

## AFRICA RISK CONSULTING

### South Africa Monthly Briefing April 2020

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#### South Africa Summary 27 April 2020

*After one month of lockdown South Africa has successfully flattened the Covid-19 infection curve and enters a risk-based phased opening up of the economy. The phased return to work is likely to take the rest of the year. President Cyril Ramaphosa's swiftness to act, and his ability to communicate the need, have won him near universal domestic support and international acclaim. Health professionals praise health minister Zweli Mkhize's performance, too. The success in curbing the virus' infection, allowing for a gradual lifting of the lockdown, comes just in time to prevent a social backlash. The lockdown has hit the economy and sent it into a sharp recession. The government has announced a \$42 billion counter-cyclical stimulus package. Finance minister Tito Mboweni determines to use the crisis to restructure the economy. Lockdown, a heavy police and military presence and a ban on alcohol have seen national crime drop 70% compared to the same month last year.*

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#### Politics is subsumed to the battle against Covid-19

The determined and speedy action of **South Africa's** President **Cyril Ramaphosa** (2018-present) to impose a national lockdown in response to **Covid-19** appears to have had its desired effect and will allow for a staged resumption of economic activity from May. In the space of one month, President Ramaphosa declared a national state of disaster with an initial and then extended lockdown of people and the economy, and deployed troops and police to enforce the lockdown's measures. In so doing, he has successfully suppressed the Covid-19 infection curve.

South Africa has now entered what Ramaphosa called a cautious *"risk-adjusted strategy"* because lockdown is unsustainable:

*"Our people need to eat. They need to earn a living. Companies need to be able to produce and to trade, they need to generate revenue and keep their employees in employment."<sup>1</sup>*

Ramaphosa outlined a cascade of stages (see below) that would enable the country to return to work in a controlled manner from 30 April, all the while avoiding an abrupt and uncontrolled lifting that risks a resurgence. While the stages clearly outline the direction of travel for South Africans and the world, sources believe that the movement between levels five and one may take the rest of the year.

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<sup>1</sup> President Cyril Ramaphosa's address to the nation, 22 Apr 2020

South Africa's strategy to exit Covid-19 Lockdown		
Level	Measures	Status and characteristics
5	Drastic measures to contain the spread of the virus to save lives (current status)	Current total lockdown
4	Some activity to resume subject to extreme precautions required to limit community transmission and outbreaks	From 1 May International & interprovincial travel banned with exceptions for goods & funerals; Public transport with passenger limits & passengers must wear masks; Stay at home order remains except for controlled resumption of business; All gatherings, except work & funerals work, prohibited; Elderly to isolate; Essential goods list extended & cigarettes sales permitted; Bars and shebeens shut.; Conferences, cinemas, theatres, concerts, sporting events, religious and cultural gatherings banned.
3	Easing of some restrictions including work & social activities	To be determined
2	Easing of restrictions keeping physical distancing and restrictions on some leisure and social activities to prevent a resurgence of the virus.	To be determined
1	Most normal activity can resume with precautions and health guidelines followed at all times.	

### Success in the face of a deadly disease

South Africa's speedy response has won acclaim as its strategy – despite extremes of inequality – has proven a success. An extension to the lockdown for a further two weeks was announced on 9 April as South Africa, with 2,173 cases, had reported the highest number of cases reported in **Africa**.<sup>2</sup> South Africa ranks fifth in a sample of countries with a case fatality rate of 1.19%: **Algeria**, with a case fatality of 15.31%, is listed as the most affected country on the continent followed by **Egypt**, **Morocco** and **Cameroon** with case fatality rates of 7.49%, 7.15% and 1.46% respectively.<sup>3</sup>

