

COVID response: South Africa

CABRI

Presenter: Mark Blecher CD | National Treasury | 9 April 2020



national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

Introduction

- Having to learn fast
- Usual vs emergency responses
 - 1% prevalence requires 5000 ICU beds; 10% 50,000; only have 2000 public
 - Later act, longer to control; exponential curves
- Sectoral responses:
 - Health response
 - Income protection response
 - Water
 - Security cluster
 - Housing (de-densification)
- Growth
 - Which sectors are essential and can get back earlier
- Fiscal position
 - Reprioritisation
 - Savings



Health response

- Quarantine Wuhan evacuees (virement)
- Personal protective equipment, R468m (unspent Disaster funds)
- Prevention and control response: Lockdown, testing, track and trace teams, isolation; systems
- Ventilators/ICUs, (provincial reprioritisation, possible S16 Emergency funds, S25 provincial emergency, amending conditional grant frameworks)
- Laboratory services (NHLS): Large surplus R3b
- Aspects pertaining to NHI: Use of private hospital ICUs; joint public-private procurement plan for scarce supplies: N95 masks, ventilators, masks, PPE, laboratory supply (tariffs for private hospitals, Solidarity Fund)

- First thought:
 - Unforeseen and Unavoidable
 - Adjustment budget
- Had to move faster:
 - Virements
 - Disaster funds
 - S16 pfma Emergency funds
 - Possibly recraft budget (war budget), early adjustment
 - Reprioritisation
 - At all levels of govt and multiple sectors

Income protection options (2)

- Several options :
 - Social Relief of Distress cash grant or food parcels
 - Child Support grant top-up to recipients
 - Tax credit via SARS
 - Some new mechanism via banks
- Each has pros and cons
- Some combination of options and sequencing eg limited SRD plus 3 months CSG (R2.4b+R9.3b)

Table1: cost of SRD to 59% of informal sector workers

	Scenario 1	Scenario 2	Scenario 3
Number of informal sector workers	3 161 722	3 161 722	3 161 722
59% of informal sector workers	1 865 416	1 865 416	1 865 416
Duration of payment in months	3	3	3
Duration of payment in months	6	6	6
Value of relief	700	1 500	440
Total Cost 3 months	3 917 373 558	8 394 371 910	2 462 349 094
Total Cost 6 months	7 834 747 116	16 788 743 820	4 924 698 187

Source: GHS 2018, own calculations

Table 3: Cost of CSG Top-up to all recipients

	Scenario 3	Scenario 4
Number of CSG recipients	7 109 391	7 109 391
Duration of payment in months	3	6
Value of relief	440	440
Total Cost	9 384 396 120	18 768 792 240

Tax policy response

The measures already implemented included:



- The introduction of a tax subsidy to employers of up to R500 per month for the next four months for those private sector employees earning below R6,500 under the Employment Tax Incentive. This will help over 4 million workers
- SARS to accelerate the payment of employment tax incentive reimbursements from twice a year to monthly to get cash into the hands of compliant employers as soon as possible
- Tax compliant businesses with a turnover of R50 million or less will be allowed to delay 20% of their employees' tax liabilities over the next four months and a portion of their provisional corporate income tax payments without penalties or interest over the next six months
- Input VAT and customs duties on imports of essential goods have also been removed

Going forward:

- Review the current interventions and the impact on the economy
- Additional deferral of some taxes (or some other new interventions) in order to assist employees and households, as well as firms to help them continue operating and allow for a stronger recovery when the crisis ends

Fiscal policy

- SARB projects significant GDP growth decline
- Feeds through into substantial revenue reductions
- Larger deficits ...maybe as large as previously seen in wartime
- Wartime budget, significant reprioritisation and areas for savings
- Higher bond sales, draw on some funding from International partners
- But also need to start thinking of post lockdown, post epidemic recovery plan

