy in South Africa (P172682) • Grant support to develop climate smart mining strategy (P174003) • Grant support on coal plant decommissioning/repurposing (BETF/RETF). FY 21 • Grant support on financing strategy to achieve energy efficiency target (BETF) FY21

4. Area under improved protected management status *Baseline:* 0.00 hectares (ha) (2020)[43] *Target:* About 175,000 ha of additional area put under improved[44] protected area management (FY26).	• PASA Support the Implementation of NDC (ASA, BETF) • TA to Develop Carbon Capture (P149521) • Support for climate risk management and finance strategy, including agricultural insurance • DBSA RAS on Beyond the Gap • "30 by 30 zero program"- WB/IFC Climate finance partnership (IFC) 603410; WB P169126) • Environmental Performance & Market Development- South Africa (IFC) • Watershed Management Plan for Livelihood Resilience in the Limpopo and Cubango/Okavango Basins (part of the regional SADC drought resilience initiative, P173077 • Catalyzing Financing and Capacity for the Biodiversity Economy around Protected Area (GEF IPF project) FY21 • Wildlife Conservation Bond (GEF IPF project). FY21 **Indicative AAA/TA/TF/Others** • South Africa Air Quality Management, Greater Johannesburg, P170743 • Support for development of a disaster risk management and finance strategy (linked to Urban RAS) FY21 • Climate risk management and stress test in FIS, FY21

Focus Area 2: Strengthen MSME performance and skills development to support job creation

Objective 2.1: Increased development of selected value chains with strong job-creating potential

Intervention Logic

More targeted support is needed to attract investments in value chains with high job creation potential. Select value chains such as in agriculture/agribusiness, automotive sector, renewable energy, climate smart mining, transport, tourism and digital products and services have the potential to create new and better jobs including for low/unskilled youth. For these key sectors, it is important to help identify key bottlenecks, facilitate policy decisions to remove them and mobilize private sector investments. For example, in the agriculture/ agribusiness space, the WBG will support the efforts of national and provincial agencies (starting initially in Eastern Cape Province) to: (a) identify agricultural areas of greatest potential through assessment of water availability and land suitability; (b) address land governance, zoning and land registration-related constraints to investment; (c) facilitate at least three partnerships between agribusinesses and medium commercial and emerging farmers and bring at least 4000 hectares under new horticulture production; (d) strengthen delivery of rural infrastructure and services to improve small and emerging farmers' access to water, technology, and markets; (e) increase lending to small and medium farmers through at least three investments supported by IFC risk-sharing facilities and / or other GOSA / DFI mechanisms / programs in this regard; and (f) address investment climate constraints along value chains. WBG will also support rural infrastructure development (such as irrigation, potable water and rural roads) to promote spatial convergence and connectivity, as well as facilitate regional trade integration and value chains. In addition to agriculture, IFC will continue to support the automotive sector value chain to increase localization through supplier development efforts aimed at facilitating at least three investments totaling US$100 million for Tier 1 and below suppliers. MIGA will continue to support Land Bank through its guarantee for non-honoring of financial obligations of SOEs with the aim of enhancing Land Bank's ability to support farmers through its financial products and loans.

Expected Results

The WBG support will contribute to GOSA's implementation of targeted programs to attract investment in value chains with a high potential for job creation, including for low/unskilled youth. It is expected that WBG's interventions will help address critical bottlenecks and translate into greater investments and ultimately increased job creation. For example, in the agribusiness sector, it is expected that the interventions will help to address the constraints which hinder the inclusion of small and emerging farmers in commercial value chains, including limited access to finance, limited agriculture know-how, limited access to technology, and productivity/quality issues. This would in turn translate into jobs created in the concerned value chain. Similar results are expected in other value chains as interventions are rolled out throughout the CPF.

CPF Objective Indicators	WBG Program
1. Lending to Small and Medium-scale Farmers (SMF) by Financial Institutions *Baseline:* US$350 million (2020) *Target:* US$700 million (2025) 2. Jobs created in Horticulture and Beef Value Chains (i) Horticulture (estimates based on IFC investment of US$50 million) *Baseline:* 0 (2020) *Target:* 18,750 (2025) (Includes 6,250 direct and 12,500 indirect jobs. 70% direct for men, 50% indirect for women. IFC estimates based on 4,000 ha additional production)	**Financing: Ongoing** • Land Bank Financial Intermediation Project (P150008). • MIGA Guarantees: Ongoing support for Land Bank to support on-lending in accordance with the its mandate, including in value chains in agriculture/ agribusiness • MIGA guarantees for South Africa's outward investments/lending supporting the integration of South African firms and financial institutions into regional value chains • MIGA Guarantees: ongoing support with a NHSOE guarantee to the private commercial banks for their loans to Development Bank of Southern Africa to expand its USD lending portfolio in

43. None has been implemented so far through World Bank-financed activities. This does not refer to areas put under improved protected area through government's own support.

44. Including climate risk management and improved resilience.

(ii) Beef: (estimates based on support to 10,000 smallholder producers owning 10 cattle each). *Baseline:* 0 (2020) *Target:* 1,000 (2025) 3. Increased share of the supply chain sourced locally ('local content') 'in the automotive value chain (estimates based on IFC investment of US$100million) *Baseline:* 38.7% (2020) *Target:* 42% (2025)	South Africa and in the broader Southern African Development Community, primarily in infrastructure **New Financing: Pipeline/indicative** • Additional financing under P150008 • IFC private sector investment in agribusiness value chains. Target: US$100m by 2025 • IFC financing to support Tier 1 and below automotive suppliers, and localization of automotive supply chain in line with the DTI's Automotive Masterplan 2035 • Regional Trade Integration and Value chains **AAA/TA/TF/Others: Ongoing** • Strategic Agri-business Partnerships in South Africa (IO 2103595) • IFC value chain support • Agriculture Finance Diagnostic **Indicative AAA/TA/TF/Others** • Integration of small holder farmers into commercial value chains TA • Climate smart agricultural services and infrastructure in the Eastern Cape (ASA / TA) FY21 • ASA on Roadmap for Sustainable Livestock Value Chain in Southern Africa (P174621) $0.1m, FY22 • Agri-processing resource efficiency (IFC) 603267 • South Africa Automotive Linkages/Local Supplier Development Program (IFC)

Objective 2.2: Strengthened ecosystem for MSME creation and growth

Intervention Logic

MSMEs account for about half the country's work force and more than a third of GDP. Given the high levels of informality of MSMEs, limited employment and financing opportunities, there is an increasing risk that the worsening macroeconomic challenges (exacerbated by the effects of the COVID-19 pandemic) will drive more MSMEs into further decline. The GOSA is implementing a range of programs to create, support and grow MSMEs and entrepreneurship, targeting youth, women as well as township and rural economies.

There is a need to enhance coordination, efficiency, efficacy and impact of the multiple public sector programs which the WB will support through (i) facilitating increased collaboration, and networking amongst the startup ecosystem actors through a Startup Community for sharing of data, knowledge and experiences and piloting innovative approaches; (ii) improved governance of the public and private interface through the design and implementation of monitoring and evaluation frameworks and tools to optimize public finance support for firms and entrepreneurs, and (iii) facilitate access to markets and crowding in private funding for early stage finance, especially for underserved entrepreneurs through innovative finance instruments and targeted solutions for women and youth. This support will be delivered through a multi-year programmatic Jobs Platform analytical and advisory services (ASA). Specifically, the WBG will:

- support government efforts to develop and implement the MSME Access to Finance Action Plan and potentially other areas such as improving the impact of the Partial Credit Guarantee Schemes and establishing an Online Movable Asset Registry;
- provide advisory support to the Government in the development of regulatory and policy responses to Fintech;
- support the assessment of State-Owned Financial Institutions (SOFI) to highlight the key constraints in terms of limited effectiveness of government support programs, and
- support public and private initiatives to enhance support to strengthening the ecosystem for entrepreneurs and tech startups, through a multi-year programmatic ASA on financial inclusion and development, the Jobs Platform as well as the SECO funded Financial Sector Development Reform Program.
- IFC support for SMEs access to finance and technical cooperation through various financial institutions, including commercial banks is targeted at delivering at least US$400m lending to MSMEs. IFC is also exploring support for affordable housing through specific investments including loans directly to developers, or to commercial banks and non-banking financial institutions, for on-lending. IFC will provide advisory services to investee financial institutions to enhance their capabilities to serve the SME segment as well as provide loans to climate mitigation and resilience projects, thereby enabling them to better utilize the IFC.

Expected Results

The main result expected under this objective is a significant enhancement of the overall ecosystem supporting MSMEs and startups. This would translate into the following impacts: more effective and better-connected support institutions to SME/startups (including through a digital platform), better resolution of administrative and regulatory bottlenecks preventing SME/startups to emerge and grow and increased access to financing, including equity. This would be measured by the number of startups created and surviving and the volume of investments mobilized by the end of the CPF.

CPF Objective Indicators	WBG Praogram
1. Number of entrepreneurs who have developed their business models through mentoring, coaching, training and matchmaking support delivered through the startup community. *Baseline:* 0 (2020) *Target:* 300 (2025)	**Financing: Ongoing** **New Financing: Pipeline/indicative** • IFC Inclusive Finance, Capital Markets, US$400m, FY21–25

2. Number of supported startups that have raised additional funding to scale their ventures *Baseline:* 0 (August 2020) *Target:* 100 (2025) 3. Increased lending to MSMEs by Financial Institutions *Baseline:* US$16.68 billion (2020) *Target:* US$21.29 billion (2025)	**AAA/TA/TF/Others: Ongoing** • Jobs and Economic Transformation ASA (P171855) ending FY22 • Digital Engagement ASA (P172813) ending FY22 • Financial Inclusion Program ASA (P172044), ending FY22 **Indicative AAA/TA/TF/Others**

Objective 2.3: Strengthened employment and skills development services

Intervention Logic

South Africa has a variety of programs targeted at both labor supply and demand aiming to raise youth employability: training for skills development, entrepreneurship promotion, labor market intermediation services and employment schemes, among others. However, the current programs are fragmented, mostly target graduates and few resources are geared towards unskilled vulnerable youth, and the TVET system remains weak in equipping youth with skills demanded by a modern economy. The WBG will:

- support the modernization of employment services by developing, testing, and implementing modern skills profiling, matching, and e-Learning platform tools into employment services;
- identify mechanisms to strengthen the service delivery of public and private active labor market programs (ALMPs) through cooperation with actors such as the Presidential Employment Stimulus Program and the Department of Employment and Labour.