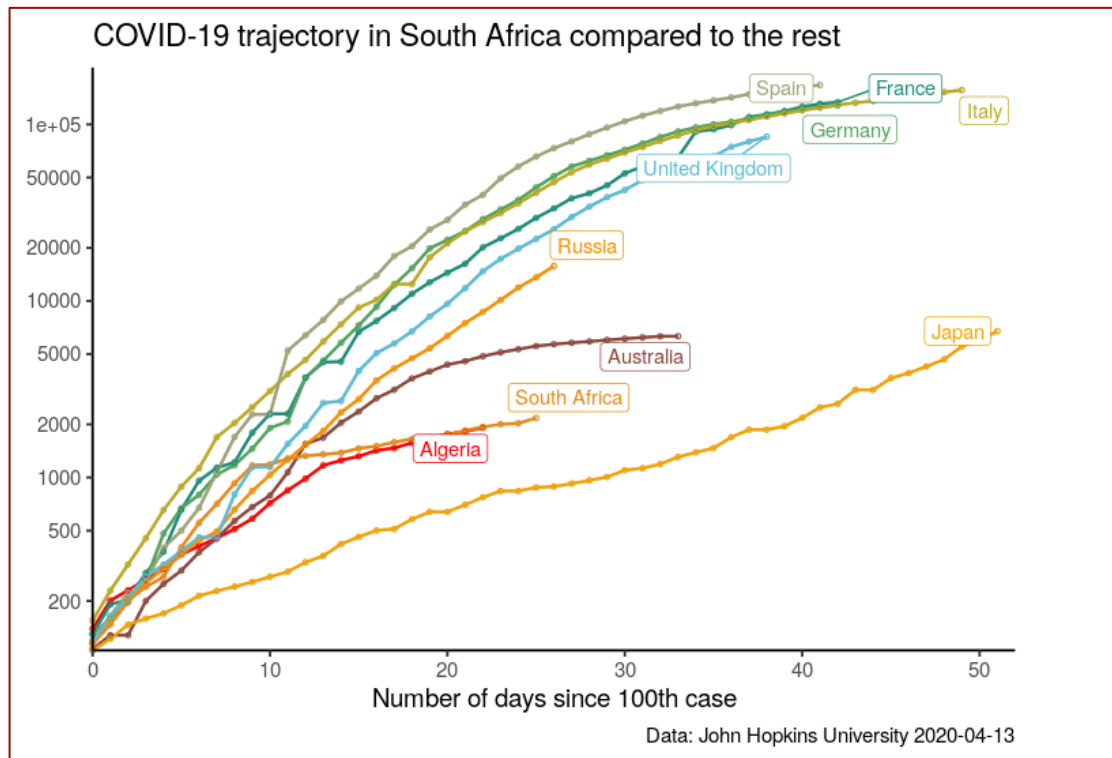
South Africa's measures – which were aimed to protect the population and to prepare the national health system to manage Covid-19 – have won the praise of the **World Health**

<sup>2</sup> NPR, 9 Apr 2020.

<sup>3</sup> Daily Maverick, 15 Apr 2020

**Organisation (WHO)** and puts South Africa in league with other emerging markets – **South Korea** and **Vietnam** – for getting ahead of the infection curve quickly.

*“In contrast to the rest of the world, South Africa’s efforts to flatten the curve have been nothing short of world-class coming in second to Algeria, attesting to the advantage of implementing physical distancing and lockdown measures in a timely manner to curb the spread of Covid-19.”<sup>4</sup>*



### Success has been political ...

Ramaphosa’s speedy action and handing of the health emergency continue to win him domestic, regional and international acclaim.

