



THE PRESIDENCY
REPUBLIC OF SOUTH AFRICA

Operation Vulindlela

“Opening the way” to priority structural reforms

Media briefing

15 March 2021

Introduction to Operation Vulindlela



What is OV and what are its objectives?

OV is a ‘delivery unit’ approach to support Cabinet and the President to accelerate the implementation of priority structural reforms.

- Announced by the President in October 2020, it represents the most ambitious push for economic reform in democratic South Africa.
- Not another new plan – all about effective implementation of reforms approved by Cabinet.
- Different to previous initiatives: deliberately not comprehensive, aimed at a few high-impact reforms to revive economic growth in the short and medium term.
- Government-wide approach:
 - Ministers, departments and entities (‘reform implementers’) implement structural reforms – does not take away responsibility for implementation
 - Dedicated Vulindlela unit (which draws on additional expertise from public and private sectors as required) monitors progress, escalates challenges, and provides support to fast-track implementation

The bottom line: we cannot continue with business as usual if we are to successfully implement economic reforms.



Accelerating implementation of structural reforms

The role of Operation Vulindlela is to identify and resolve challenges in the implementation of reforms.

- Many reforms are complex and technically challenging, and require expertise and support to implement effectively.
- In other cases, policy disagreements need to be resolved at Cabinet level to provide certainty and unlock progress.
- Where limited capacity presents an obstacle to implementation, additional capacity needs to be mobilised.
- Where multiple departments and agencies are involved in the implementation of a reform measure, strong coordination is required.

Operation Vulindlela is designed to address the key obstacles to implementation of reforms.

It recognises that implementation requires high-level political support, leadership and coordination as well as technical capacity and expertise.



