AN EMERGENCY RESCUE PACKAGE FOR SOUTH AFRICA IN RESPONSE TO COVID-19[1]

17 April 2020 – Institute for Economic Justice[2]

EXECUTIVE SUMMARY

As a result of the COVID-19 pandemic, South Africa's real GDP for 2020 is forecast to fall by around -6% to -8%, with accompanying job losses of up to 1 million jobs, even with the current proposed economic rescue package by Government. Government's rescue package of R41 billion is clearly insufficient. This Policy Brief provides a detailed emergency rescue package for the South African economy more in-line with global best practise and the needs of the South African economy. Costing estimates and funding sources are discussed.

We show, based on global estimates and local-economy projections, that an initial injection of at least R310 billion, commensurate with the minimum predicted fall in GDP is required. This will partially offset the initial contractionary impact of the COVID-19 shock. In addition we suggest the fiscus has available to it a further 2% of GDP, approximately R100 billion, to facilitate various tax and payment deferrals. Additional spending, targeted at high-multiplier economic activity, will need to follow.

	Estimated cost (R bn)
1. Measures to support the public health response – preventative equipment, testing, treatment, isolation/quarantine accommodation and expenses for expanding public facilities and using private ones.	R20bn
2. Measures to mitigate loss of income	
2.1 An emergency mid-month amount of R500 in April 2020 should be given to all grant beneficiaries.	R9.2bn
2.2 All grants should be increased by R500 for three months.	R27.5bn
2.3 A once off UBI of R 4,500 should be given to all adults (18+ years – 39 million people, 85% claim rate) in South Africa in May 2020.	R150bn
2.4 The extension of the child support grant to pregnant women (the normal CSG and the R500 top up). With an eligible group of approximately 670,000.	R1.9bn
2.5 Automatic renewal of disability grants. Disability grants are approved for 12-month periods. During lockdown they must be extended automatically.	Cost neutral as new grantees not enrolled during same period
2.6 2 million food parcels a month for 3 months.	R4.5bn
2.7 Additional unemployment benefits to meet increased demand.	R18.4bn
2.8 Payment holidays and deferrals - Cost neutral as deferrals but will need short-term financing and backstopping from fiscus and SARB.	

[1] This is a revised draft of a document submitted to Presidency workshop on economic policy responses to the COVID-19 crisis 16 April 2020. Details of particular aspects of the proposed policy package will be elaborated in further policy briefs.
[2] Compiled by Dr Gilad Isaacs. With thanks to Carilee Osborne, Busi Sibeko, Andrew Bowman, Ilan Strauss, Joshua Rosenberg, Neil Coleman, Anokhi Parikh, and Michael Smith. Further reviewer feedback pending.

3. Guarantee wage payments	
3.1 Temporary Employee / Employer Relief Scheme – to be capacitated further, transferred to SARS, and scaled up.	R30bn (additional to original R30bn)
4. Business support	
4.1 Expanded credit facilities – backstopped by SARB.	
4.2 Funds for business support and industrial policy (grants/incentives not credit).	R50bn
4.3 Tax and payment deferrals / holidays - Cost neutral but will need short-term financing and backstopping from fiscus and SARB.	
5. Short-term funds available to facilitate tax and payment deferrals	R100bn
TOTAL	R411.5bn

The macroeconomy will also need to be stabilised to overcome four main macroeconomic risks: falling aggregate demand; rising borrowing costs; exchange rate depreciation; and a potential lack of access to dollar liquidity. Necessary measures include:

- The SARB needs to continue to purchase bonds in the secondary markets.
- Prescribed borrowing costs for certain tranches of borrowing.
- Targeted capital flow management measures to manage capital outflows.
- Measures to reduce the offshore trading of rands.
- Reducing the interest rate (the SARB repo rate) by 100bps (done 14 April 2020) (future rate cuts to be explored, taking account of complementary capital flow management measures).
- Secure access to dollar swap lines with the Federal Reserve.
- Monetary policy coordination.
- Regional support to stabilise neighbouring economies.

Different streams of financing will need to be made use of. Costed streams include:

- Short-term private and SARB market borrowing (initially R50bn from each) facilitates deferrals of tax and other payments.
- Special COVID-19 bond at concessional rates bought by PIC (R50bn) supports business rescues.
- Special COVID-19 bond at concessional rates purchased by private institutional investors (R100bn), solidarity taxation (R48bn) and a UBI claw back tax (R11bn) pays for the UBI.
- UIF bond and money-market funds (R108bn) provide funds for the rest of the interventions.