Particular attention will be paid to disadvantaged girls and low-skilled vulnerable youth. Technical outputs would include: a) the curation and transfer of data, tools, and models into the local online zero rated mobi.site as well as to on-the-ground employment centers, b) real time map of services developed by youth and available to youth to access in their communities; c) a review of ALMPs including recommendations for how to strengthen these to better respond to South Africa's youth employment challenges especially for the COVID-19 recovery phase. Technical cooperation with Government will be take place on the Presidential Youth Employment Intervention for the development of an integrated youth employment one stop shop platform for profiling, training and matching youth made available to youth employment accelerators such as YES and Harambee through the National Youth Portal.

- expand non-formal training through technical cooperation to scale up incubation and entrepreneurship training centers and developing social-emotional skills and job readiness on-line training modules. strengthen the TVET system for improving the employability of graduates in a changing job market through an analysis of critical determinants of companies to participate in WPBL, especially of micro and small businesses, as well as strengthening informal apprenticeship training in the township economy; and strengthen MIS in post-school education and training (PSET) to improve outcomes monitoring; and prepare an options paper for scaling up TVET through more cost-effective and coordinated financing models;;
- identify training and skills requirements for value chains with high job creation potential (2.1) and direct youth toward these opportunities with the objective of increasing the number of tertiary education institutions using employability tools to prepare skill programs for the labor market from 2 to at least 8; and
- IFC to implement the Employability Tool in TVET institutions and universities. The Tool is a global platform which helps institutions identify and address key challenges in preparing their graduates for the job market.

Expected Results

WBG interventions will help improve the access of youth to better quality job intermediation services. This would result into: (i) more youth being better prepared for entrepreneurship or the job market and hence having a greater chance of finding a job; (ii) better matching between supply and demand for jobs in selected value chains, and (iii) a better adjustment of tertiary institution programs to the needs of the jobs market.

CPF Objective Indicators	WBG Praogram
1. Job-seeking youth supported through the availability of digital job intermediation tools which aim to increase the employability and close skill gaps of vulnerable youth and strengthen the quality of service that employment services provide for youth. *Baseline:* Youth Employment Service (YES) uses the digital profiling tool for intermediation and generated 30,000 apprenticeship opportunities (Q1 2020) *Target:* Harambee and the Presidential Pathway Management Network use the digital profiling and e-Learning tools for their network which includes around to support 2,000,000 youth (by 2025) 2. Number of tertiary education students with access to improved employability services *Baseline:* 0 (Aug. 2020) *Target:* 8,000 (by 2025) 3. Number of youths trained in jobs created by specific value chains *Baseline:* 0 (Aug. 2020) *Target:* 50,000 (by 2025)	**Financing: Ongoing** **Planned/Indicative New Financing** • IFC financing to private student accommodation sector, and co-funding of public student accommodation alongside DBSA to support Student Housing for TVET and University Students, thus supporting skills development at Tertiary Institutions **AAA/TA/TF/Others: Ongoing** • ASA: Skills for Employment • ASA: Innovations in Youth employment in SA • ASA: Social Protection System Review • ASA: The future of medical work • ASA: Jobs Platform (support to 5x5) • South Africa Skills (IFC) 604960 • Support to Trace Academy **Indicative AAA/TA/TF/Others** • ASA: Integrated skills development approaches for disadvantaged youth—an assessment of SA's vis-à-vis international experience • ASA: Advancing TVET system Reform in SA: financing, relevance, digitalization and monitoring and evaluation • ASA: Ensuring tighter linkages between the TVET system and employers

Focus Area 3: Improve Infrastructure Investment Framework and Selected Infrastructure Services

Objective 3.1: Improved infrastructure investment framework

Intervention Logic

South Africa has developed a relatively good infrastructure base, but gaps remain in public services provision while infrastructure spending has been declining over the last years. The COVID-19 pandemic will add to the immediate pressures on the fiscus to finance infrastructure, while the downgrading of its sovereign credit rating is making it more expensive for the government to raise money on international markets, including for infrastructure investment. Existing public investment frameworks lack robust infrastructure planning, identification, preparation, financing and delivery mechanism to ensure adequate infrastructure services are delivered. Coordination among agencies at different levels is suboptimal. There is a need for further clarity on specific roles and responsibilities of each of the stakeholder institutions across the project cycle to ensure projects are identified, prepared, financed and implemented in a fiscally sustainable manner. The Infrastructure Fund (IF) initiative, supported by the Memorandum of Agreement (MoA) between the key stakeholders (Infrastructure South Africa, National Treasury and Development Bank of Southern Africa), aims to develop sustainable infrastructure with an aim to crowd-in private sector investments. The recently established delivery unit, Operation Vulindlela (OV), will help facilitate implementation acceleration of selected priority sectoral reforms to support investments with private sector.

The CPF will support key actions aimed at improving the infrastructure investment framework, by providing technical and financial resources to:

- Strengthen the overall infrastructure investment framework, focusing on improving the framework for overall infrastructure governance, aligning investment priorities in infrastructure with policy objectives, improving controls for infrastructure financing with a focus on fiscal commitment and contingent liabilities (FCCL), and strengthening the framework and implementation of public investment management (PIM), Budget for Facility (BFI) and public-private partnerships.
- Strengthen the capacity of key infrastructure stakeholders including line ministries, sub-national entities and SOEs for project identification, prioritization, preparation, financing and implementation in priority sectors, in accordance with the SIDS Methodology. These mechanisms must align with the South Africa's Infrastructure Investment Plan and the institutional mechanisms articulated in this Plan.
- Support Infrastructure South Africa in designing policies, regulations and frameworks aimed at mobilizing institutional investors, including through the development of scaled-up solutions such as investment consortiums and developing replicable financial structures and vehicles.

The WBG will apply the MFD approach through integrated and complemented interventions from IBRD, IFC and MIGA, as has been done in the energy sector.

Expected results

WBG support will contribute to strengthened PIM and BFI frameworks; IF processes; more capacitated line ministries, sub-national entities and SOEs in project identification, prioritization, preparation, financing, and implementation in priority sectors; and improved policies, regulations, frameworks and solutions including for mobilizing institutional investors. Key milestones that would support the achievement of the outcomes include:

(i) Appraisal and Evaluation guidelines approved and applied for all public investment projects reviewed under BFI (2022)

(ii) Recommendations/reforms in accordance with the proposed roadmap for the PPP framework are approved and applied by National Treasury to registered PPP projects

CPF Objective Indicators	WBG Program
1. Strengthened PIM and BFI processes for selection, appraisal and evaluation *Baseline:* 0% of new large projects approved using appraisal and evaluation guidelines (2020) *Target:* 75% of new large projects approved using the appraisal and evaluation guidelines (2025) *Note:* Large projects refers to projects above a certain threshold as currently defined by BFI (a system of procedures and guidelines to infrastructure projects exceeding ZAR 90 million) 2. National Treasury application of strengthened PPP framework for PPP projects through adoption of improved and efficient processes under the PPP regulation (National Treasury Regulation 16) *Baseline:* 26 months approval time efficiency for PPP projects (2021) *Target:* 20 months approval time efficiency for PPP projects (2025) *Note:* The improved PPP regulation (National Treasury Regulation 16) provides streamlined and more efficient review and approval processes for PPP projects.	**Financing: Ongoing** **Planned/Indicative New Financing** **AAA/TA/TF/Others: Ongoing** • Support for a strengthened Infrastructure investment Framework • Review & strengthening of PFMA, Procurement Frameworks and PIM process • Strengthen South Africa's Asset, Debt and Risk Management approaches and practices • DBSA RAS on Beyond the Gap (RAS) **Indicative AAA/TA/TF/Others** • Public Expenditure Review FY21 • Review & strengthening of PPP framework • Infrastructure Fund, including for green, public-private infrastructure program • Support in development of National Infrastructure Plan (NIP 2045) • Facilitate long-term LCY financing through capital markets (Capital Markets Strengthening Facility (CMSF) Trust Fund) P169126.

Objective 3.2: Improved infrastructure services by selected SOEs

Intervention Logic

South African infrastructure SOEs are critical to the delivery of affordable and high-quality infrastructure services in priority sectors and play a central role in the country's economy and growth. SOEs face different challenges in providing infrastructure services that are cost effective, arising from factors such as a lack of clarity on sector policy and regulatory frameworks, institutional arrangements and decision-making processes, governance, operational and financial sustainability issues, and weakened capacity to operate infrastructure efficiently. These issues require designing and implementing a customized support package for SOEs across different sectors. This CPF will focus initially on the transport sector SOE, Transnet, and the electricity sector SOE, Eskom, as these institutions are key to the country's competitiveness and Eskom, especially, to lowering the fiscal burden and carbon-intensity of electricity generation. Thus, the focus on Eskom is tantamount to a focus on a just energy transition in South Africa, with a more sustainable SOE that is sourcing energy from low carbon fuel sources. Decommissioning / repurposing of Eskom's inefficient and or obsolete coal-fired plants will support Eskom's financial standing by reducing operational costs associated with these 'liabilities'.

The CPF will contribute to SOE reforms and measures that would increase their efficiency and financial sustainability through the design and implementation of customized support packages tailored to their needs:

- For Transnet, this support is expected to include areas related to their own reform program.
- For Eskom, the WBG will support the Eskom Restructuring / government reform program to improve the operational performance and financial stability of the company to ensure electricity supply security. In parallel, the power sector reform agenda, set out along the lines of the Eskom Restructuring Paper and other government documents, includes (a) Eskom's full legal unbundling; (b) creating competition in generation; (c) dealing with Eskom debt management and optimization; (d) improving efficiency in electricity distribution;; (e) scaling up renewables; and (f) implementing the just energy transition.