*“Politically, President Cyril Ramaphosa’s standing will be much enhanced, and his detractors within the [ruling **African National Congress**] ANC will be much weakened.”<sup>5</sup>*

Ramaphosa has successfully united South Africans behind him and largely silenced the opposition, most notably his real opposition, which lies within the ANC. Ramaphosa’s actions have halted the orchestrated sniping from deputy president **David Mabuza** and ANC secretary general **Ace Magashule** (see *ARC Briefing South Africa January 2020*) that was prevalent during December and January. Ramaphosa’s domestic political stature has soared, reducing the threat that this same internal opposition may set him up for a mid-term political coup at the ANC’s next internal meeting, which was scheduled for mid-2020. This may not

<sup>4</sup> South Africa’s Covid-19 Ministerial Advisory Committee, Professor Salim Abdool Karim, via Daily Maverick 15 Apr 2020

<sup>5</sup> ARC source, journalist Business Maverick

take place amid Covid-19 restrictions – a delay that could further strengthen Ramaphosa's hand within the ANC. Ramaphosa's performance has also largely silenced the formal opposition, the **Democratic Alliance (DA)**, and the **Economic Freedom Fighters (EFF)**.

President Cyril Ramaphosa has also increased his stature among a sceptical business community, which had started to lose patience at his slowness to act on reforming the state-owned enterprises, notably the state electricity utility, **Eskom**.

*"The president's internal communication has been outstanding. He has at once shown who is the boss, as well as a right amount of empathy."*<sup>6</sup>

Health minister **Zweli Mkhize** is also singled out for praise and competence. Rural healthcare workers interviewed for ARC Briefing have praised Mkhize for his clear and unflustered communications about the science behind the virus. Mkhize's performance during this crisis is likely to restore his standing within the public and the ANC, which had taken a battering because of his loyalty to former president **Jacob Zuma** (2009-2018) and his role as ANC treasurer general from December 2012 to December 2017 during the Zuma years. Mkhize, a medical doctor, is otherwise an ANC high-flier, having served as the ANC's **KwaZulu-Natal (KZN) Province** chairman before becoming a member of the ANC's national executive committee. Mkhize took Jacob Zuma's side when the ANC became openly divided between supporters of former president **Thabo Mbeki** (1999-2008) and Zuma. His performance in this crisis has gone a long way to rehabilitate him politically.

### ... but social cost is considerable

The success in curbing the virus' infection and allowing for a gradual lifting of the lockdown comes just in time to prevent a social backlash. Under 10 years of Jacob Zuma's rule, South Africa became severely impoverished and the social and economic inequality more acute. Before lockdown, politicians had privately estimated that unemployment was 40% of the working age population. Many of those employed live on a daily wage working as domestic workers or in the tourism sector. Academics estimate that 1 million people lost jobs in the formal sector on 27 March when the lockdown was announced. An informal sector of an estimated 5.5 million households has also lost incomes. Moreover, there exists a sizeable immigrant community – mainly from other African countries – that survives on piecemeal work and fall outside South Africa's social security system and for whom a return to economic activity is essential for survival.

*"The state and society won't function without an economy. Social unrest has not exploded but social tensions are rising and South Africa was already a flashpoint on this front – 'service delivery protests' were an almost daily feature of life before the pandemic, and the platinum belt has been seething with discontent. There is still huge potential for unrest as people go hungry. Farmers have reported a surge of theft of maize in fields ahead of the harvest, often by young children. That gives a pretty grim indication of where things stand."*<sup>7</sup>

### ... and exacerbates the economic crisis

The lockdown has had a severe impact on the economy, throwing it into an immediate recession. The slow, staged return to work is also likely to hamper a return to growth and the

<sup>6</sup> ARC Source, South Africa fund manager, 26 Mar 2020

<sup>7</sup> ARC source, Business Maverick

risk-based approach will necessarily see a lower national tax and value added tax (VAT) take in the months ahead.