	Decile 1	Decile 2	Decile 3	Decile 4	Decile 5	Decile 6	Decile 7	Decile 8	Decile 9	Decile 10	
 Size of population in percentile range	4.4 million (1 – 34 percentiles)				4.7 million (35– 69 percentiles)			2 million (70 – 84 percentiles)		1.8 million (85 – 100 percentiles)	
 Top 5 most common occupations	<ul style="list-style-type: none"> - Domestic workers - Agri & fishery labourers - Street vendors & related workers - Mining & construction labourers - Garbage collectors & related labourers 				<ul style="list-style-type: none"> - Domestic workers - Agri & fishery labourers - Protective services (security guards, police officers, firefighters) - Manufacturing labourers - Motor vehicle drivers (e.g. despatch drivers, taxi drivers, bus drivers, truck drivers) 			<ul style="list-style-type: none"> - Office clerks - Motor vehicle drivers - Protective services - Mining & construction labourers - Gen. managers Some teachers 		<ul style="list-style-type: none"> - Other/department managers - Gen. managers - Production & operations managers - Protective services - Clerks - Bus. professionals - Some teachers 	
Coverage of support measures	Low or no income earners, informal sector workers, survivalist businesses - Grant beneficiaries										
	Low or no income earners, informal sector workers, survivalist businesses – COVID social relief of distress covers non grant beneficiaries										
	Young men in hostels without access to households receiving grants or special COVID SRD – Apply for social relief of distress as per DSD										
					Informal sector workers, semi-formalised SMEs –SME support through DPRU / bank account identification						
										Formalised SMEs – support to through Solidarity Fund; tax relief assessments	

Identifying those that may fall through the cracks in broader categories

- Vulnerable households should be the metric for support but in many instances identification for and actual support would need to be based on identified individuals
- Gap between social grant recipients and measures to address vulnerability of those in formal employment (proposed SRD)
 - Long term unemployed
 - Informal businesses
 - Informal workers
- Business support (SMME) may not cover informal businesses well – but also those that are registered but not complying
 - In SA these employee between 1-20 people and have a turnover of less than R2m pa
 - May need to target individual support and not business support here