Expected results

The WBG support will contribute to increased efficiency, security of supply and financial sustainability through the design and implementation of customized support packages tailored to the needs of

(i) Transport SOEs, Transnet, with the latter supported by development and implementation of a credible recovery plan;

(ii) the electricity SOE, Eskom, with decommissioning of 3 Gigawatt (GW) of old, inefficient and expensive coal fired capacity and repurposing of those sites with RE through PPP to improve service quality and improve the financial position of Eskom.

CPF Objective Indicators	WBG Program
1. 1. Supporting the Just Energy Transition *Baseline:* no coal plants retired/repurposed (2020) *Target:* 3 GW of retired coal plants / 1 GW repurposed with renewables and PPP (2025) 2. Increased operational efficiency in Transport SOEs: Improve private sector participation in container terminal operations in Durban and Ngqura and the freight rail sector to the Gauteng region; *Baseline:* No (2020) *Target:* Yes (2025)	**Financing: Ongoing** • MIGA Guarantees: Ongoing support with a non-honoring guarantee to the private commercial banks for their financing to Eskom Holdings SOC Ltd (power) **AAA/TA/TF/Others: Ongoing** • Support Eskom institutional, governance and operational reforms through Programmatic ASA on Energy in South Africa (P172682) • Support regional cooperation in energy, transport & transport facilitation and ICT **Indicative AAA/TA/TF/Others** • Support SOE Institutional, Governance and Operational Reforms—Transnet • Support to Infrastructure Fund (ASA)

Objective 3.3: Improved planning and delivery of infrastructure services in targeted cities

Intervention Logic

South Africa's urban areas are still characterized by the Apartheid legacy of the inefficiency and inequality of spatial and economic disparities. The focus on spatial convergence coincides with the objectives of GOSA in building sustainable and economically viable communities. The CPF support seeks to unlock the potential of previously marginalized spaces in urban settings across the country, supported by sustainable basic services, such as water and sanitation. In the urban space,

- The WBG support will contribute to strengthen basic service delivery and institutionalization of the Cities Support Program within the eight metropolitan areas by improving the planning and delivery of infrastructure services. It will support enhanced development outcomes in specific policy areas such as informal settlement upgrading, People's Housing Program (PHP), affordable housing, social/rental, and inclusive housing. WBG will support scaling-up of city-wide upgrading to improve functional tenure, safety, health security, improvement of basic services and community empowerment and partnerships. In addition, the CPF aims to support cities to develop streamlined planning processes and strategies, while integrating climate-resilient and sustainability principles into their programs and investments.
- Urban connectivity remains one of the strategic anchors towards achieving spatially equitable cities in South Africa. The WBG is supporting the National Treasury to improve the sustainability of public transport programs through improved financial planning and system integration. Through the Urban RAS, WBG will contribute towards planning, strategies and roadmaps for critical urban transport sector reforms, with a focus on the reform of national public transport grants, innovation of municipal urban transport financing, and integration of ticketing between Metro Rail and Bus Rapid Transport.
- IFC will support municipalities in water, energy and other sectors. MIGA will explore supporting cross-border investment and lending to eligible cities and municipalities, and transport/urban connectivity projects through its products.

Expected Results

WBG will contribute to strengthen basic public service delivery and institutionalization of the Cities Support Program within the eight metropolitan areas. It will support enhanced development outcomes in specific policy areas such as informal settlement upgrading, PHP, affordable housing, social/rental, and inclusive housing. WBG will also support scaling-up of city-wide and in-situ upgrading to improve functional tenure, public transport, safety, health security, basic WASH and other services and community empowerment and partnerships. Key milestones that would support the achievement of the outcomes include: (i) 4 cities implementing water resilience strategies; (ii) IFC broadening its support for municipal water, energy and other sectors for 6 cities; (iii) adoption of 4 smart-city strategies by select municipalities; (iv) all

8 metros apply finance planning strategies / tools; (v) 5 cities implementing the Township Development Program under the Cities Support Program; (vi) 2 Cities adopt integrated informal settlement upgrading plans under the Upgrading Partnership Grant; (vii) guidelines for a national public transport grant reform program developed; (viii) guidelines for improved integration of public transport system developed; (ix) a clear framework and roadmap for the reform and improved integration of the Minibus Taxi sector developed.

CPF Objective Indicators	WBG Program
Improved multi-sectoral urban planning capabilities for basic service delivery in all 8 metros. *Baseline:* 0 (2020) *Target:* 8 metros (2025)	**Financing: Ongoing** **Planned/Indicative New Financing** • IFC Infrastructure Investment in select cities (African Cities Platform) US$150m (2023) Advisory Services, US$5m • IFC Infrastructure: ICT, transport, water, mining. Target: US$150m Advisory: US$1m • IFC private sector investment in clean energy and gas. Target: US$200 million, Advisory: US$1.2m **AAA/TA/TF/Others: Ongoing** • RAS for Infrastructure Investment and Integrated Urban Development (RAS) • SECO II Urban Knowledge Hub (ASA, BETF) • DBSA RAS on Smart Cities (RAS) • PFM support to South African Metro Cities (ASA, BETF) • Promoting Road Safety (ASA) • DBSA RAS on Urban Mobility (RAS) • Gender and Inclusion (ASA) • eThekwini wastewater PPP (IFC) 605021 • Africa Cities Platform (IFC) 603163 • Ekurhuleni Advisory (IFC) 605519 • Thekwini NRW (IFC) 605507 **Indicative AAA/TA/TF/Others** • Solid waste management and circular economy (ASA) FY21

Annex 2
IBRD Portfolio

Annex 2.1 IBRD Pipeline portfolio, CPF

Project Name	Len. Inst Type	Comm (US$m) Total	Fiscal Year
South Africa: Wildlife Conservation Bond (P174097)	GEF Grant =IPF	15.00	FY21-Q3
South Africa: Catalyzing Financing and Capacity for the Biodiversity Economy around Protected Areas (GEF), (P170213)	GEF Grant-IPF	9.00	FY21-Q3
Total		24.00	

Annex 2.2 IBRD Non lending deliveries, CPF FY2022 – 26

(45 in total): 10 Southern Africa, 35 South Africa

Sector	Lead GP/Global Themes	Task ID	Project Name	Closing Date FY	Prod Line	Activity Start Date	Delivery/ Completion
Equitable Growth, Finance, and Institutions	Finance, Competitiveness and Innovation	P172849	South Africa: Ombuds Diagnostic	2021	AA	4/2/2020	5/31/2021
		P170707	South Africa FSAP Update	2022	AA	3/8/2019	9/15/2021
		P169126	South Africa Financial Sector Development and Reform Program Phase II	2022	AA	9/27/2018	11/30/2021
		P171855	Jobs and Economic Transformation in Southern Africa (Support to the Jobs Platform)	2022	AA	8/16/2019	5/31/2022
		P174455	South Africa Trade Facilitation	2022	AA	6/15/2020	5/31/2022
		P172131	Component 3: Inclusive Economic Development at City, Regional and National Level	2023	AA	9/26/2019	9/6/2022
		P172044	Southern Africa Financial Sector Development (Botswana, Eswatini, Lesotho, Namibia, South Africa)	2023	AA	8/19/2019	6/30/2023
	Governance	P175157	Southern Africa Governance and Political Economy Facility (Governance Facility)	2022	AA	10/28/2020	7/30/2021
		P173396	Effective and Sustainable Fiscal and Urban Financing and Strengthened Governance	2022	AA	1/27/2020	1/31/2022
	Macroeconomics, Trade and Investment	P175504	South Africa — Economic Update	2021	AA	10/5/2020	5/31/2021
		Planned	Country Economic Memorandum	2022	AA	7/30//2021	6/30/2022
		Planned	South Africa — Public Expenditure Review	2022	AA	7/30/2021	6/30/2022
		P175579	Leveraging Trade for South Africa's Recovery and for Inclusive Long-Term Growth	2022	AA	11/9/2020	9/30/2021
		P129817	South Africa — Government Debt and Risk Management	2022	AA	2/8/2012	12/31/2021
	Poverty and Equity	P164927	Southern Africa Programmatic Poverty Assessment and Statistical Capacity Building	2022	AA	9/21/2017	9/13/2021

Sector	Lead GP/Global Themes	Task ID	Project Name	Closing Date FY	Prod Line	Activity Start Date	Delivery/ Completion
Human Development	Education	P171994	Programmatic Education ASA on Skills for Gainful Employment for Youth in Southern Africa	2021	AA	10/22/2019	6/29/2021
		P175679	Early Childhood Development in South Africa	2022	AA	10/19/2020	3/30/2022
		P172616	Early Grade Reading in Southern Africa	2022	AA	10/15/2019	6/30/2022
	Health, Nutrition & Population	P172420	Designing and Implementing Interventions to Accelerate Human Capital Formation for Adolescents in South Africa, Eswatini and Lesotho	2021	AA	9/23/2019	5/28/2021
		P171798	The Future of Medical Work in Southern Africa	2022	AA	7/24/2019	9/28/2021
	Health, Nutrition & Population	P175444	Investing in Human Capital in Southern Africa	2022	AA	10/27/2020	4/28/2022
	Other	P154307	South Africa Youth Job Search Assistance	2022	AA	2/18/2015	8/31/2021
	Social Protection & Jobs	P172175	Review of Social Protection Systems in Southern Africa	2022	AA	9/19/2019	1/31/2022
		P168508	Supporting innovations for youth employment in South Africa	2022	AA	9/19/2018	2/28/2022
		P175294	Adaptive Social Protection in Southern Africa	2022	AA	9/21/2020	5/31/2022
Sustainable Development and Infrastructure	Agriculture and Food	Planned	Eastern Cape Engagement	2023	AA	7/31/2021	12/31/2023
	Climate Change	P172748	South Africa: Supporting the Implementation of Nationally Determined Contribution	2022	AA	12/5/2019	6/30/2022
		Planned	Climate Change and Development Report	2022	AA	7/30/2021	6/30/2022
	Digital Development	P172813	Southern Africa Digital Engagement	2022	AA	4/4/2020	6/30/2022
	Energy & Extractives	P172682	Programmatic ASA for Energy Sector in South Africa	2022	AA	12/11/2019	6/30/2022
		P151193	Programmatic Technical Assistance for Capacity Building for Carbon Capture and Storage in the Republic of South Africa	2023	AA	12/18/2014	12/30/2022
	Infrastructure, PPP's & Guarantees	P171413	South Africa PPP Framework Review	2021	AA	6/14/2019	5/31/2021
	Social Sustainability & Inclusion	P171560	Gender and Inclusion Assessment	2021	AA	8/26/2019	9/30/2021
	Transport	P172574	Review of Road safety in Southern Africa	2021	AA	10/1/2019	6/18/2021
		P169953	Integrated and Fiscally Sustainable Public Transport	2022	AA	3/14/2019	12/1/2021
		P176752	COVID-19 and Air Transport: Analyzing Policy and Operational Responses for Quicker Economic Recovery in Selected SA Countries	2022	AA	4/14/2021	5/31/2022
		P174147	Transforming Transit in South Africa	2022	AA	5/9/2020	6/30/2022
		P176566	E-Mobility and Climate Resilience in the Minibus Taxi sector in South Africa	2022	AA	5/7/2021	6/30/2022
		Planned	Infrastructure Engagement with ISA	2022	AA	7/30/2021	6/30/2022
		P171567	Beyond the Gap in South Africa	2023	AA	7/25/2019	9/30/2022