In the face of this risk, finance minister **Tito Mboweni** has stepped up government intervention, announcing a combined fiscal and monetary package of R800 billion (\$42 billion), equal to 16% of gross domestic product (GDP).<sup>8</sup> Mboweni said that **South African Reserve Bank** (central bank) governor **Lesetja Kganyago** had already unveiled a monetary and policy package, while a fiscal injection of approximately R500 billion (\$26.3 billion) into the economy is designed to cushion the severity of the punch of the economic lockdown.<sup>9</sup>

An ARC source says in two months' time, the economy may be as much as 10% smaller than it was at the start of 2020, but the combined fiscal and monetary stimulus may have kick-started growth by then:

*"The nation should be on "level 2" lockdown by then, which means for the most part a return to normal life. The budget deficit will probably be forecast by then to be north of 10% of GDP, but the debt burden will not be crippling because the rates on much of it will be so low. South Africa can borrow up to around R80 billion (\$4.2 billion) from the [International Monetary Fund] IMF with virtually no strings at 1%. There is no way a country with a junk credit rating could possibly hope to access cash so cheaply."*

Most significant for stability will be transfers from the state to poorest households notably via an increase of the **Child Support Grant (CSG)** by R500 (\$26) for six months (R300 (\$15) in the first month); an across-the-board top-up of other grants by R250 (\$13), and a new Covid-19 grant of R350 (\$18) for unemployed informal sector workers.<sup>10</sup>

Additional measures to support business include R200 billion (\$10.6 billion) to keep firms in business and a scheme to help R300m (\$16m)-turnover businesses, as well as tax payment holiday measures to ease cash flow problems. This is in addition to the earlier announcement that the **Unemployment Insurance Fund's** Covid-19 temporary employee relief scheme will provide R30 billion (\$1.6 billion) in funds to distressed companies unable to pay the full salaries of workers they permanently laid off or sent home temporarily due to Covid-19 and the shutdown. Nevertheless, the measures – and structural problems in delivering the relief on time – may come too late for many businesses, especially small and micro businesses that employ substantial numbers of South Africans and foreign workers.

### Never waste a crisis?

Tito Mboweni has made it clear that the government will use all means available to it to finance the extraordinary measures, including approaching the IMF for support should it be necessary. In saying so Mboweni directly contradicted controversial ANC secretary general Ace Magashule, who said the government should not go to the IMF. Mboweni's response is that emergency Covid-19 financing from the IMF will not carry any conditionality or structural adjustment measures. Other sources of support will be the **World Bank** (\$55-60m) and the **New Development Bank**, formerly the **BRICS Development Bank**, (\$1 billion).<sup>11</sup>

That said, the crisis and the extraordinary fiscal and ripping up of the annual budget delivered as recently as 26 February, have given Tito Mboweni freedom to take extraordinary

<sup>8</sup> BusinessTech, 24 Apr 2020

<sup>9</sup> BusinessTech, 24 Apr 2020

<sup>10</sup> Daily Maverick, 22 Apr 2020

<sup>11</sup> Business Day, 24 Apr 2020

steps to reform the economy. Mboweni made it clear that he intends to “re-prioritise” the government’s spending and to use the crisis to continue restructuring the economy. This comes shortly after the finance minister created a new unit within the ministry to focus exclusively on structural reform and to focus on measures to reshape the economy.

Mboweni said he hoped a “a new economy” and new institutions would emerge from this crisis. He mooted a national agriculture board to identify underutilised land, a new national airline, and new employment policies that encourage employment of South Africans – all the while “not discriminating against” **Malawians** and **Zimbabweans**.<sup>12</sup>

The finance minister’s comments come soon after public enterprises minister **Pravin Gordhan** turned down a request on 2 April from national airline **South African Airways’ (SAA)** business rescue practitioners for an additional R10-billion (\$530m) funding. Mboweni had earlier let slip in briefing notes to journalists of a “consolidation of public entities and closure of SAA and [SAA subsidiary] **SA Express**”.<sup>13</sup>

### Police and military slash crime but unnerve civil society

The lockdown and deployment of police and army to enforce it have had a mixed response, despite their effectiveness. Despite a dramatic drop in crime, civil society groups have been unnerved by Cyril Ramaphosa’s extended deployment of over 73,000 troops nationwide, fearing it threatens the constitution.