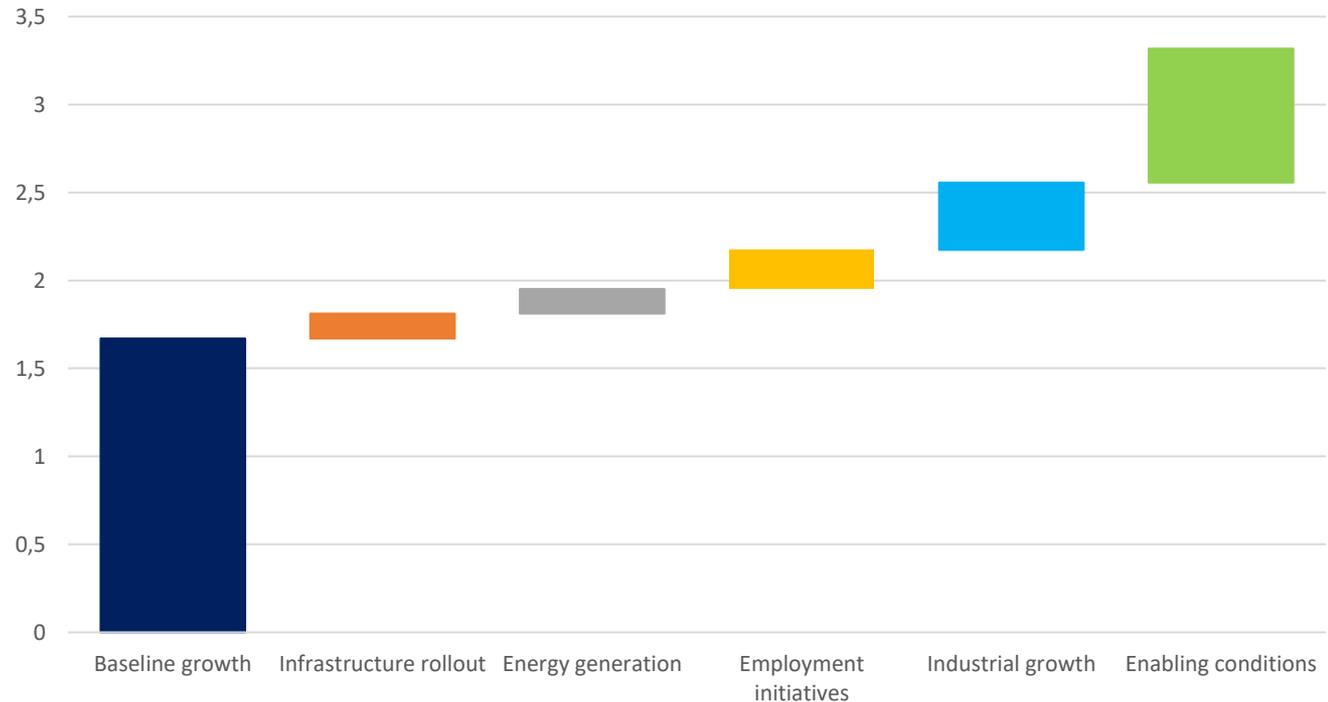
The importance of structural reforms



Structural reforms implemented through Operation Vulindlela are expected to increase growth by an additional 1% per annum between now and 2030.

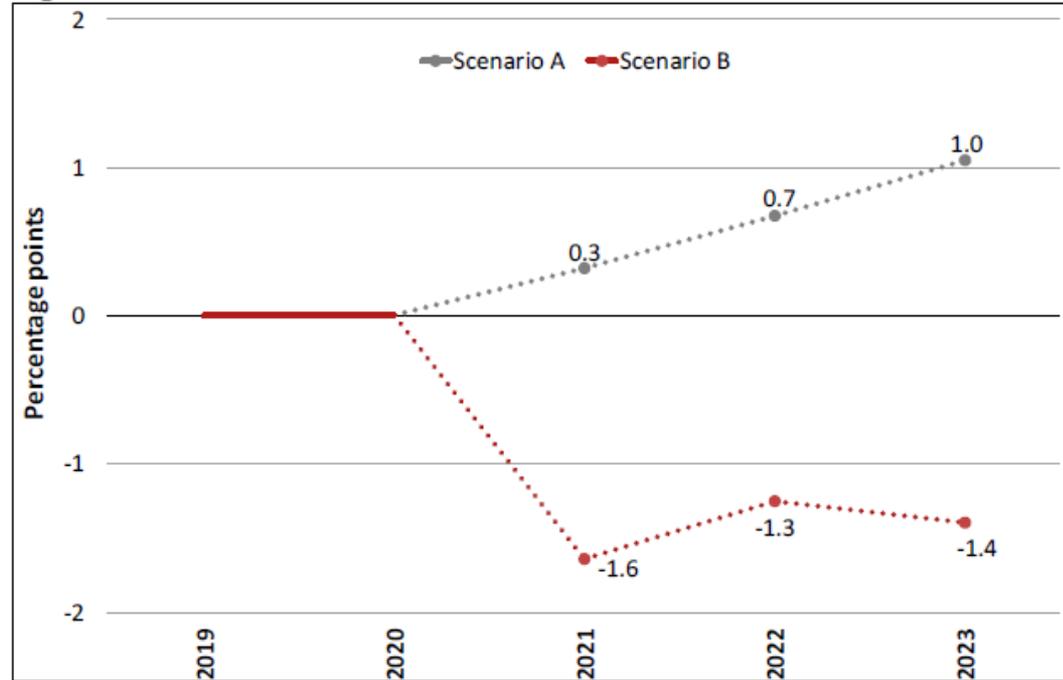
Impact of structural reforms on growth

Impact of Economic Reconstruction and Recovery Plan on Growth



Growth could increase 0.3% above the baseline forecast for 2021 with aggressive implementation of reforms.