Sector	Lead GP/Global Themes	Task ID	Project Name	Closing Date FY	Prod Line	Activity Start Date	Delivery/ Completion
Sustainable Development and Infrastructure	Urban, Resilience and Land	P172009	Component 5: Integrated Human Settlements	2022	AA	9/3/2019	1/31/2022
		P172721	Component 2: Sustainable and Climate Responsive Infrastructure and Land Development	2022	AA	10/22/2019	1/31/2022
		P175422	DBSA Smart Cities Program in South Africa	2022	AA	9/28/2020	5/31/2022
		P173517	Urban MDTF for South Africa	2024	AA	5/23/2020	3/29/2024
		P163422	South Africa RAS for Infrastructure Investment and Integrated Urban Development	2025	AA	3/24/2017	9/6/2024

Annex 2.3 IBRD Active Trust Funds, CPF FY22-FY26

Program	Project ID	TF Number	Project Name	Grant Approval Date	Grant Closing	Active	Grant Approval Amt ($M)
AFR Finance And Private Sector	P169126	TF0A8797	South Africa FSDRP II	10/18/2018	7/31/2023	✓	0.67
	P169126	TF0A8803	South Africa FSDRP II	10/18/2018	7/31/2023	✓	0.53
	P169126	TF0A8737	South Africa FSDRP II	10/17/2018	7/31/2023	✓	0.75
	P169126	TF0A8799	South Africa FSDRP II	10/16/2018	7/31/2023	✓	0.81
	P169126	TF0A8798	South Africa FSDRP II	10/17/2018	7/31/2023	✓	0.74
	P169126	TF0A8810	South Africa FSDRP II	10/17/2018	7/31/2023	✓	0.78
Total							4.27
Carbon Results Based Finance (Crbf)	P173517	TF0B5184	Urban MDTF for South Africa	2/17/2021	9/30/2022	✓	0.20
						Total	0.20
Clean Technology Fund — IBRD As Implementing Agency	P122329	TF010690	ZA — Eskom Renewables Support Project	11/23/2011	12/30/2021	✓	250.00
	P122329	TF013681	ZA — Eskom Renewables Support Project	11/23/2012	12/31/2021	✓	0.41
						Total	250.41
Climate Resilient and Low-Carbon Development	P175421	TF0B4570	Energy diversification & electrification	11/25/2020	7/31/2021	✓	0.07
	P172748	TF0B2102	Supporting NDC Implementation	2/3/2020	6/30/2022	✓	4.00
						Total	4.07
Cooperation in International Waters in Africa	P127086	TF016748	SADC Sustainable Groundwater Management	7/16/2015	6/30/2021	✓	2.00
	P174856	TF0B3706	Drought-Resilient Cities	8/24/2020	9/30/2022	✓	0.40
	P174871	TF0B3669	Drought-Resilient Livelihoods & Food Sec	8/21/2020	9/30/2022	✓	0.40
	P174870	TF0B3730	Drought-Resilient Energy Systems	8/21/2020	9/30/2022	✓	0.40
	P173077	TF0B3679	SADRI	8/12/2020	9/30/2022	✓	0.30
						Total	3.50
Digital Development Partnership	P172813	TF0B2359	Southern Africa Digital Engagement	4/4/2020	6/30/2022	✓	0.15
						Total	0.15

Program	Project ID	TF Number	Project Name	Grant Approval Date	Grant Closing	Active	Grant Approval Amt ($M)
Energy Sector Management Assistance Program	P172682	TF0B3180	PASA Energy South Africa	6/26/2020	6/30/2022	✓	1.25
	P149521	TF0A3137	Development of CCS in South Africa	11/21/2018	12/30/2021	✓	23.00
	P151193	TF019231	PTA for Capacity Building for CCS in RSA	3/2/2015	12/31/2021	✓	4.42
	P126661	TF0B5574	SAPP-AREP Regional Program	4/8/2021	10/31/2022	✓	0.30
						Total	28.97
Free Standing Trust Funds For GSURR GP	P173517	TF0B3878	Urban MDTF for South Africa	9/14/2020	2/29/2024	✓	0.42
	P173517	TF0B3876	Urban MDTF for South Africa	9/15/2020	2/29/2024	✓	0.50
	P173517	TF0B3798	Urban MDTF for South Africa	9/15/2020	2/29/2024	✓	0.55
	P173517	TF0B4117	Urban MDTF for South Africa	10/1/2020	2/29/2024	✓	0.58
	P173517	TF0B3877	Urban MDTF for South Africa	9/14/2020	2/29/2024	✓	1.44
						Total	3.50
GEF-IBRD As Implementing Agency	P127086	TF016970	SADC Sustainable Groundwater Management	7/16/2015	6/30/2021	✓	8.20
	P170213	TF0B1544	Protected Areas for Rural Development	11/8/2019	12/31/2025		0.22
	P174097	TF0B3111	SA: Wildlife Conservation Bond	6/19/2020	6/30/2026		1.24
						Total	9.66
Global facility for Disaster Reduction & Recovery	P166727	TF0A3668	SADC DRM TA	10/24/2016	8/31/2021	✓	3.19
	P173517	TF0B5869	Urban MDTF for South Africa	5/21/2021	6/30/2022	✓	0.49
						Total	3.68
Government Debt And Risk Management	P129817	TF0A6770	South Africa — GDRM	1/25/2018	8/31/2021	✓	0.48
						Total	0.48
Identification For Development	P169126	TF0B4015	South Africa FSDRP II	9/21/2020	11/30/2021	✓	0.25
	P172175	TF0B4016	SP Review in Southern Africa	10/6/2020	12/31/2021	✓	0.13
	P172044	TF0B4236	SA Financial Sector Development	10/16/2020	12/31/2021	✓	0.18
	P172175	TF0B4227	SP Review in Southern Africa	10/21/2020	12/31/2021	✓	0.18
						Total	0.73
Investment Enabling Environment in ACP Countries	P176189	TF0B5222	SADC Scorecard on FDI Restrictiveness	2/22/2021	5/31/2022	✓	0.20
						Total	0.20
Jobs Umbrella Partnership	P154307	TF0A4831	South Africa Youth Job Search Assistance	4/4/2017	8/31/2021	✓	0.30
						Total	0.30
Policy and Human Resources Development Fund-Technical Assistance TF	P165228	TF0B0290	SADP-II	6/25/2019	5/31/2026	✓	2.00
						Total	2.00
Pollution Management And Environmental Health	P170743	TF0B2798	South Africa-Air Quality Management	2/9/2021	6/30/2021	✓	1.00

Program	Project ID	TF Number	Project Name	Grant Approval Date	Grant Closing	Active	Grant Approval Amt ($M)
						Total	1.00
PROBLUE	P173517	TF0B3956	Urban MDTF for South Africa	9/15/2020	12/31/2022	✓	0.50
						Total	0.50
Public-Private Infrastructure Advisory Facility	P166170	TF0B4371	NRAP	11/5/2020	2/28/2022	✓	0.20
	P171413	TF0B0561	South Africa PPP Framework Review	6/17/2019	5/31/2021	✓	0.20
	P174763	TF0B2370	Improving transport connectivity in SA	3/9/2020	12/31/2021	✓	0.45
	P172682	TF0B3641	PASA Energy South Africa	7/31/2020	12/31/2021	✓	0.31
	P176566	TF0B5742	Climate Resilient Minibus Taxi Reforms	5/7/2021	2/28/2022	✓	0.06
	P176566	TF0B5743	Climate Resilient Minibus Taxi Reforms	5/7/2021	2/28/2022	✓	0.21
						Total	1.42
RSR-ADSP Umbrella Trust Fund Program	P168508	TF0B0533	Innovations youth employment	6/4/2019	6/30/2021	✓	0.14
						Total	0.14
Standalone Trust Funds	P166170	TF0B2706	NRAP	4/24/2020	9/30/2021	✓	0.29
						Total	0.29
Sustainable Business for Africa (SB4A)	P172044	TF0B4670	SA Financial Sector Development	12/5/2020	12/31/2021	✓	0.25
	P172044	TF0B3995	SA Financial Sector Development	9/21/2020	12/31/2021	✓	0.30
						Total	0.55
Umbrella Facility for Trade	P175579	TF0B4641	Trade as a Driver of Growth in SA	3/16/2021	9/30/2021	✓	0.20
	P171855	TF0B3950	Jobs and Economic Transformation	9/15/2020	12/31/2021	✓	0.25
	P164847	TF0A9137	Southern Africa Trade & Connectivity Project	11/15/2018	4/30/2021	✓	0.20
						Total	0.65
							316.64

Annex 3
IFC Portfolio

Three Priority Sectors for IFC (Investment and/or Advisory **incl**. joint work with WB): **Infrastructure** (incl. transport, energy, municipal and ICT), **Finance & Insurance (SME)**; Education/skills with Investment **Climate and Digital Economy** as cross-cuttings