This fact notwithstanding, an extraordinary by-product of lockdown and the ban on the sale of alcohol has been the plummeting crime rate. Police minister **Bheki Cele** reported on 22 April that crime had fallen by as much as 70% from 27 March to 20 April compared to the same period in 2019. Much of this is likely to be due to the ban on the sale of alcohol. As much as 60% of crime in low income and township areas is alcohol-related. However, one area where crime has spiked is domestic and gender-based violence. More than 148 people have been arrested in 2,300 reports of gender-based violence since the lockdown started.<sup>14</sup>

In general, police and armed forces have kept to their brief – to save lives – but there have been some instances where police and army have been accused of brutality. A man in **Alexandra** township, an area of **Johannesburg (Gauteng Province)**, died after soldiers found beer at his home, accused him of violating the lockdown and beat him. In another case, a police officer responding to a report of domestic violence was shot dead by a man in one of Johannesburg’s upper-income suburbs.<sup>15</sup>

### Planner

19-21 May 2020 **(South Africa) South African Reserve Bank** (central bank) MPC Meeting;  
 21-23 Jul 2020 **(South Africa) South African Reserve Bank** (central bank) MPC Meeting;  
 15-17 Sep 2020 **(South Africa) South African Reserve Bank** (central bank) MPC Meeting;  
 17-19 Nov 2020 **(South Africa) South African Reserve Bank** (central bank) MPC Meeting;  
 2021 **(South Africa)** Municipal elections;  
 2024 **(South Africa)** General election.

<sup>12</sup> Business Day, 24 Apr 2020

<sup>13</sup> Business Maverick, 3 Apr 2020

<sup>14</sup> Cyril Ramaphosa’s weekly letter, 20 Apr 2020

<sup>15</sup> New York Times, 13 Apr 2020

## Chronology

24 Apr 2020 **Tshwane (South Africa)** *Business Day* Finance minister **Tito Mboweni** confirms a counter-cyclical package worth R800 billion (\$42 billion);

23 Apr 2020 **Tshwane (South Africa)** *Financial Times*. President **Cyril Ramaphosa** says **South Africa's** pandemic lockdown will ease and shift to a "risk-adjusted strategy" of rolling restrictions from May;

23 Apr 2020 **Harare (Zimbabwe)** *EWN*. **South Africa's** President **Cyril Ramaphosa** calls for the lifting of sanctions on **Zimbabwe** and **Sudan** to allow access to resources in a bid to fight the **coronavirus** pandemic;

22 Apr 2020 **Tshwane (South Africa)** *Business Day*. Police minister **Bheki Cele** says crime trends plummeted 70% from 27 March to 20 April compared to the same period last year;

21 Apr 2020 **Tshwane (South Africa)** *Business Day*. President **Cyril Ramaphosa** unveils a R500 billion (\$26 billion), 10% of GDP, **coronavirus** economic stimulus package that will be funded by reprioritising R130 billion (\$6.92 billion) of expenditure from existing budgets and borrowing from domestic and international lenders;

21 Apr 2020 **Johannesburg (South Africa)** *FT*. State-owned **Land and Agricultural Development Bank of South Africa (Land Bank)** becomes the latest state group in need of government support;

20 Apr 2020 **Tshwane (South Africa)** *Business Tech*. Government publishes a number of new and revised regulations as the country waits to hear its plan around lifting the five-week-long countrywide lockdown;

20 Apr 2020 **Johannesburg (South Africa)** *iol*. **Futuregrowth Asset Management** joint head of unlisted credit **Paul Semple** says the nationwide lockdown has left **South Africa's** green energy plans in disarray;

20 Apr 2020 **Tshwane (South Africa)** *News24*. President **Cyril Ramaphosa** says "our lockdown has revealed a very sad fault line in our society" following allegations against government officials over the hoarding or selling of food parcels earmarked for the desperate;