Figure 2.6 Deviation from the baseline GDP forecast



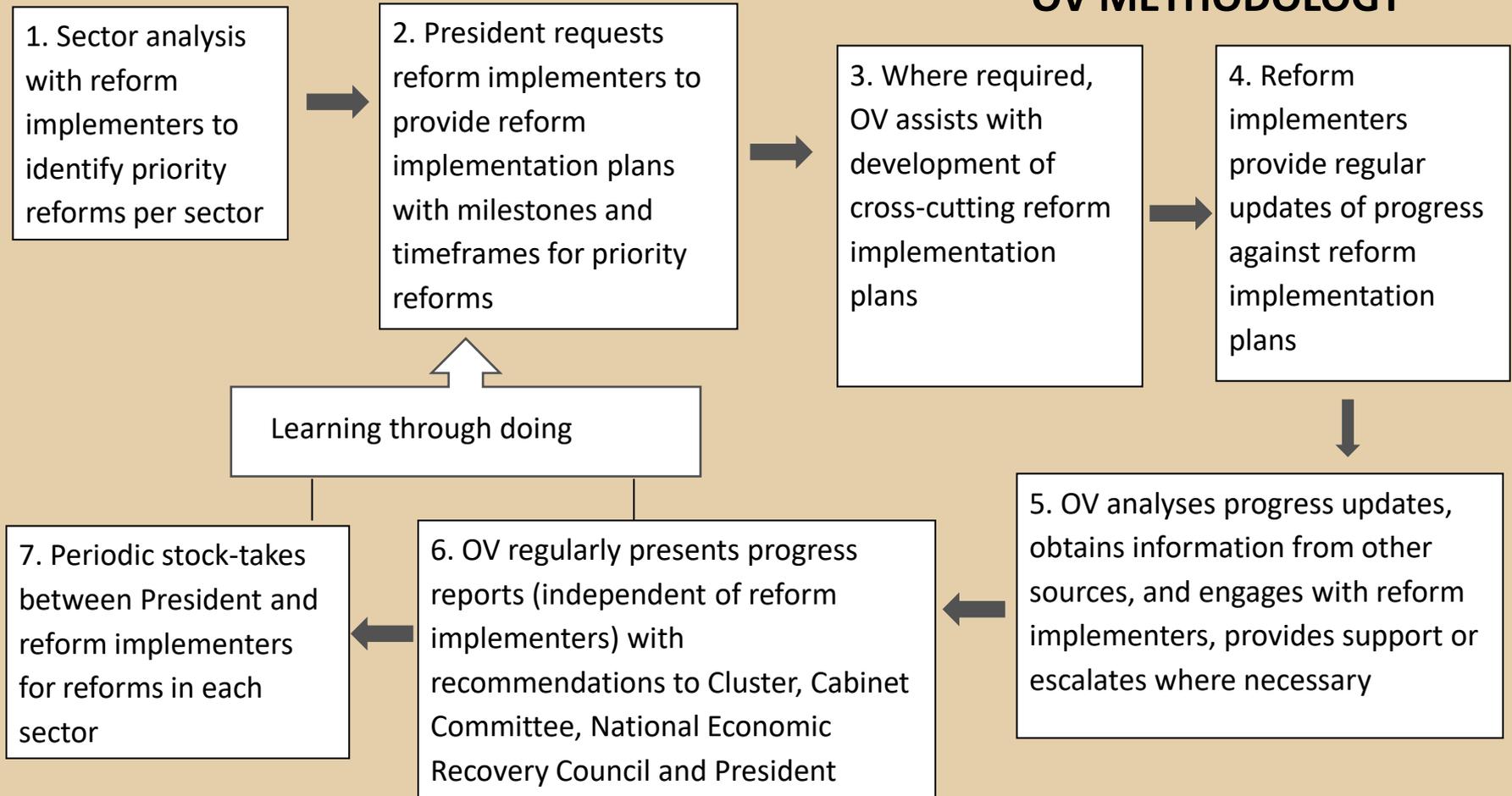
Source: National Treasury calculations

Impact of structural reforms on growth



How Operation Vulindlela works





Role of Operation Vulindlela in the delivery of reforms

Engagements, escalations and support will be focused on reforms where progress is lacking. In each sector OV will continuously assess the status quo with implementation of all the prioritised reforms.