Program (US$ million as of 2/28/2021)						
	FY16	FY17	FY18	FY19	FY20	FY21 YTD
Total LTF Commitments	149.3	395.4	242.8	333.2	736.2	286.0
Vol: Own Account LTF	86.8	395.4	242.8	212.8	686.2	209.3
Vol: Mobilization	62.5	0.0	0.0	120.4	50.0	76.8
Total Short Term Finance	28.7	32.7	29.1	13.7	19.5	7.8
Total IFC own Acc. LTF Commitments since [2007]	3,216.9					

Outstanding Portfolio (US$ millions, as of 1/31/2021)				
	MAS	INR	FIG	CDF
Debt, equity and quasi-equity	335.0	216.3	882.3	17.6
STF	0.0	0.0	3.1	0.0
Total	335.0	216.3	885.4	17.6
Top 3 exposures (project names and outstanding amounts)	**FirstRand** (Financial Markets) US$400.0m ; **Standard Bank** (Financial Markets) US$384.1m ; **Nedbank SA** (Financial Markets) US$0.0			

Annex 3.1 Investment Portfolio, IFC Own Account (As of 31 January 2021)

Client	Product	Description	Commitment Year	Committed Amount (US$ millions)
Manufacturing, Agribusiness and Services (MAS)				
Advtech	Equity		2016	22.3
ArcelorMittal South Africa	Guarantee/RM		20xx	66.4
Ascendis	Equity		2016	43.3
Bakhresa SA	Debt		2014	4.6
BMW SA	Debt		2017	98.9
Bounty Brands	Debt		2017	0.4
CLN Group	Debt		2018	55.1

Country Bird	Equity	2013	27.4
Growthpoint	Debt	20xx	60.0
Growthpoint	Equity	20xx	20.2
Hans Merensky	Equity	20xx	34.5
IHS-SA	Equity	2012	12.8
Safal Steel	Debt	20xx	11.3
SRF Flexipak	Debt	2012	3.0
United Exports SA	Debt	2019	11.5
WESTFALIA FRUIT INTERNATIONAL	Debt	2017	5.8
Financial Markets (FM)			
African Bank	Debt	2008	0.0
Assupol	Equity	2012	20.3
Business Partners Ltd	Debt	2018	39.9
DARP Nimble Group	Equity	2019	10.7
FirstRand	Debt	2017	500.0
Lulalend	Equity	2019	2.8
Nedbank SA	Debt	20xx	200.0
Net 1	Equity	2016	24.5
Sasfin	Guarantee/RM	2012	3.1
Standard Bank	Debt	20xx	384.1
Infrastructure and Natural Resources (INFRA)			
Amakhala	Guarantee/RM	2013	6.3
Amakhala	Debt	2013	40.4
Buffalo City	Guarantee/RM	2006	2.7
Ekurhuleni Muni	Debt	2017	90.4
Kaxu	Debt	2012	17.9
Kaxu	Guarantee/RM	2012	1.3
Khi	Debt	2012	30.5
Khi	Guarantee/RM	2012	1.2
SA LNG SPV	Debt	2019	1.4
Xina Solar One	Debt	2015	26.8
Disruptive Technologies and Funds (CDF)			
Ethos V	Equity	2005	0.5
Horizon Afri III	Equity	2007	2.5
Metier II	Equity	2016	18.9
TOTAL			1,903.4

Annex 3.2 **Advisory Portfolio as of 31 January 2021**

Project name	Sector	Description	Amount (US$ millions)
Africa Cities Platform	Infrastructure & Natural Resources	The objective of the Africa Cities Platform (ACP, Platform or program) is to catalyze investment to address the financing gap for urban infrastructure projects to improve access and/or the quality of basic urban services (e.g. transport, waste and water management) in selected African cities. To achieve this, the Platform will support sub-sovereign entities, like municipalities and/or utilities, to develop a bankable pipeline of sustainable urban infrastructure projects in key priority areas such as urban mobility, energy, water, and waste, as well as covering communication, housing, social infrastructure such as health and education. In the long term, the program will contribute to increasing the quality and/or efficiency of urban services. The program also expected to contribute to fiscal decentralization in the participating cities.	4.4
Agri-processing Resource Efficiency	Manufacturing, Agribusiness & Services	The objective of this project is to contribute to enhanced productivity of companies in the agri-processing industry in South Africa through improved energy and water use, reducing overall consumption and mitigating risks associated with uncertain and constrained water supplies.	2.8
EDGE Certification South Africa	Economics & Private Sector Development	The program has been designed to undertake an array of well-coordinated actions aimed at creating a market-wide result in the South African construction sector. It is focusing on increasing the construction of green building in the housing sector.	1.3
Environmental Performance & Market Development- South Africa	Environment, Social and Governance	The Objective of the program is to increase the uptake of E&S best practices by FIS, leading to an improvement in the E&S performance of both the FIS and their real sector clients.	1.2
Mercantile Bank SME AS	Financial Institutions Group	This project supports the SME Push Program and aims to help Mercantile Bank to strengthen its offering to the MSME sector. The engagement is expected to contribute to improving access to finance opportunities for MSMES in South Africa, by providing advisory services to Mercantile Bank based on IFC's unique knowledge and expertise developed through extensive market research (published in reports such as 'The Unseen Sector' and 'The MSME Voice') and advisory projects across the continent. Although the Bank already has an offering to MSMES it plans to scale up its MSME business drastically given its acquisition by Capitec Bank which has provided access to a much larger branch network and other channels.	0.1
eThekwini Non-Revenue Water	Infrastructure & Natural Resources	The objective of the eThekwini NRW project (the Project) is to support eThekwini with the upfront development of a possible non-revenue water (NRW) reduction project, with the aim of informing the decision-making for the subsequent transaction design phase that is expected to be structured through a performance-based contract (PBC).	0.3
eThekwini Wastewater PPP Transaction Advisory	Transaction Advisory	The eThekwini Municipality ("EM") is the local authority for the city of Durban. The strategy of the Water and Sanitation ("EWS") unit of EM is to develop Durban's urban water and wastewater treatment infrastructure through a program of Public Private Partnerships (the "PPP Program"). EM requested IFC transaction advisory support for (i) the structuring and bidding of a key PPP transaction: the construction and operations of two greenfield wastewater treatment works ("WWTWS") at uMdloti and uMkomaas. EM also requested IFC advisory support to cover (ii) the next phase of the existing DWR wastewater reuse PPP contract, and (iii) non-revenue water ("NRW") reduction.	1.9
Promoting Prosperity through Investment Climate and Investment Policy Reform	Equitable Growth, Finance and Institutions	The project aims at addressing key investment/growth challenges by focusing on a range of horizontal/vertical sectoral reforms with special attention to SMES.	3.1

Skills in South Africa	Manufacturing Agribusiness & Services	The overall objective of the project is to improve processes and operations in SA HEIs (higher education institutions) to enhance graduate employability. As this is a new engagement with a significant public sector component, the project will be structured in 2 Phases. In Phase I IFC will pilot the approach of working with SA HEIs, public and private, as well as the South African regulator (DHET) to move from employability diagnostic to provision of IFC advisory to clients for implementation of recommendations. Pending achievement of outcomes in Phase I, Phase II of the program will be structured to increase reach to a greater number of institutions for assessment and to provide a subset of these institutions with in-depth support to implement recommendations, in partnership with DHET and industry. Phase II will have additional M&E targets and a separate IP decision meeting prior to moving ahead.	0.3
South Africa Private Sector Competitiveness Project	Equitable Growth, Finance and Institutions	The program seeks to address key investment climate and structural challenges facing the country's economy such as poor regulation, government intervention that do not provide firms with the ability and incentives to enter and compete and negative investor perception.	3.3
		TOTAL	18.7

Annex 3.3 High impact through IFC 1.0/2.0, upside potential through IFC 3.0:

	Reform Scenario informs IFC Activities	
Development needs	Base case	Upside scenario
	No / Low reform scenario: IFC scales up IFC 1.0 ana 2.0 investments in South Africa and through South-South investments leveraging recent and anticipated cross-cutting reforms	**Medium / High reform scenario:** Grow IFC's portfolio in new sectors expanding into IFC 3.0.
Inclusive and Sustainable Growth	• Auto manufacturing(localisation of the supply chain) and regional integration • Mining projects • South-south investment FIG, Agri, (SA firms outside of SA) • Deepen capital markets (new asset classes) • Energy(Gas-to-power, midstream LNG)	• **Energy:** wind and solar embedded generation • **Agribusiness:** (value chains, Smart Agri, irrigation, agrifin.) • **Municipal Infra:** water and, potentially, transport • **Climate finance:** Solar, Climate smart agri. Green housing, Green bonds
Inclusion	• Inclusive Finance: MSMEs, Agrifinance with commercial banks, Fintech, Gender Finance • Building better financial infrastructure • Private sector solutions education and health	• **Inclusive Finance:** MSMEs, Agrifinance with NBFIs, MFIs. insurance to MSMEs • **Education for Employment:** TVET, student housing, digital skills and entrepreneurship
Regional Integration	Cross Cutting	
Potential program size FY20–24	**Total $945 Mn OA** with no/ low additional reform scenario from IFC 1.0 and 2.0	**Total $3.4bn OA** with IFC 3.0 based on strong reform / upside scenario

Annex 3.4 IFC Portfolio: IFC Investment Services Projects pipeline, FY2021-FY25 as of 28 February 2021

Sector	Main Activities	Total (US$m)
INR	Sustainable infrastructure (Transport, Energy, Municipal water, Mining, ICT) and Natural resources	12,404
FIG	Inclusive Finance, Climate Finance	247
Manufacturing & Agribusiness	Agri-Finance and Manufacturing (Automotive)	128
Education & Skills	TVETs	0
Total		1,615

Annex 3.5 IFC Portfolio: IFC Advisory Portfolio, FY2021-FY25

Sector	Main Activities	Total (US$m)
Infrastructure	Africa Cities Platform	4.7
Manufacturing, Agribusiness & Services	Agri-processing Resource Efficiency	2.4
Economics & Private Sector Development	EDGE Certification South Africa	1.2
Environment, Social & Governance	Environmental Performance & Market Development — South Africa	1.1
Transaction Advisory	eThekwini Wastewater PPP Strategic Advisory and Capacity Building	0.3
Equitable Growth, Finance & Institutions	Promoting Prosperity through Investment Climate and Investment Policy Reform	3.1
	South Africa Private Sector Competitiveness Project	3.3
	The Amundi Green Bond Technical Assistance Project	0.3
Total		16.4