19 Apr 2020 **Tshwane (South Africa)** *Fin24*. Cabinet delays final decision on an economic rescue plan and says it intends to hold another meeting on 20 April as **South African** businesses call for support;

14 Apr 2020 **Rabat (Morocco)** *Morocco World News*. **The Embassy of Morocco in South Africa** has criticised a recent statement by the **South African Department of International Relations and Cooperation** about Morocco's territorial integrity;

14 Apr 2020 **Johannesburg (South Africa)** *Business Day*. **South African Reserve Bank** (central bank) governor **Lesetja Kganyago** rules out printing money to finance the government's ballooning deficit;

13 Apr 2020 **Johannesburg (South Africa)** *Times*. Public works minister **Patricia de Lille** says that the army has been sent to the **Beitbridge** border fence with **Zimbabwe** after reports that it had been damaged;

9 Apr 2020 **Tshwane (South Africa)** *Daily Maverick* President **Cyril Ramaphosa** announces an extension to the shutdown and a 33% pay cut for himself and his ministers, which would be contributed to the **Solidarity Fund**;

8 Apr 2020 **Tshwane (South Africa)** *Daily Maverick*. President **Cyril Ramaphosa** places communications and digital technologies minister **Stella Ndabeni-Abrahams** on "special leave" for two months for breaking lockdown rules after she was pictured attending a lunch at the house of former deputy minister of higher education **Mduduzi Manana**;

1 Apr 2020 **Johannesburg (South Africa)** *Bloomberg*. The **South African** rand continues to drop, reaching a new low at R18.1854/\$, making it the second-worst daily performer after the **Mexican** peso; the rand has declined 23% in 2020 so far;

1 Apr 2020 **Johannesburg (South Africa)** *Business Day*. **South Africa**-listed property is the worst performer in 2020 in the world, with losses of 48.1% in total returns in Q1;

31 Mar 2020 **Tshwane (South Africa)** *Business Day*. Finance minister **Tito Mboweni** announces the creation of a new unit in the finance ministry to focus on structural reform in a bid to fundamentally reshape the **South African** economy;

31 Mar 2020 **Johannesburg (South Africa)** *EMPEA*. **STANLIB Asset Management** receives authorisation to acquire **South Africa**-based grain management business **AFGRI Grain Silo Company** from **AFGRI Agri Services** via two of its PE funds, **Infrastructure Yield Fund** and **Infrastructure 2 Fund**;

31 Mar 2020 **Tshwane (South Africa)** *Daily Maverick* Transport minister **Fikile Mbalula** lifts travel restrictions to allow South Africans abroad to come home and foreign governments to repatriate their nationals from South Africa – an estimated 1,471 students, workers, tourists are stranded abroad;

30 Mar 2020 **Johannesburg (South Africa)** *Financial Times*. The **South African** rand hits a record low of R18 to the **United States (US)** dollar after US-based rating agency **Moody's** removes the last investment-grade credit rating for South Africa;

30 Mar 2020 **Johannesburg (South Africa)** *Business Day*. Fixed line operator **Telkom** says repairs are underway for undersea internet cables that broke on 28 March, affecting international bandwidth and reducing browsing speed;

30 Mar 2020 **Harare (Zimbabwe)** *Bloomberg*. Energy minister **Fortune Chasi** says **Zimbabwe** has paid the \$33m debt it owed to **South Africa**-based energy utility **Eskom Holdings**;

27 Mar 2020 **Johannesburg (South Africa)** *Business Day*. **United States**-based rating agency **Moody's** cuts **South Africa's** sovereign credit rating to sub-investment grade;

27 Mar 2020 **Johannesburg (South Africa)** *Business Day*. Mobile operator **Vodacom** appoints prominent businessman **Saki Macozoma** as group chair with effect from 22 July;

27 Mar 2020 **Johannesburg (South Africa)** *Business Day*. **South Africans** enter a three-week lockdown at midnight as cases surpass 1,000 and the country records its first two deaths due to **covid-19**;

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