

## AFRICA RISK CONSULTING

### South Africa Monthly Briefing February 2021

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#### South Africa Summary 25 February 2021

*Local business community and financial markets react favourably to finance minister Tito Mboweni's 2021 National Budget Speech, delivered a week after President Cyril Ramaphosa's (2018-present) State of the Nation Address 2021 (SONA 2021). Western Cape Province premier Alan Winde says he's speaking to pharmaceutical companies about procuring vaccine doses for the Democratic Alliance-run province, which is likely to receive pushback from the national African National Congress (ANC) government. Germany-based non-governmental organisation Transparency International's latest Corruption Perceptions Index (CPI) shows a negligible change in South Africa's score and a five-place drop in the country's ranking over five years.*

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#### Mboweni ticks the boxes in his National Budget ...

Finance minister **Tito Mboweni** delivered the **2021 National Budget Speech** on 24 February, a day after the unemployment rate jumped to a new record high of 32.5%, and amid limited fiscal room and a mass vaccination to fund.<sup>1</sup> Unlike President **Cyril Ramaphosa's** (2018-present) uninspiring **State of the Nation Address (SONA) 2021** (see below), Mboweni's forthright and detail-oriented speech generally received positive reaction from the business community and the markets.

**Old Mutual Investment Group** investment strategist **Jason Swartz** said Mboweni delivered a budget with an "overall upbeat and positive tone" that "ticked a lot of boxes".<sup>2</sup> The rand improved to its best level since January 2020 against the **United States (US)** dollar, rising by as much as 0.96% to R14.3919/\$. **South Africa's** 10-year **R2030 bond** was also at its strongest level in a year. The **Johannesburg Stock Exchange** rose as much as 1.56% and traded 1.38% firmer after Mboweni's speech. Economists expect global credit ratings agencies to react favourably to the budget speech, after recently raising concerns over the government's resolve to cut spending and stick to fiscal consolidation plans.

In what government calls "*pro-growth fiscal consolidation*," Mboweni's headline announcements were a drop in the corporate tax rate by a percentage point to 27% in April 2022 and a four-year wage freeze to the public sector wage bill. However, Mboweni said consolidated fiscal deficit will remain at 14% of GDP this year and narrow to 6.3% by 2023-24. While this is better than the projections in the October medium-term budget, it is more than double what was predicted in February 2020 and will be the largest shortfall on record. Some economists are sceptical about Mboweni's plan to cut the budget deficit, with one saying after Mboweni's speech:

*"The intentions are there but narrowing the budget deficit in South Africa is very difficult, even in the best of economic times."*<sup>3</sup>

State and public sector unions are set to hold negotiations on the next wage agreement in the coming months. Unions have not yet tabled their demands, but they will be likely to ask for increases above the consumer price index (CPI). A public-sector strike is likely.

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<sup>1</sup> News24, 24 Feb 2021

<sup>2</sup> Jason Swartz quoted in Business Day, 24 Feb 2021

<sup>3</sup> Christie Viljoen quoted in Bloomberg, 24 Feb 2021

In regards to **Covid-19**, Mboweni announced plans to spend over ZAR 10 billion (\$712m) to vaccinate around 67% of the population, which he said will help the economy rebound. He said the funds will be used to purchase and deliver vaccines over the next two years, which will be given to all South Africans free of charge.

This comes as welcome news in the government's checkered **coronavirus** response plan and implementation. According to the **Banking Association of South Africa**, as of 16 January South African banks had approved ZAR 17.84 billion (\$1.22 billion) in loans that small businesses have taken up under the **Covid-19 Loan Guarantee Scheme**, significantly below original expectations.<sup>4</sup> Participating banks expect applications for the scheme to slow down further in the coming months. A contact in the brewery industry told ARC that business owners are reluctant to incur more debt due to inconsistent policy and regulation, uncertain business conditions and a weak economic outlook, in addition to:

*"... the slow pace of economic reform, an unreliable electricity supply and lack of inclusive growth, as well as the subsequent weak consumer and business confidence".<sup>5</sup>*

### SONA 2021 – platitudes or progress?

President Ramaphosa set out his administration's four priorities in the SONA 2021 delivered on 11 February. These include defeating the coronavirus pandemic, accelerating economic recovery, implementing economic reforms, and fighting corruption.<sup>6</sup> Economists and the business community generally reported that, while the speech had elements of promising news, notably regarding energy sector reforms and extending income and wage support, they were unconvinced that SONA 2021 offered much new, particularly at a time when reforms are urgently needed.