Annex 4

MIGA Portfolio

Annex 4.1 South Africa — Inbound Portfolio (as of April 30, 2021)

Project Name	Investor	Sector	Gross Exposure (US$ m)
Amstilinx (RF) Proprietary Limited	Okavango Biology	Infrastructure	10.70
Amstilite (RF) Proprietary Limited	Okavango Biology	Infrastructure	34.91
DBSA	Standard Chartered Bank Plc	Financial	167.79
Dyason's Klip 1 (RF) Proprietary Limited	Scatec Solar ASA	Infrastructure	9.09
Dyason's Klip 2 (RF) Proprietary Limited	Scatec Solar ASA	Infrastructure	9.09
Eskom Holdings SOC Ltd	Deutsche Bank AG	Infrastructure	689.20
HBZ Bank S.A.	Habib Bank AG Zurich	Financial	12.40
Kaxu Solar One (RF) Proprietary Limited	Atlantica Yield Plc	Infrastructure	89.93
Land and Agricultural Development Bank of South Africa	Standard Chartered Bank Plc	Financial	357.43
Main Street 957 (RF) Proprietary Limited	Okavango Biology	Infrastructure	5.99
Ramizone (RF) Proprietary Limited	Okavango Biology	Infrastructure	11.11
Scatec Solar Kalkbult (RF) Proprietary Limited	Scatec Solar ASA	Infrastructure	3.33
Simacel 155 (RF) Proprietary Limited	Scatec Solar ASA	Infrastructure	1.35
Simacel 160 (RF) Proprietary Limited	Scatec Solar ASA	Infrastructure	2.61
Sirius Solar PV Project One (RF)	Scatec Solar ASA	Infrastructure	9.09
Kangnas P Limited	Lekela Power B.V.	Infrastructure	38.46
Khobab Wind (RF)	Lekela Power B.V.	Infrastructure	19.95
Loeriesfontein 2	Lekela Power B.V.	Infrastructure	18.93
Noupoort (RF) Pr	Lekela Power B.V.	Infrastructure	9.85
Perdekraal E (RF)	Lekela Power B.V.	Infrastructure	34.02
Grand Total			1,535.23

Annex 4.2 South Africa — Outbound portfolio (as of April 30, 2021)

Project Name	Host Country	Investor	Sector	Gross Exposure (US$ m)
UT Abidjan	Cote d'Ivoire	Pan-African Infrastructure Development Fund	Infrastructure	30.4
GSM Services	Afghanistan	MTN Group	Infrastructure	114.0
Seawater Desalination Project — Ghana	Ghana	The Standard Bank of South Africa Limited	Infrastructure	58.5
Thika Power Ltd	Kenya	Absa Capital	Infrastructure	21.50
83 Megawatt Kitengela Power Plant	Kenya	The Standard Bank of South Africa Limited	Infrastructure	90.54
Bujagali Hydroelectric Project	Uganda	Absa Bank Limited	Infrastructure	4.75
Gigawatt 100MW Gas-Fired Power Plant	Mozambique	The Standard Bank of South Africa Limited	Infrastructure	42.18
Gigawatt 100MW Gas-Fired Power Plant	Mozambique	Gigajoule Power (Pty) Ltd	Infrastructure	38.25
Azura Power West Africa Ltd.	Nigeria	FirstRand Bank Limited	Infrastructure	65.1
Ejuva One (Pty) Ltd	Namibia	Investec Bank Limited	Infrastructure	7.05
Ejuva Two (Pty) Ltd	Namibia	Investec Bank Limited	Infrastructure	7.05
Karibib Solar Park	Namibia	Mettle Solar Investments Proprietary Limited	Infrastructure	2.22
NCF Energy (Pty) Ltd	Namibia	Mettle Solar Investments Proprietary Limited	Infrastructure	0.57
Tandii Investments (Pty) Ltd	Namibia	Mettle Solar Investments Proprietary Limited	Infrastructure	0.57
ABSA/Barclays Ghana	Ghana	ABSA Group LTD	Financial	84.54
ABSA/Barclays Kenya	Kenya	ABSA Group LTD	Financial	109.73
ABSA/Barclays Mozambique	Mozambique	ABSA Group LTD	Financial	88.55
ABSA/Barclays Seychelles	Seychelles	ABSA Group LTD	Financial	40.18
ABSA/Barclays Uganda	Uganda	ABSA Group LTD	Financial	41.80
ABSA/Barclays Zambia	Zambia	ABSA Group LTD	Financial	38.07
ABSA/Barclays Mauritius	Mauritius	ABSA Group LTD	Financial	94.05
FirstRand Bank Lesotho	Lesotho	FirstRand EMA Holdings (Pty) Limited	Financial	5.15
FirstRand Bank Swaziland	Eswatini	FirstRand EMA Holdings (Pty) Limited	Financial	20.46
FirstRand Bank Zambia	Zambia	FirstRand EMA Holdings (Pty) Limited	Financial	33.16
FirstRand Bank Mozambique	Mozambique	FirstRand EMA Holdings (Pty) Limited	Financial	29.70
FirstRand Bank Nigeria	Nigeria	FirstRand EMA Holdings (Pty) Limited	Financial	25.59
FirstRand Bank Ghana	Ghana	FirstRand EMA Holdings (Pty) Limited	Financial	39.74
FirstRand Bank Botswana	Botswana	FirstRand EMA Holdings (Pty) Limited	Financial	81.15
Grand Total				1,214.55

MIGA will continue to seek opportunities to grow its portfolio in South Africa in support of cross-border investment and lending. For MIGA, South Africa is the third largest host country in its portfolio, with a gross exposure of US$1.54 billion in 20 projects as of April 2021 compared with just four projects (with exposure of US$1.2 billion) at end-FY17. MIGA's exposure in South Africa spans the infrastructure, energy and financial sectors and comprises both political risk insurance and credit enhancement products (non-honoring of financial obligations)—the latter accounted for four-fifths of MIGA's gross exposure in terms of volume in South Africa as of April 2021. MIGA has been particularly active in the renewable energy space, supporting both wind and solar energy generating facilities by IPPs participating in the South African Renewable Energy Independent Power Producers Procurement Program (REIPPP). Supporting the development of renewable energy going forward is aligned with the CPF and with South Africa's plans of developing clean, renewable and low-cost electricity to diversify its energy mix and reduce carbon emissions, as well as MIGA's strategic priority of supporting investments with positive climate change effects. Going forward, MIGA will continue to support cross-border investment and lending in renewable energy projects, aligned with Pillar 1 of the CPF.

MIGA's support to South African investors is helping to promote intra-regional investment in Sub-Saharan Africa. South Africa is MIGA's sixth largest investor country with exposure of US$1.2 billion in 28 projects as of April 2021. There has been a rapid growth in MIGA's support to South African investors, with 7 new projects receiving MIGA guarantees and new issuance of US$252 million in FY20 to unlock liquidity in host countries impacted by the COVID-19 pandemic. South African investors span the finance, infrastructure and manufacturing sectors. MIGA's guarantees are supporting intra-regional investment, since all projects are located across twelve countries in Sub-Saharan Africa. Going forward, MIGA will continue to support intra-regional investment in Sub-Saharan Africa by South African corporates and banks, as well as South African investments into other regions.

Annex 5
Development Partners

Development Sector Program & Priorities Overview

South Africa receives lending and advisory support from development partners in excess of US$10 billion. All programs by development partners are aligned with Sustainable Development Goals 2030. The European Union, through the European Commission and European Investment Bank (EU), African Development Bank (AfDB), and National Development Bank (NDB) are providing support to South Africa with Energy sector development strategy, focused on energy transition. The UN and EU have designed a number of human capital projects targeted at health system, TVET, and education sector reforms. The Government of South Africa priority on stimulating job creation and economic devleopment are supported through ecosystem and SME development programs under IFC, UN and EU. South Africa is a beneficiary country of joint action plans under multi-development partner regional integration frameworks. A number of development partners have approved financing to South Africa targeted at the COVID-19 response: US$300 million from AfDB; US$1 billion from NDB; and US$4.2 billion from IMF.

Annex 5.1 Development Partners Recent Areas of Cooperation

Development Sector Priorities*	World Bank	IFC	UN	AFDB	EU	NDB
Climate Change/Green economy	X		X	X	X	
Digitalization, Science, Technology, Innovation	X		X		X	
Energy, Power	X			X		X
Financial markets	X			X		
Gender	X		X	X	X	
Governance and participation	X		X	X	X	
Human Capital (health, education, youth development)	X	X	X		X	X
Industrialization and Infrastructure		X				
Investment and inclusive financing/job creation (incl SME, competition)	X	X	X		X	
Manufacturing, Agribusiness, and agro-processing		X		X		
Regional integration	X	X	X	X	X	
Transport	X					X
Water	X					X

*Other priority areas include: Cultural cooperation, Environment, Human rights, Gender Equality, Rural development and HIV/AIDS

Annex 5.2 Development Partners Recent Areas of Cooperation—select detailed cooperation except for the World Bank