Additional financing via the following mechanism is discussed:

- SARB monetary financing.
- Multilateral institutions.

In addition, the SARB will need to support credit provision to commercial and development banks and government agencies, to facilitate business-rescue credit schemes discussed.

The potential loss of livelihoods and closure of businesses could set the South African economy back years. This Brief has focused on short-term rescue interventions which must be complemented by a longer-term transformative agenda. However, without these short-term measures the post-COVID-19 economy will be severely weakened.

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1 INTRODUCTION

The economic fallout from the COVID-19 pandemic will be devastating to the local and global economy. Currently, South Africa's GDP for 2020 is projected to fall by at least -6% to -8% (see Section 2) with millions of people seeing reduced incomes and various estimates suggesting job losses of up to 1 million jobs,[3] depending on the size and nature of the economic rescue package. Poverty, unemployment and hunger will rise. The country's development could potentially be set back by years.

In the face of similar predicaments, governments worldwide have taken extraordinary measures (see Section 2). By contrast, the response from the South African government has been relatively limited (unpacked in various sections below) despite numerous viable proposals put forward by researchers and all social partners. No comprehensive economic response plan exists. This Policy Brief seeks to contribute towards closing this gap. It builds on proposals made by over 160 economists (and 140 other policy exerts) in an Open Letter to the President. The Open Letter[4] noted that:

> This response is different from previous attempts to resuscitate ailing economies. We must both acknowledge that physical distancing and a lockdown will slow economic activity, and that extraordinary measures are needed to cushion the resultant hardship and avoid long-term social and economic harm.
>
> There is a significant risk that millions in poverty will fall into destitution; millions more, currently in work, will be driven into poverty and become unable to meet their basic needs; and thousands of businesses will be forced to close due to falling demand as a result of the lockdown, falling incomes and a contraction of economic activity. The self-employed, atypically employed, informal workers, and small businesses, are particularly vulnerable, but none will be exempt from its effects. Traditional social support networks will be disrupted. The long-term impact on business capacity, and physical, financial, and human capital, could be devastating to our already ailing economy. In any already deeply unequal society, we know that the hardship will fall hardest on black people, and especially black women and children.

This calls for extraordinary interventions that put 'the economy on life support during a period of an artificially induced coma while we address the public health challenge'.[5]

This Brief deals with what putting the economy on life support looks like. We argue this has five critical components:

1. Measures to support the public health response.
2. Subsidising people's income to prevent widespread destitution in a period of unexpected income loss.
3. Supporting businesses to pay wages.
4. Supporting businesses to stay alive in a period of reduced economic activity.
5. Stabilising the macro economy.

These are targeted at a short-term rescue package (all to be implemented within the next three to six months, beginning as soon as possible). Such measures need to be complemented by a longer-term strategy for economic transformation. These measures are unpacked and roughly costed in Section 2, which is book-ended in Section 2 by an analysis of the size of the intervention needed, and Section 4

[3] https://www.fin24.com/Economy/South-Africa/coronavirus-sa-business-alliance-expects-1-million-job-losses-economy-to-contract-by-10-20200414
[4] Available with updated signatories: https://docs.google.com/document/d/1jRvoDy19bXD5XF35jA1yglUl_kqPmLN3_Rx7ShU_gpQ/edit?ts=5e81ffeb
[5] https://www.theguardian.com/commentisfree/2020/mar/20/coronavirus-myth-economy-uk-business-life-death

which contains an analysis of potential sources of funding. A medium-term strategy, and its financing, will also need to be developed based on unfolding events. This is hardly the final word in an ever-changing landscape. It also does not include all the regulatory measures detailed in the Open Letter. But it provides a framework and some level of detail, which can be revisited on an on-going basis, that we hope can move us towards decisive action.