On the back of Ramaphosa's widely applauded addresses to the nation in the initial months of the global Covid-19 pandemic, it would have been reasonable to be optimistic that he would set out a clear and coherent plan to revive the struggling economy. Instead, SONA 2021 looked remarkably like the SONAs of February and April 2020. The markets illustrate this clearly, with economists choosing not to revise up growth forecasts following the address and the currency market largely unaffected. **Peregrine Treasury Solutions** treasury partner **Bianca Botes** said in currency market terms, SONA 2021 was a "*non-event*".<sup>7</sup>

So, what went wrong? South Africans and investors have heard many of the same undelivered promises and goals time and again during SONA – making them highly sceptical. This time they wanted to hear about progress, not more promises. However, as one local economic journalist reported, what Ramaphosa did say in terms of progress was ambiguous and "*largely unconvincing*".<sup>8</sup> This has led many political commentators to posit that Ramaphosa says one thing, but delivers another.

Opposition party **Democratic Alliance (DA)** leader **John Steenhuisen** welcomed the extension of the monthly ZAR 350 (\$24) Covid-19 grant to March 2021 and expressed approval of an updated scarce skills list, which will enable businesses to hire skilled foreigners for positions with an acute shortage of skilled nationals. Steenhuisen noted, however, that there were too many "*soons*", "*in progresses*" and "*maybes*." He also noted that energy sector reform would give "*more power to the state*", while the DA and many in the business community push for further privatisation of the sector. **Business Leadership SA** remarked on the lack of progress in SONA 2021 and cautioned about the negative implications on the energy sector from government's localisation drive, which Ramaphosa said could increase local output by ZAR 200 billion (\$13.72 billion) a year if South Africa achieves its target of reducing imports by 20% over five years.

<sup>4</sup> Banking Association of South Africa, 3 Feb 2021

<sup>5</sup> ARC source, brewery industry entrepreneur

<sup>6</sup> South African Government, 11 Feb 2021

<sup>7</sup> Bianca Botes quoted in Business Tech, 14 Feb 2021

<sup>8</sup> Business Day, 18 Feb 2021

Ramaphosa's speech was also remarkably light on the government's Covid-19 vaccination programme (see below). He noted that although the vaccine rollout has started slowly, it is set to speed up, and urged opposition parties to support the government's efforts. The president welcomed the "*active involvement*" of the private sector in contributing towards the vaccination programme, but did not go as far to say that all private pharmacies, doctors and health facilities will be required to dispense vaccines by midyear, before the country's suffers a possible third wave of Covid-19.

One area where SONA 2021 brought some clarity was on energy sector reform. Ramaphosa made a firm commitment to investment growth in clean energy, and the unbundling of state-owned public utility **Eskom**. A senior executive of an **Africa**-focused investment fund described SONA 2021 as "*helpful*" in setting the scene for the separation of Eskom into three distinct entities, and said the move is crucial to ensure greater transparency of costs. However, the source noted that, while the plan is promising, there is no evidence that it will be implemented in the near- to medium-term.

### ... as vaccine rollout takes a political turn

**Western Cape Province** premier **Alan Winde**'s plans to procure vaccine doses for his province highlight the inevitable role that politics is playing in curbing and ending the Covid-19 pandemic. In his **State of the Province Address** on 17 February, Winde said his Democratic Alliance (DA) government is speaking to pharmaceutical companies about procuring vaccine doses for the Western Cape as a "*matter of duty*" to protect people living in his province.<sup>9</sup> The Western Cape is the only province not run at provincial level by the ruling **African National Congress (ANC)**, and is often at odds with national ANC policy.

There are considerable political risks for the ANC if Winde runs a successful province-specific vaccine rollout. While Ramaphosa initially won near-universal domestic support and international acclaim for his swiftness to act to curb the spread of Covid-19 in March 2020 (see *ARC Briefing South Africa April 2020*), the increase in the infection rate as South Africa entered the southern hemisphere winter, combined with revelations of irregularities in the tender and purchase of **Personal Protection Equipment (PPE)** for the department of health, brought fresh challenges to the government's response (see *ARC Briefing South Africa July and August 2020*). More recently, the government has come under fire for the perceived "*waste*" in purchasing one million doses of the **British-Swedish** manufactured **Astra-Zeneca vaccine**, with an expiry date of April 2021,<sup>10</sup> which is reportedly less effective against the new variant of the Covid-19 virus – the so-called **501Y.V2** strain.<sup>11</sup>

Given the national ANC government's track record on corruption, amply demonstrated in the on-going **Zondo Commission of Inquiry into Allegations of State Capture (Zondo Commission)**, it is reasonable to assume that further financial, logistical and corruption issues will emerge during its national vaccination process.<sup>12</sup> It is also reasonable to assume that, given the Western Cape's relative wealth and size, the provincial DA government is in a strong position to implement a faster rollout than the national government to vaccinate its 5.82m inhabitants.<sup>13</sup> The DA would capitalise on a successful and speedy vaccine rollout in the Western Cape as political ammunition for years to come and significantly damage the ruling ANC party's credibility and popularity.