1

If implementation is **progressing well under capable leadership** and only involves a single department or entity



Monitor and report on progress

2

If implementation of a reform is **not progressing well**, capacity is lacking amongst the reform implementers, or there is a **lack of coordination**



Engage with reform implementers, seek consensus on challenges and what needs to be done by whom

Where necessary, offer support to reform implementers

If this is unsuccessful, or if issue is urgent, escalate to President with recommendations

3

If a **policy decision is required** to unlock progress, resolve uncertainty or disagreement



Providing recommendations to the President for engagement with relevant Minister



Progress to date

Significant progress has already been achieved by Operation Vulindlela since October 2020.

- Dedicated capacity in place in the Presidency and National Treasury to manage Operation Vulindlela.
- Regular engagements taking place with reform implementers across all priority reforms.
- **Early progress with resolving obstacles demonstrated in SONA 2021:**
 - Raising of licensing threshold for embedded generation
 - Phased switch-off of analogue signal over next year
 - Revival of blue and green drop water quality assessments
 - Establishment of NWRIA
 - Roll-out of e-visa system
 - Publication of critical skills list and comprehensive review of the framework for attracting skills
- Operation Vulindlela is providing regular reports to the President and Ministry of Finance, as well as to Cabinet and the National Economic Recovery Council.



Case study: embedded generation

Increasing private sector investment in embedded generation is the only feasible way to reduce the high risk of load shedding in the short term.

- According to IRP 2019, Eskom has an immediate electricity supply shortage of between 2 000 MW and 3 000 MW, but the actual shortage is estimated by Eskom to be higher given realistic assumptions of the Energy Availability Factor (EAF).
- New capacity procured from IPPs in terms of the emergency power procurement programme and through the IRP 2019 (including Bid Window 5) is likely to take 2 years to start adding power to the grid.
- Research by BUSA, the CSIR and Meridian Economics (including a survey of 239 firms conducted in the past 2 months) indicates that the licensing process is the largest impediment to private investment in embedded electricity generation of 50 MW and lower.
- The anticipated market response, on optimistic assumptions, of raising the licensing threshold is a maximum of 5 000 MW in new generation capacity over five years.



How has OV approached this reform?

Operation Vulindlela has worked with reform implementers to address obstacles to investment in embedded generation.

- OV engaged with sector experts, organised business and Eskom to clarify all the issues.
- OV engaged with DMRE to identify the key reasons for not implementing the reform and discuss ways of mitigating the concerns.
- Mechanisms to mitigate risks were agreed upon, including to address the readiness of municipalities and Eskom for a large increase in embedded generation, tariffs and frameworks for wheeling, balancing and the treatment of notified maximum demand for municipalities.
- These discussions enabled the President to announce in SONA 2021 that the threshold will be lifted following further consultations with stakeholders, including Eskom and municipalities, and that an enabling framework will be developed simultaneously.
- This reform will be a significant new step forward in enabling investment in additional generation capacity.



Reforms prioritized by Operation Vulindlela



Five desired outcomes of Operation Vulindlela

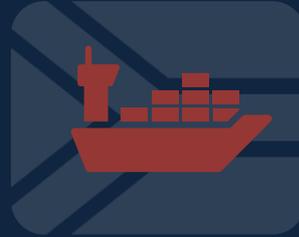
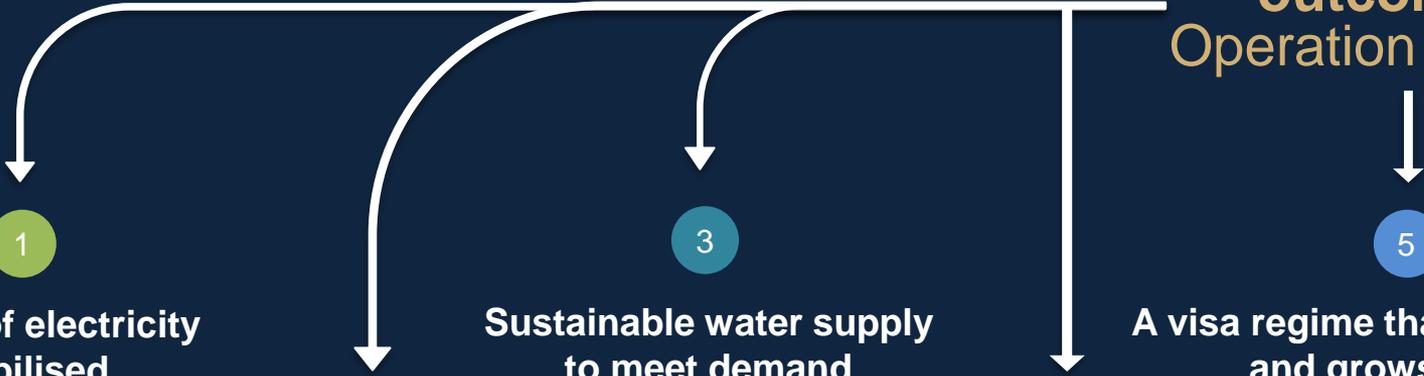