2 HOW BIG SHOULD THE INTERVENTION BE?

A global contraction is underway, estimated to be worse than the 1929 Great Depression and, based on initial estimates, at least twice as bad as the 2008 Global Financial Crisis (GFC) on an annualised basis for 2020. During the GFC, fiscal stimulus by the G20, in 2009 alone, amounted to about 2 percent of GDP, or over $900 billion in today's money. This implies a minimum funding requirement of 4 percent globally.[6] Five factors make this rough estimate vastly understated for African and developing countries, including South Africa:

- **Commodity price indexes remain depressed relative to the pre-2012 highs which worked to support an initial recovery for emerging markets after the 2008 GFC**. Commodity prices saw a large bounce after the GFC such that South Africa's economy rebounded to 3% real GDP growth in 2011. The opposite is expected to occur today, unless China's economy rapidly gathers steam.

- **Private and public leverage levels are significantly higher in emerging markets, such that there is less room for domestic financing than previously**. As a result any given increase in spending will need to be larger, both to help repair balance sheets, and because the number of times each additional rand changes hands will be lower during this period (as a given increase in income goes to hoarding or debt repayment).

- **Global trade and investment, including in tourism, has slowed dramatically**. These are major engines of growth for smaller developing countries, including South Africa.

- **Health-care financing to offset the spread and death rate of COVID-19 places additional needs previously not part of counter-cyclical policies taken to mitigate contractions in GDP**. Developing countries have worse health infrastructure meaning that a much greater initial expenditure will be required to help the economy recover, given its reliance on a containment of the virus.

- **Capital outflows from developing countries** in recent months have dwarfed those following the GFC. As of 17 March 2020, cumulative capital outflows from 20 emerging markets were already than double those following the GFC.[7]

[6] It it is estimated that the COVID crisis will lead to losses exceeding $9 trillion or 10% of global GDP (Golding and Muggah, 2020). The WTO predicts that global trade will fall between 13% and 32% in 2020 (WTO, 2020) and the International Labour Organization (ILO) believes that 200 million full-time workers will lose their jobs in the coming three months (ILO, 2020). For the African continent, UNECA estimates that the continent's growth is expected to drop from 3.2% to 1.8%. They also estimate a 48% decline in employment.

[7] Lanau, Sergi and Fortun, Jonathan. 17 March 2020. Economic Views – The Covid-19 shock to EM Flows. Institute of International Finance Economic Views. Available at: https://www.iif.com/Portals/0/Files/content/EV_03172020.pdf

2.1 HOW MUCH MIGHT THE SOUTH AFRICAN ECONOMY CONTRACT?

In the aftermath of the GFC, the South African economy contracted, during 2009, by 1.8%.[8] This contraction in GDP was, by comparison with the current challenge, less severe, lasting only three quarters (Q4 2008- Q2 2009), owing to buoyant commodity prices for part of the subsequent period and relatively strong export demand.[9] However, despite some bounce back in GDP, the jobs shed in the wake of the GFC left the South African economy much weaker, including through the shedding of around 1 million jobs. As noted above, certain conditions are not present today, which means the severity of the downturn and its length is likely to be far greater. Positive GDP growth during 2021, which some are projecting, will be tough to achieve, especially for emerging markets. Importantly, it is unlikely that a vaccine will be available for the bulk of the population for most of 2021.

The South African Reserve Bank's most recent projection is a real contraction of 6,1% of GDP during 2020.[10] This matches with the IMF's most updated prediction of -5.8%. The SARB had previously predicted a decline of 4% and a loss of 370 000 jobs and 1,600 firms reaching insolvency, but their most recent statement doesn't estimate the numbers of jobs that will be lost. The lockdown alone was estimated by the SARB to reduce GDP by 2.6 percentage points. Private forecasts are often worse, as seen in Table 1. Business for South Africa (an intra-business lobby group established to combat the impact of COVID-19 in South Africa) estimates a -8% to -10% contraction and 1 million job losses. Some private forecasts paint a dramatically worse picture; PwC's severe contractions forecast, for instance, shows up to 2.2 million job losses.[11]

Given the extension of the lockdown it seems safe to estimate *at least* a negative growth rate of -6% to -8%, or an estimated fall in GDP of R305.6 billion to R412.6 billion. This is most likely a conservative estimate, and projections continue to deteriorate as the crisis unfolds.