The national ANC government is thus likely to try to prevent the Western Cape from implementing its own vaccination rollout, claiming that the vaccine rollout needs to be fair and to distribute government services equally. However, if the DA can prove failure in the ANC's vaccination strategy, it may be able to justifiably embark on its own vaccination programme soon.

With over 1.5 million recorded coronavirus infections and almost 50,000 deaths, South Africa has been the hardest hit country in **Africa**. South Africa recorded 1,862 new Covid-19 infections on 24

<sup>9</sup> Daily Maverick, 17 Feb 2021

<sup>10</sup> The South Africa, 14 Feb 2021

<sup>11</sup> University of KwaZulu-Natal, Fred Hutchinson Cancer Research Center reported in Financial Times, 6 January 2021

<sup>12</sup> Source, political analyst, South Africa

<sup>13</sup> According to Statistics South Africa's national census in 2011.

February, up from 998 new cases the day before, and 110 new Covid-19-related deaths, of which 61 were recorded in the **Free State**, 17 in Western Cape, 12 in **Gauteng**, seven in **KwaZulu-Natal**, seven in **Mpumalanga**, five in **Eastern Cape** and one in **Northern Cape**. Western Cape has administered 41% of its 13,000 Covid-19 vaccine doses allocated by the national government.<sup>14</sup>

President Ramaphosa on 1 February announced the easing of lockdown regulations, including ending a ban on sales of alcohol. A wine producer in Western Cape told ARC that, due to the alcohol ban, local farmers are now stuck with a surplus of wine just as the 2021 harvest begins, which is causing storage and cash flow complications in one of the province's most lucrative industries.

### South Africa's corruption perceptions score unchanged

South Africa has maintained its score and improved its ranking by one position in **Germany**-based non-governmental organisation **Transparency International's 2020 Corruption Perceptions Index (CPI)**, released on 28 January. The annual index scores 180 countries and territories by their "perceived levels of public sector corruption", with zero being "highly corrupt" and 100 being "very clean".<sup>15</sup> South Africa ranks 69<sup>th</sup> out of 180 countries with a score of 44 in this year's CPI.

TI 2020 CPI Rankings for South Africa					
	2020	2019	2018	2017	2016
<b>Ranking</b>	69/180	70/180	73/180	71/176	64/168
<b>Score</b>	44	44	43	43	45

Despite a marginal improvement over last year's performance, South Africa's ranking has fallen by five places over five years. However, South Africa had reached a low point in the CPI rankings before Ramaphosa took over from **Jacob Zuma** (2009-2018) as president in 2018. Ramaphosa has brought the fight against corruption to the fore, particularly within the ruling party, and made fighting corruption one of his administration's four priorities in this year's SONA (see above). However, Transparency International notes that Covid-19 has brought with it an epidemic of corruption challenges:

*"Across the region, the COVID-19 pandemic highlights structural gaps in national health care systems, corruption risks associated with public procurement and the misappropriation of emergency funds."*<sup>16</sup>

A number of ANC senior members have been under pressure in recent months to step aside on corruption charges, as Ramaphosa pushes to clean up the ruling party. Secretary general **Ace Magashule** made his second appearance at a **Bloemfontein** (Free State) magistrates' court on 19 February to answer charges of corruption, fraud and money laundering. Magashule is charged with a ZAR 255m (\$17m) contract for asbestos-removal, signed when he was premier of the Free State. Magashule has refused the ANC's **Integrity Commission's** request for him to stand down as secretary general. The battle between Ramaphosa and Magashule, who represents the Zuma-loyalist faction of the party, will be critical in the country's fight against corruption in the years ahead. The corruption case against Magashule, as well as the Zondo Commission, are major milestones in the battle.

South Africa continues to place above the **sub-Saharan African** average of 32/100 and compares relatively well with regional counterparts in **Southern Africa**.<sup>17</sup> Sub-Saharan Africa is the lowest performing region on the CPI, with TI noting it has shown "little improvement from previous years" and is in need of "urgent action." **Seychelles** again ranked first in in sub-Saharan Africa (27<sup>th</sup> overall), followed by **Botswana** (35<sup>th</sup> overall) and **Cabo Verde** (41<sup>st</sup> overall).