Table 1 Key structural reforms in the electricity sector

Overall desired outcome: Supply of electricity stabilised

No	Key structural reforms needed to achieve overall desired outcome	Desired outcome of structural reform	Key reform actions for each structural reform
1.1	Increase role of independent power producers (<i>source: SONA 2020; Economic Reconstruction and Recovery Plan</i>)	Electricity supply increased and made more competitive through increasing participation of the private sector	<ul style="list-style-type: none"> a) Implement emergency procurement of 2 000 MW of power b) Implement IPP procurement in terms of IRP 2019 c) Lift licensing threshold for increased investment in embedded or distributed generation d) Enable municipalities to procure power from independent power producers
1.2	Unbundle Eskom into generation, transmission, and distribution entities (<i>source: SONA 2020, DPE Roadmap for Eskom; Economic Reconstruction and Recovery Plan</i>)	Sustainability of both Eskom and electricity industry increased, enabling environment created for increased competition in generation	<ul style="list-style-type: none"> a) Divisionalisation b) Legal separation of entities for generation, transmission, and distribution

Table 1 (cont.)

No	Key structural reforms	Desired outcome of structural reform	Key reform actions
1.3	Improve Energy Availability Factor of Eskom plants (<i>source</i> : DPE Roadmap for Eskom; Economic Reconstruction and Recovery Plan)	Risk of load shedding reduced	Reverse decline in EAF and improve EAF from current level of approximately 65% to over 70%
1.4	Address institutional inefficiencies in municipal electricity distribution management (<i>source</i> : National Development Plan)	Stabilised and reliable distribution of electricity by municipalities	<ul style="list-style-type: none"> a) Enforce municipal distribution license conditions b) Review municipal fiscal framework to remove electricity sales as one of the major contributors to municipal revenues to cross-subsidise other municipal functions c) Implement comprehensive national programme to support municipalities to improve electricity distribution performance (including planning, asset management, increasing private sector finance, procurement, etc.)

Table 2 Key structural reforms in the digital communications sector

Overall desired outcome: Reduced cost and increased quality of digital communications

No	Key structural reform	Desired outcome of reform	Key reform actions
2.1	Increase available spectrum (<i>source</i> : SONA 2019, NT growth paper, Economic Reconstruction and Recovery Plan)	Sufficient spectrum available to meet demand to enable reduction in cost and increase in quality	Hold spectrum auction
2.2	Migrate from analogue to digital TV (<i>source</i> : NT growth paper, Economic Reconstruction and Recovery Plan)	Spectrum currently used by TV released for other purposes	Complete migration process
2.3	Finalise policy and policy direction on rapid deployment of electronic communications networks and facilities (<i>source</i> : Electronic Communications Act)	Improved regulatory framework to enable more rapid rollout of telecommunications infrastructure by private sector	<ul style="list-style-type: none"> a) Finalise policy b) Issue regulations under policy c) Streamline approval of wayleave applications at municipal level