Table 1 Select private-sector growth forecasts for South Africa for 2020

Date of forecast published	Company / authors	GDP growth forecast
28-Mar-20	Investec	-2.7%
25-Mar-20	Intellidex	-5.8%
31-Mar-20	RMB	-4.2%
01-Apr-20	JP Morgan	-7.0%
03-Apr-20	BNP Paribas	-4.0%
03-Apr-20	ABSA	-3.0%
09-Apr-20	Madhi et al.[12]	-8.8%

[8] South African Reserve Bank. March 2010. Quarterly Bulletin No. 255. Available: https://www.resbank.co.za/Lists/News%20and%20Publications/Attachments/3638/Full%20Quarterly%20Bulletin.pdf
[9] South African Reserve Bank. December 2009. Quarterly Bullletin No. 254. Available at: https://www.resbank.co.za/Lists/News%20and%20Publications/Attachments/4041/Full%20Quarterly%20Bulletin.pdf
[10] South African Reserve Bank. 14 April 2020. Statement of the Monetary Policy Committee. Available at: https://www.resbank.co.za/Lists/News%20and%20Publications/Attachments/9863/May%202020%20MPC%20statement_.pdf
[11] Price Waterhouse Cooper. 31 March 2020. Presentation: Thinking through the possible Economic consequences of Covid-19 for South Africa.
[12] Madhi et al. project an annualised R13 billion fall in GDP per day of lockdown. Assuming a 35-day lockdown this amounts to a fall in -8.8% based on the National Treasuries original 2020 GDP forecast.

14-Apr-20	BFSA	-8% - 10%

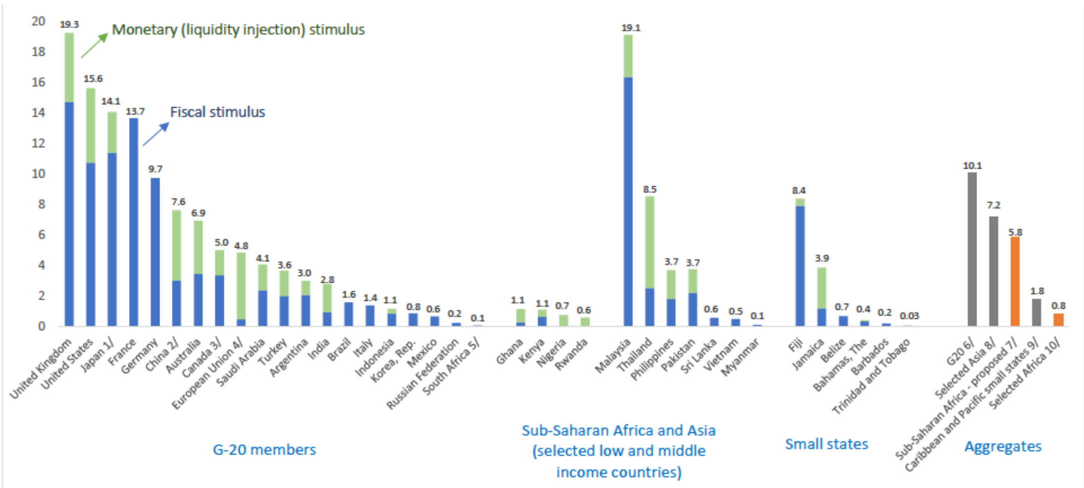
2.2 SOUTH AFRICAN AND GLOBAL SPENDING

In response to the economic hardship caused by the COVID crisis, the South African government has, as of 8 April 2020, committed R41 billion towards the COVID-19 relief measures, unpacked in various sections below. The state has also prioritised efforts to mobilise off-budget funding including from social security surpluses, private business and high net-worth individuals in order to mitigate impacts on the fiscal deficit (TIPS, 2020).

Globally, it is likely that measures taken represent the largest coordinated state support *ever* undertaken. The scale of spending is indicated in Figure 1. The United Kingdom tops the chart with spending amounting to 19.3% of GDP. The United States' spending of 15.6% of GDP is almost four times larger than the stimulus during the GFC (Berteche, 2020). Japan's economic stimulus package, announced on 6 April, totals Yen 108 trillion (USD 989 billion) of which Yen 39 trillion is direct fiscal spending (amounting to 7% of GDP), more than double their stimulus in the wake of the GFC (Yen 56 trillion, with fiscal spending amounting to Yen 15 trillion).

As shown below, the South African government's current fiscal commitments of less than 1% of GDP are dwarfed by those undertaken by other countries across the globe. The average spending by the G20 is 10.1% of GDP with countries such as Argentina, Brazil, Malaysia, Thailand, and the Philippines spending far more than South Africa. Other African countries such as Ghana, are spending a higher share of their GDP relative to South Africa's 0.1%.