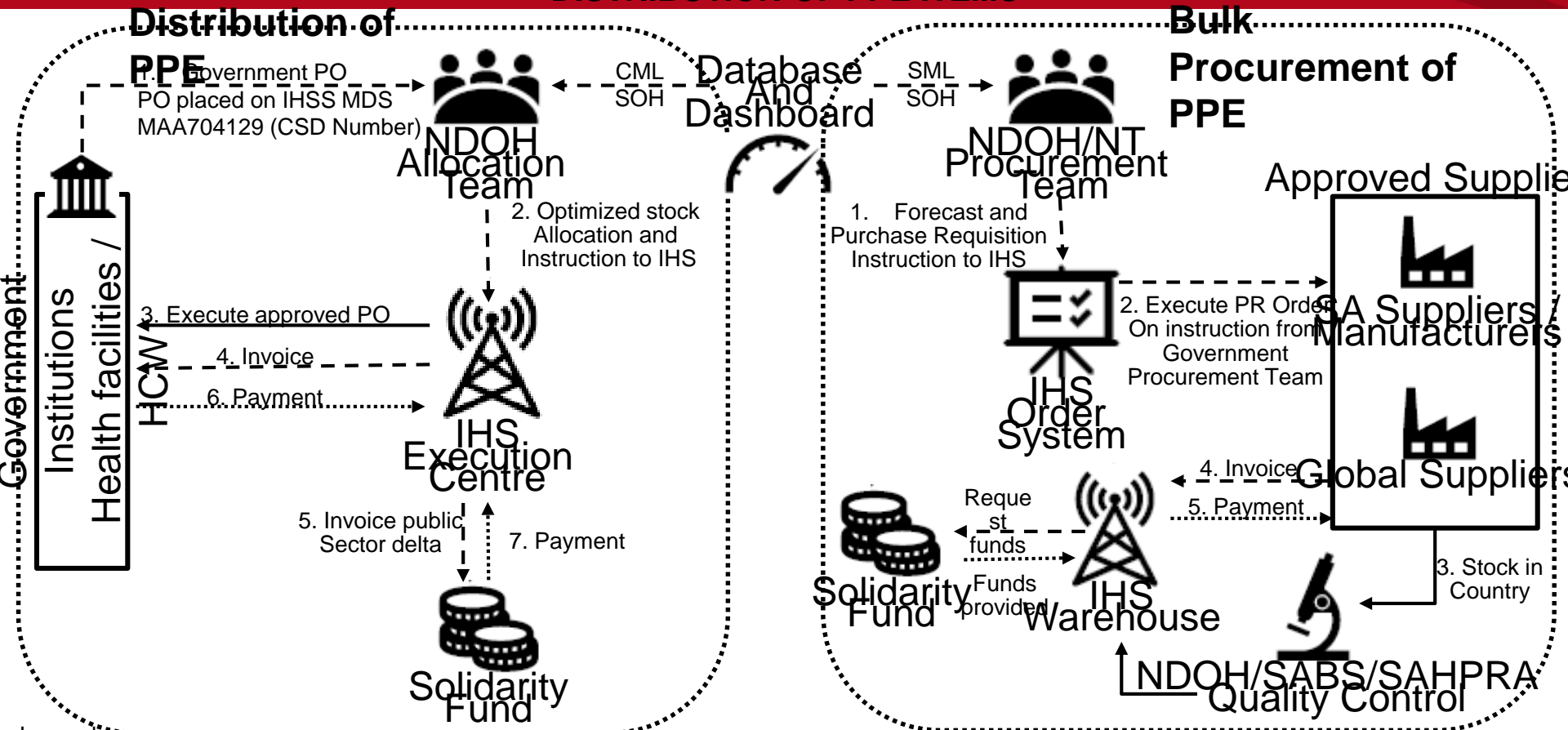
Current SME support

Public sector		Private sector	
Business growth/resilience facility	Products addressing health and medical needs for Covid-19	SA future Trust	Interest free loans paid to employees but companies will pay back
SMME Relief Finance Scheme	Soft loan funding	Sukuma relief programme	R25k grants for formal sole prop supported with loans and grants for cc, companies and trusts
Sefa Debt restructuring	Moratorium on loan repayments	Commercial banks	Payment holidays – mostly for 90 days
Spaza shop support scheme	Package of measures including seed funding and support (loan based but could convert to grant)	Gaps identified: <ul style="list-style-type: none"> • Eligibility – Business must be registered, tax and UIF compliant and provide bank statements and financial projections. • Asymmetric and misleading information: Where to find assistance as well as funding requirements that are ambiguous – Many options that look like grants are in actual fact loans • Exclusion of foreign owned businesses that employ South Africans • Time lag of support pay-outs 	
COVID-19 TERS	Pay employees temporarily not receiving salaries via employers		
Tourism relief fund			
Agriculture small farmer support	Voucher scheme for inputs		
Tax system relief	Tax subsidies for employees, reimbursements accelerated and deferral of specific tax payments		

Health response procurement

- Urgent needs eg PPE eg N95, test reagents; ventilators
- Phase 1: circulars re transversal tenders, emergency procurement, identifying potential suppliers...but many in short supply and difficulties with lockdown; many small orders
- Phase 2: National public-private partnership, Solidarity Fund, centralised ordering, international consignments; domestic production

DISTRIBUTION OF PPE ITEMS



Legend:

AR – Accounts Receivable; **AP** – Accounts Payable; **CML** – Customer Master List; **SML** – Supplier Master List; **SOH** – Stock on Hand; **PO** –Purchase Order; **HCW** – Health Care Workers

-----> Information flow
 —————> Product flow
> Money flow

Support actions around the world

	Actions	South Africa
Central Bank actions		
	Deviations from capital reserve requirements to support additional lending	Yes
	Lower interest rates	Yes, more can be done
	Preferential rate loans to banks – specifically for on-lending to SMEs	
Tax authority		
	Deferred tax payments	Yes
	Outright tax holidays	
	Accelerated tax claims e.g. VAT and ETI	Yes
	Support on salaries	Tax subsidies for low paid workers
Government		
	Direct grants	Very few
	Guarantee loans commercial banks are providing	
	Low interest loans from government support agencies	Yes
	Payment of salaries of workers	Yes, TERS – although most all countries have a wider net
	Leniency in paying statutory fees and contributions	No but in SA could mean UIF, SDL –
Commercial Banks (and other financial institutions)		
	Payment holidays	Yes
		In SA, FSCA just indicated possible condoning late payment of provident fund contributions from affected employers

Conclusion

- Rapid response essential
- Health response essential to prevent massive outbreak; Prolonged lockdown can be very harmful to economy
- Income protection relevant in lockdown
- Multiple financial management instruments needed to redirect funds rapidly
- Serious challenge to growth and fiscal position, but needs to be seen as black swan/once in lifetime event