Table 3 Key structural reforms in the water sector

Overall desired outcome : Sustainable water supply to meet demand

No	Key structural reform	Desired outcome of reform	Key reform actions
3.1	Improve water-use licensing processes (<i>source</i> : SONA 2020)	<ul style="list-style-type: none"> a) Investors and businesses able to obtain water-use licenses without undue delay b) Water use licenses issued within 90 days 	Streamline and improve water-use licensing processes
3.2	Revise water quality monitoring system and establish an independent economic regulator for water (<i>source</i> : NT growth document)	<ul style="list-style-type: none"> a) Roles of regulator separated from roles of policy maker, planner, investor, and operator of water resources infrastructure b) More effective water sector regulation c) Improved pricing and service standards in water and sanitation sector 	<ul style="list-style-type: none"> a) Improve regulation in the water and sanitation sector, with measures to increase transparency in oversight of municipal performance in the short term b) Establish regulator

No	Key structural reform	Desired outcome of reform	Key reform actions
3.3	Finalise revised raw water pricing strategy (<i>source</i> : NT growth document)	<ul style="list-style-type: none"> a) Certainty created for investments in agriculture, mining, and other industries b) Sub-optimal pricing and financing of water addressed c) Roles of water subsidies clarified 	<ul style="list-style-type: none"> a) Finalise the raw water pricing strategy b) Implement the raw water pricing strategy
3.4	Establish a national water resources infrastructure agency (<i>source</i> : NDP)	<ul style="list-style-type: none"> a) National water utility functions separated from policy functions b) Required investment in raw water resource development enabled 	Establish water resources infrastructure agency
3.5	Address institutional inefficiencies in municipal water services (<i>source</i> : NDP)	<ul style="list-style-type: none"> a) Municipal water businesses turned around b) Root cause of financial problems in water sector addressed c) Water and sanitation service delivery to public, industries and businesses improved 	Implement comprehensive national programme to support municipalities to improve water and sanitation services performance (including planning, asset management, procurement, increasing private sector finance, drawing on private sector skills)

Table 4 Key structural reforms in the freight transport sector

Overall desired outcome: improved competitive pricing and service quality in freight transport

No	Key structural reform	Desired outcome of reform	Key reform actions
4.1	Corporatise the Transnet National Ports Authority (<i>source</i> : section 3(2) of the National Ports Act of 2005)	a) More competitive port costs b) More efficient ports	Transnet to implement corporatisation
4.2	Improve efficiencies in ports (<i>source</i> : Economic Reconstruction and Recovery Plan)	Efficiency of ports improved	Create operational improvements within TNPA and TPT
4.3	Establish Transport Economic Regulator through the Economic Regulation of Transport Bill (<i>source</i> : National Treasury growth paper)	Consistent and effective regulation of prices and standards in the freight transport sector	a) Economic Regulation of Transport Bill passed in Parliament b) Develop detailed business plan for regulator c) Establish regulator
4.4	Implement policy for third party access to freight rail lines and concession branch lines (<i>source</i> : National Treasury growth paper)	More efficient and competitive rail freight transport	a) Finalise White Paper on Rail b) Achieve commercial separation of TFR into operations and infrastructure c) Implement third party access on main lines and concession branch lines

Table 5 Reforms to the visa regime

5.1 Scarce skills

Key structural reform	Desired outcome of reform	Key reform actions
Improve regulatory frameworks and processes for issuing work permits for scarce skills and for skilled immigration (<i>source</i> : Economic Reconstruction and Recovery Plan)	<ul style="list-style-type: none"> a) Short-term skills shortage reduced – businesses able to obtain skills which are not available in SA b) Time taken to obtain permits reduced 	<ul style="list-style-type: none"> a) Carry out review of regulatory frameworks and processes b) Adjust regulatory frameworks c) Design and implement process improvements

5.2 Tourism

Key structural reform	Desired outcome of reform	Key reform actions
Implement e-Visa and visa waivers (<i>source</i> : Economic Reconstruction and Recovery Plan)	Growth in tourism	Implement full rollout of e-Visa system to 14 countries

Thank you



THE PRESIDENCY
REPUBLIC OF SOUTH AFRICA