Development Sector Areas	WB	IFC (US$ 1.1billion)	UN (Not available)	AFDB (UA 3.70 billion)	EU (Euro 270 million)	NDB (USS 4.8 billion)
Climate Change/Green economy			i. Economic Empowerment of Work in Green Industry*	Financing: i. Eskom Holding Limited (unbundling)* ii. Xina Solar One Project; iii. Redstone Concentrated Solar Power*	i. Clean/Green energy, Green jobs, Mitigation adaptation*	
Digitalization, Science, Technology, Innovation			i. Paving the Way for Collaboration in the Development of the Digital Skills for Jobs for Youth Initiative for South Africa*		i. Science, Research, Innovation, Inter-university cooperation	
Energy, Power				i. Medupi Power Project; ii. Eskom II; iii. Eskom Transmission Improvement;	i. Clean/Green energy, Green jobs, Mitigation adaptation*	i. Greenhouse Gas Emissions and energy project; ii. Energy sector development project; iii. Energy storage project
Financial markets		Financing: SME Lending (First Rand and Mercantile Bank), Education (ADVTECH), Agribusiness (Westphalia), Housing (IHS-SA), Insurance (Assupol), Municipal Finance (Ekurhuleni), and Concentrated Solar Power (Xina)		i. Non-Sovereign LOC to IDC; ii. Std Bank of S.A. Project Finance LOC; iii. Nedbank Group LOC; iv. IDC LOC; v. DBSA LOC		
Gender			i. Support for Gender Responsive Budgeting, planning, monitoring & auditing (UNwomen);		i. Gender & women empowerment	
Governance and participation			i. Rural development and Land Reforms (UNDP) ii. Social Economy Policy Project (ILO); Technical Assistance towards a National Minimum Wage (Labor); iii. ILO Technical Assistance to the National Expanded Public Works Programme (EPWP)—3rd Phase (ILO)		i. PFM, Capacity building, Civil society, Transparency, Service delivery	

Development Sector Areas	WB	IFC (US$ 1.1billion)	UN (Not available)	AFDB (UA 3.70 billion)	EU (Euro 270 million)	NDB (USS 4.8 billion)
Human Capital (health, education, youth development)			i. Deepening social development of SASSA Grant Recipients (UNDP); ii. Accelerate progress towards Universal Health Coverage through Health system reforms and legislation of National Health Insurance (WHO); iii. Strengthening Health Security; iii. Addressing the burden of HIV and TB; iv. An integrated and universal social protection linked to developmental social welfare services in South Africa/Social Protection (joint); iv UNICEF Human Capabilities flagship programme (UNICEF)		i. HIV/AIDS & TB (Global Fund) National Healthcare System; ii. Basic education, Higher education, TVET/skills, Study abroad; iii Teaching and Learning Development Sector Reform Contract Education for Employability Capacity Building for Employment Promotion Erasmus +	i. Emergency Program
Industrialization and Infrastructure		i. IFC is helping sub sovereign entities, such as municipalities and utilities, to address the financing gap for urban infrastructure.		i. Kalagadi Industrial Beneficiation Project		
Investment and inclusive financing/ job creation (incl SME, competition)		i. Investment Climate (Prosperity Fund UK): address key growth and investment challenges by focusing on sectoral reforms with special attention to SMES; ii. Private Sector Competitiveness (SECO) This project will seek policy reforms that promote private sector investment and competitiveness.	ii. Stimulating Economic Opportunities for Women Entrepreneurs (flagship programme is implemented in South Africa, UAE and globally (UNwomen); iii. Supplier development program to support SMMES (UNDP		SMME, Investment Infrastructure (IIPSA), Business environment, Ecosystem Development for Small Enterprise	
Manufacturing, Agribusiness, and agro-processing		i. Resource Efficiency (SECO): IFC is supporting the to enhance productivity through more efficient energy and water use; ii. Global Agriculture and Food Security Program (GAFSP) started a program with Nedbank.	i. Strengthening the quality of essential and vegetable oils exports from South Africa (UNIDO)			

Development Sector Areas	WB	IFC (US$ 1.1billion)	UN (Not available)	AFDB (UA 3.70 billion)	EU (Euro 270 million)	NDB (USS 4.8 billion)
Regional integration		i. Trade & Investment: Growthpoint pan-African investment strategy; ii. Africa-wide Power and agribusiness investment with South Africa Banks and companies	i. Southern Africa Migration Management (SAMM) Joint Program; ii. Economic Empowerment of Work in Green Industry*; iii. Paving the Way for Collaboration in the Development of the Digital Skills for Jobs for Youth Initiative for South Africa* (Joint Programmes)	i. Pillar 2: Deepen Regional Integration— Integrate Africa & industrialize Africa;	i. Strategic Partnership Joint Action Plan (JAP): Trade, Economic Cooperation, Development Cooperation, Parliamentary Dialogue; International partnership: digital partnerships, Africa-European alliance, Green deal, Governance peace Security, migration.	
Transport						i. Container Terminal Berth Construction
Water						i. Highlands Water Project Phase II; ii. National Toll Roads Strengthening

Note: In this Annex, World Bank is denoted by "WB"

Annex 6

Whole-of-WBG Approach to Climate Change Engagement in South Africa

The WBG supports the climate agenda in South Africa by leveraging a whole-of-WBG approach. The diagram below captures how existing and potential future engagements are mapped across four vice presidencies of the World Bank: Sustainable Development; Infrastructure; Equitable Growth, Finance and Institutions; and Human Development, as well as the IFC and MIGA. Support is organized across four themes:

- **Climate-smart Investment & Risk Management:** activities support systematic scale-up of climate-smart investment through policy implementation support and building infrastructure;
- **Just Transition in Key Sectors:** activities support key industries that are critical to a successful transition to a low-carbon economy. Focus is on preparedness and early engagement with stakeholders;
- **Private Sector's Low Carbon Investment:** activities aim to catalyze the private sector's low carbon investment through provision of loans and risk mitigation financial products; and
- **Environmental and Social Sustainability:** activities support building climate change resilience, especially through conservation and sustainable use of natural resources

Climate-smart Investment & Risk Management

- Partnership for Market Readiness
- Partnership for Market Implementation
- Southern Africa Drought-Resilient Livelihoods and Food Security

- NDC Deep Dive

- DBSA Beyond the GAP in South Africa RAS
- DBSA Smart Cities RAS
- Transforming Transit in South Africa
- Improving the transport connectivity and facilitating trade in Southern Africa

- Financial Sector Assessment Program (FSAP)
- South Africa Financial Sector Development and Reform Program Phase II

- 30 by 30 zero program—Climate finance partnership

- Climate-friendly planning for cities—IFC's APEX tool
- Support for municipal non-revenue water reduction
- SA Sustainable Blueberries
- Green building project

Just Transition in Key Sectors

- TCAF** in Solid Waste Sector
- CIF Just Transition*
- DRM and Finance Strategy (linked to Urban RAS)
- Urban RAS & Circular Economy

- Carbon Capture & Storage

- CIF Accelerating Coal Transition*
- Energy Sector PASA

Private Sector's Low Carbon Investment

- SAPP/Article 6
- Carbon Pricing for Just Transition

- IBRD/CIF Energy Battery Storage*

- Green Bond Market Development Program / Sustainable Finance Practices for SA Pension Funds

- IFC RE and EE financing including for municipalities and private sector
- SBSA Green bond
- FirstRand Green loan
- MIGA Guarantees to RE IPPs

Environmental & Social Sustainability

- PMEH Air Quality Johannesburg
- Wildlife Conservation Bond

- GEF7 Biodiversity Economy

- South Africa COVID-19 Response

- South Africa Financial Inclusion and Competitiveness
- ASA on Leveraging Trade for South Africa's Recovery

Future engagements
Financed by CCG

VPU:
SD
INF
HD
EFI
MIGA or IFC

*These programs would support both public and private sector investments with the goal of mobilizing additional private sector finance.

**Transformative Carbon Asset Facility (TCAF)

Annex 6.1 Details of existing engagements

	Project Name (P-code)	Lead GP (supporting GPs)	Implementing Counterpart (Supporting Counterparts)	Description	Project Type
	Partnership for Market Readiness (P155885)	ENB (CCG)	NT, (DEFF, DMRE, SARS)	Strengthen the readiness of the government of South Africa for the design, preparation and implementation of a carbon pricing instrument	IPF
	Southern Africa Drought-Resilient Livelihoods and Food Security (P174871)	Water (AGF, ENB, URL)		A subtask of the Southern Africa Drought Resilience Program (P173077); develop detailed agri-food value chain solutions for the management and financing of drought risks	ASA
	PASA Supporting the Implementation of NDC (P172748)	CCG (EEX, ENB)	NT and DEFF	Support the government of South Africa in achieving effective implementation and update of its NDC	ASA
	DBSA Beyond the Gap in South Africa RAS (P171567)	Transport	Development Bank of Southern Africa (DBSA)	Assist the Development Bank of Southern Africa with identifying infrastructure investment needs for South Africa to reach the SDGs	RAS
	DBSA Smart Cities Program in South Africa (P175422)	Urban, Resilience and Land	DBSA	The provision of technical support in respect of drafting, reviewing and finalizing of Smart City strategies for 4 Selected Pilot Cities	
Climate-smart Investment & Risk Management	Transforming Transit in South Africa (P174147)	Transport	DBSA	To assist the DBSA to develop a generic approach to formalizing informal transit services in South Africa, to develop implementation strategies for the digital regulation of informal transit and to develop a sustainable approach to payment system integration of informal transit with formal transit. • Task 1: Minibus Taxi Formalization (includes an investigation into the potential for introducing electric vehicles into the pilot project examples) • Task 2: Regulatory Data Systems for Minibus Taxi Services • Task 3: Modal Integration—Payment systems integration	RAS
	Improving the transport connectivity and facilitating trade in Southern Africa (P174763)	Transport	Pillar 1: The Regional Economic Communities, SADC, COMESA, Corridor Committees, and public and private stakeholders at a national level. Pillar 2: Nepad Business Foundation, acting as the convener of the 5 railways, and respective line ministries	• Pillar 1: Trade and Transport Sector Review—just starting for FY21/22 delivery; a regional study looking at the key trading corridors from Zambia down, and will be looking explicitly at improving network climate resilience, and emissions reductions that could be realized from the priorities • Pillar 2: Feasibility Study of a Block Train on the North-South Corridor	ASA