<sup>14</sup> IOL, 24 Feb 2021

<sup>15</sup> Transparency International's 2020 CPI Report

<sup>16</sup> Transparency International, 8 Sep 2020

<sup>17</sup> Transparency International's 2020 CPI Report

### TI CPI Rankings 2020: Southern Africa regional comparison

	South Africa	Botswana	Namibia	Zambia	Mozambique
<b>Ranking</b>	69/180	35/180	57/180	117/180	149/180
<b>Score</b>	44	60	51	33	25

### Planner

23-25 Mar 2021 **Pretoria (South Africa) South African Reserve Bank (SARB)** (central bank) MPC meeting;

30-31 Mar 2021 **(South Africa) Virtual Investment Programme;**

May 2021 **(South Africa)** Municipal elections;

18-20 May 2021 **Pretoria (South Africa) SARB MPC meeting;**

20-22 Jul 2021 **Pretoria (South Africa) SARB MPC meeting;**

21-23 Sep 2021 **Pretoria (South Africa) SARB MPC meeting;**

16-18 Nov 2021 **Pretoria (South Africa) SARB MPC meeting;**

2021 **(South Africa)** Municipal elections (TBA);

7-10 Feb 2022 **Cape Town (South Africa) Investing in African Mining Indaba**

2024 **(South Africa)** General election.

### Chronology

24 Feb 2021 **Johannesburg (South Africa) Business Day.** Alcoholic beverages producer **Distell Group** says its profits rose 14.1% to R1.44 billion (\$99m) in the six months to end-December despite reduced trading days in South Africa due to alcohol bans, thanks to strong sales in the rest of **Africa** and international markets;

19 Feb 2021 **Limpopo (South Africa) IOL.** **Hawks'** Serious Commercial Crime Investigation unit and the **Limpopo Flying Squad** intercept illegal cigarettes in transit at **Matlala (Limpopo)**;

16 Feb 2021 **Johannesburg (South Africa) EMPEA.** **World Bank Group** member **International Finance Corporation** and its subsidiary **IFC Asset Management Company** have agreed to invest up to \$15m in **South Africa**-based payment platform **Adumo**;

11 Feb 2021 **Johannesburg (South Africa) News24.** President **Cyril Ramaphosa** delivers the annual **State of the Nation Address**, in which he focuses on economic growth, fighting corruption and **Covid-19** vaccination;

10 Feb 2021 **Johannesburg (South Africa) Daily Maverick.** **South Africa Chamber of Commerce and Industry's** business confidence index (BCI) averaged 86.5 in 2020, the lowest annual average since the BCI was launched in 1985;

10 Feb 2021 **Johannesburg (South Africa) News24.** Cabinet approves the extension of the national state of disaster until 15 March;

9 Feb 2021 **Johannesburg (South Africa) Business Tech.** Department of home affairs says it is in discussions with government health officials about reopening **South Africa's** land borders;

8 Feb 2021 **Johannesburg (South Africa) Business Day.** Health authorities suspend rollout of **Oxford/AstraZeneca Covid-19** vaccine, a week after its arrival in the country, after research showed it was only minimally effective in preventing mild to moderate illness in a variant of the

coronavirus now dominant in **South Africa**;

8 Feb 2021 **Harare (Zimbabwe)** *Daily Maverick*. **South Africa**-based news outlet **Daily Maverick** releases details on a recent report into cartel power dynamics in **Zimbabwe**, outlining how a corrupt ruling elite extract 'rent' from Zimbabwe's poorest;

6 Feb 2021 **(Africa)** *AU*. **Democratic Republic of the Congo** President **Félix Tshisekedi** takes over **African Union** chair from **South Africa's** President **Cyril Ramaphosa**;

4 Feb 2021 **Johannesburg (South Africa)** *Business Tech*. Health minister **Zweli Mkhize** says **South Africa** and other **African** countries should prepare for the impact of a possible third wave of **Covid-19** infections;

3 Feb 2021 **Johannesburg (South Africa)** *Mail & Guardian*. Ruling **ANC** party secretary general **Ace Magashule** says former President **Jacob Zuma** has done nothing wrong and to leave him alone, in the wake of Zuma's defiant letter stating he would not testify at the **Zondo Commission of Inquiry into State Capture**;

3 Feb 2021 **Johannesburg (South Africa)** *Business Day*. **South Africa**-based liquor producer **Distell** says it aims for a sevenfold increase within five years of the number of outlets selling its products in the rest of **Africa**;

1 Feb 2021 **Johannesburg (South Africa)** *News24*. President **Cyril Ramaphosa** announces the easing of lockdown regulations, including ending a ban on sales of alcohol, and says vaccines have arrived as infections drop.

### About Africa Risk Consulting:

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