	Project Name (P-code)	Lead GP (supporting GPs)	Implementing Counterpart (Supporting Counterparts)	Description	Project Type
Climate-smart Investment & Risk Management	Financial Sector Assessment Program (P170707)	FCI, IMF	NT, SARB, FSCA	The objective is to conduct a diagnostic to assess the impact of climate risks and opportunities for the financial sector. (i) Assess physical risk and transition risks for the financial sector, and the response by the financial sector supervisors to mitigate these risks (ii) Assess how the authorities could scale up climate finance	ASA
	South Africa Financial Sector Development and Reform Program Phase II (P169126)	FCI		Developing capital markets framework (including project pipeline, and mobilization of investors) to increase sustainable finance including climate finance	ASA
	30 by 30 zero partnership program — Scale up climate finance through greening financial sector (603410) (P172044)	IFC — FIG, WB – FCI	NT, SARB, JSE, FSCA, Baseta, Banking Association	Partnership program of IFC, WB, and GIZ aiming to align financial sector strategies to support NDC implementation. • Increase the climate share to 30% of credit portfolios of participating banks. • Manage and reduce climate and carbon-related risks in participating banks overall portfolios. • Develop domestic capital and thematic bond markets to foster climate and cross-border investments. • Climate risk identification and mitigation • Climate finance	IFC Advisory/ WB ASA
	Ekurhuleni Advisory (605519) (Climate-friendly planning for cities – IFC's APEX tool)	IFC — INR with Climate Business Department	City of Ekurhuleni	The project aims to support Ekurhuleni to improve efficiencies and attract private sector investment, and includes support for commercial energy losses reduction, non-revenue water (NRW) losses reduction, smart city solutions (focused on energy and water), sourcing electricity from IPPS (including renewable sources) and testing of IFC's 'APEX' tool. The APEX tool supports climate-friendly planning by providing an estimation of a city's greenhouse gas (GHG) emissions and resource use and helping prioritize measures to reduce GHGs and resource use, focusing on the water, waste, energy and transport sectors.	IFC Advisory / Upstream
	Ethekwini NRW (605507) (Support for municipal non-revenue water reduction)	IFC — INR	eThekwini Metropolitan Municipality	The project aims to support eThekwini in development of a NRW reduction project, to be implemented through a performance-based contract (PBC), by defining the technical scope of the PBC, developing a preliminary baseline of physical and commercial losses, and recommending a structure and concept for a PBC (with transaction design envisaged as a subsequent phase).	IFC Advisory / Upstream

	Project Name (P-code)	Lead GP (supporting GPs)	Implementing Counterpart (Supporting Counterparts)	Description	Project Type
Climate-smart Investment & Risk Management	SA Blueberries (40468)	IFC — MAS	Proparco, FMO	€30 million C-Loan financing package organized by IFC (€10m commitments each by IFC, Proparco, and FMO) to support Phase II of a €60 million expansion of sustainable Blueberry farming by trading/holding company Mbiza, including: • 80-hectare farm establishment in Northern Limpopo • 100-hectare farm establishment in either Northern Limpopo / Western Cape • Refinance of short-term bridge loan used to finance initial Nyami Berries establishment • Packhouse expansion and set up to service the farms in the Northern regions near OR Tambo airport	IFC Investment
	IHS — SA (31851) (Green building project)	IFC — MAS		As a green building project, this project invests in IHS' second real estate fund (targeting R2.4bn in commitments; IFC commitment up to US$25m), providing equity for the development of affordable housing projects primarily in South Africa and in selected Sub- Saharan African countries.	IFC Investment
Just Transition in Key Sectors	CIF Just Transition	CCG		Explores the perspectives and approaches of key actors involved in South Africa's just transitions. Completed case study, podcast, and other materials available here.	
	Urban MDTF for South Africa (P173517) (Urban RAS & Circular Economy)	Urban, Resilience and Land	NT	Support the Government of South Africa's Cities Support Program (CSP) in improving the regulatory, policy and fiscal environment in selected metropolitan cities for implementing integrated urban development • Component 1: Effective and Sustainable Fiscal and Urban Financing and Strengthened Governance Capabilities • Component 2: Sustainable and Climate Responsive Infrastructure and Land Development • Component 3: Inclusive Economic Development at City, Regional and National Level • Component 4: Advancing Circular Economy in South Africa	RAS
	Carbon Capture & Storage (P149521)	EEX (CCG)	Department of Mineral Resources and Energy (DMRE)	Assess the feasibility of, and build expert capacity for, carbon capture and storage in South Africa	ASA

	Project Name (P-code)	Lead GP (supporting GPs)	Implementing Counterpart (Supporting Counterparts)	Description	Project Type
Just Transition in Key Sectors	CIF Accelerating Coal Transition Investment Program	EEX		This program would support the implementation of projects that demonstrate transitions away from coal toward renewables and social/economic development programs. It could also enable economic stimulus programs post-COVID-19 to focus on clean energy to create jobs and avoid the risk of coal investments being supported instead. In parallel, MDBs will support necessary upstream analytical work such as coal transition road maps as well as pre-feasibility and feasibility studies, technical cooperation, and related stakeholder engagement.	IPF
	Energy Sector PASA (P172682)	EEX	DMRE, DPE, and Eskom	• ESKOM TA to decommission/repurpose 6 GW of coal plants • DMRE GHG emission accounting • DMRE support to improve legal/regulatory framework to enable RE embedded generation by municipalities • DMRE support to develop JET strategy • DMRE/DPE support on energy sector reform • DMRE support to develop EE financing strategy for industry, agriculture and public sector • DMRE to support development of offshore wind	ASA
Private Sector's Low Carbon Investment	Supporting Carbon Market Development for SAPP (Operationalizing Article 6, P166499)	CCG	NT and multiple line ministries	Develop concepts to enhance WB operations initiated by relevant GPs by incorporating climate market transactions under Article 6 of the Paris Agreement Produce analytical outputs that inform the regulatory and infrastructure development for Article 6 of the Paris Agreement	ASA
	Carbon Pricing for Just Transition (PMR/CPLC)	CCG	NT/NBI	Assess the role of carbon pricing in supporting transition pathways for vulnerable industry sectors (energy intensive and trade exposed sectors) in South Africa	IPF
	CIF Eskom Renewables Support (P122329)	EEX	ESKOM and Department of Public Enterprises (DPE)	Sere wind farm (100 MW) construction (100% completed) Battery storage capacity (target: 360 MW)	IPF

	Project Name (P-code)	Lead GP (supporting GPs)	Implementing Counterpart (Supporting Counterparts)	Description	Project Type
Private Sector's Low Carbon Investment	Green Bond Market Development Program (601913)/ Sustainable Finance Practices for SA Pension Funds	IFC — FIG and Sustainable Banking Network	JSE, FSCA, and Baseta	The Program covers 9 countries, including South Africa, and aims to support green bond/sustainability bond policy, technical training and awareness raising among banks, corporates, and domestic investors (pension funds). A joint survey of SA pension funds with FSCA in 2020 has provided insights into the current baseline of green finance strategies and green investments undertaken by SA pension funds and confirmed there is sufficient interest for a collective pledge for green finance/climate finance by the sector, including reduction in coal exposures. A cooperation agreement is in place with the JSE until Q1 2021 to promote awareness of green finance and support JSE's regulatory/enabling role.	IFC Advisory
	IFC RE projects and efficiency technologies' finance, including for municipalities and private sector	IFC	DMRE	Mobilize private sector investments through IFC investments to develop renewable energy projects	IFC Investment
	SBSA Green bond (43173)	IFC — FIG	Standard Bank	US$200m for renewable energy projects (total 283MW capacity estimated 741,580Mwh/year, and nearly 750,000 tCo2e/year).	IFC Investment
	FirstRand Green loan (42640)	IFC — FIG	First Rand, FMO	US$225m for renewable energy and water projects	IFC Investment
	MIGA RE IPP Guarantees	MIGA	DMRE	Provide Guarantees to de-risk and attract private sector investments to develop renewable energy projects through IPPs (Independent Power Producers)	Guarantee
	Solar PV Project (Scatec)	MIGA	Scatec Solar ASA	The project consists of the construction, ownership, and operation and maintenance of six Solar PV energy generating facilities in South Africa, as part of the government's Renewable Energy Independent Power Procurement Program (REIPPP).	Guarantee
	Wind Farm Project (Lekela)	MIGA	Lekela Power B.V.	The Project include the construction and operation of five wind farms in the Northern and Western Cape Provinces in South Africa.	Guarantee
	Solar PV Project (Okavango)	MIGA	Okavango Biology	The Project consists of the operation of two solar PV energy generating facilities with combined total installed capacity of 132 megawatts (MW) located in the Northern Cape Province of South Africa.	Guarantee

	Project Name (P-code)	Lead GP (supporting GPs)	Implementing Counterpart (Supporting Counterparts)	Description	Project Type
Environmental & Social Sustainability	Air Quality Management in Greater Johannesburg (P170743)	ENB	DEFF	Improve South Africa's capacity to address air pollution levels and support development of full-scale Air Quality Management (AQM) plans in the Greater Johannesburg Area (GJA) through provision of specific equipment to measure PM2.5 and other air pollutants, SLCPs and GHGs at existing monitoring stations to expand the capacity of the DEFF to improve Air Quality Management Planning going forward	ASA
	Catalyzing Financing and Capacity for the Biodiversity Economy around Protected Area (P170213)	ENB (AGF, CCG, URL)	DEFF, NT, and South African National Parks	Increase investment in three target protected area (PAs) landscapes to grow the biodiversity economy and benefits to local communities. The proposed project creates the strategic enabling environment for the following: (i) skills enhancement for business development; (ii) increased integration into value chains with potential positive spillovers for local communities; (iii) increased and more affordable services for historically disadvantages settlements; and finally (iv) by increasing resilience and adaptation to climate shocks through climate-smart (v) business practices and enhanced, less vulnerable rural livelihoods.	IPF
	Wildlife Conservation Bond (P174097)	ENB (FCI)	South African National Parks Eastern Parks & Tourism Agency	Create an outcome-driven structured bond that channels private sector funds to increase black rhino populations in target protected areas in South Africa. The project supports recovery of the critically endangered black rhino and improves the management of two important conservation areas, which provide important ecosystem services that support local economies, and are critical for tourism and related jobs.	IPF
	Leveraging Trade for South Africa's Recovery and for Inclusive Long-Term Growth	MTI	NT	The project will have a secondary focus on how trade can contribute to climate change adaptation and sustainable development. In this regard, it will link to the project "Climate Change and Trade: Impacts and Opportunities for Least Developed Countries" (P172008) and the new framework it is developed to bring a climate lens to the Trade Competitiveness Diagnostic. It may include case studies on South Africa's opportunities in the green goods value chain under the regional integration focus.	ASA