Figure 1 Economic stimulus for select countries and aggregates as a percentage of 2018 GDP (as of 2 April 2020)



Notes: Fiscal stimulus includes both aid and grants. Monetary stimulus only includes central banks' explicit monetary liquidity injection (e.g., through lending facilities, open market operations) and expected impact from lowering policy interest rates. Weighted average for country aggregates. See ODI policy country response tracker for details.
1/ Substantial fiscal stimulus under proposal; 2/Fiscal stimulus in China under discussion; 3/ Monetary stimulus in Canada is an estimate; 4/ European Union economic stimulus from European Commission, European Investment Bank and European Central Bank; 5/ Estimate based on measures that have indicated costs; 6/ G20 members excluding EU; 7/ Proposed support for Sub-Saharan Africa based on ODI analysis; 8/ Selected Asia includes Malaysia, Myanmar, Pakistan, Philippines, Sri Lanka, Thailand and Vietnam; 9/ Caribbean and Pacific small states include The Bahamas, Barbados, Belize, Fiji, Jamaica and Trinidad and Tobago; 10/ Selected Africa includes Ghana, Kenya, Nigeria and Rwanda.
Sources: News reports, official press releases as of 2 April 2020. GDP data from World Development Indicators database. Exchange rates are based from respective countries' central banks.

Source: Overseas Development Institute (ODI) Country Fiscal and Monetary Policy Response Tracker.[13]

[13] Available at: https://set.odi.org/wp-content/uploads/2020/04/Country-fiscal-and-monetary-policy-responses-to-coronavirus_as-of-2-April2020.pdf

2.3 HOW MUCH DO WE NEED TO SPEND?

Research concluded in March 2020, shows that, *in normal times*, for every R1 billion government spends, GDP increases by R1.68 billion and 6 900 jobs are created.[14] This means the fiscal multiplier is 1.68 in normal times. The multiplier is usually even larger during recessionary periods; but putting this aside for a moment: a multiplier of 1.68 implies a spending requirement to counteract a 6% fall in GDP of R185 billion, and for a 10% fall, R310 billion.[15]

For several reasons the impact of fiscal spend may be more muted under current conditions as the usual channels through which the fiscal multiplier operates, become blocked, owing to:[16]

- **Much production is unable to restart even with an increase in demand because legally it is shutdown and physically it has not reconfigured productive processes to permit social distancing and reduced virus spreading risk.** Until such time as factory floors are retooled, restaurants and kitchens renovated, and so on, demand and/or supply will not be forthcoming. (The question remains not when to open the economy but how.)

- **Much employment is unable to be restarted even with an increase in demand because much of it is concentrated in service sectors**, approximately two-thirds of the economy. These are human-contact heavy tasks, especially domestic work, hospitality and tourism, food and entertainment, transport, and particular retail sectors.[17] Even with demand restarting much of these sectors are likely to remain partially or fully shut for, at least the next six months and possibly considerably longer. This also means that the fall in employment is expected to be larger than the fall in GDP in South Africa.

- **Increases in money transfers to businesses and households will see an increase in paying off debt obligations or saving, as opposed to investment.**

- **Firms and the state have already drastically cut back or delayed all capital expenditures too.** This also means any induced 'accelerator' effects on investment from consumption are unlikely to materialise, further impeding the channels through which a multiplier is expected to operate.[18] Other negative feedback loops, such as from reduced exports are also expected.

Two factors play some role in countering this:

- **Global trade has slowed dramatically, and the exchange rate depreciated**, and so the propensity to import will have fallen, leading to an increasing demand for local goods.

- **Transfers must be targeted to lower-income households** which have a higher propensity to spend, and spend less heavily on imported items.

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[14] Schröder, E. and Storm, S., (2020). Fiscal policy in South Africa: closed input-output income and employment multipliers. Institute for Economic Justice, Research Note, No 1

[15] GDP is estimated using the National Treasuries 2019/20 estimates.

[16] See: Guerrieri, Veronica, Lorenzoni, Guido, Straub, Ludwig and Werning, Ivan. 2 April 2020. Macroeconomic Implications of COVID-19: Can Negative Supply Shocks Cause Demand Shortages? Available: https://economics.mit.edu/files/19351

[17] Price Waterhouse Cooper. 31 March 2020. Presentation: Thinking through the possible Economic consequences of Covid-19 for South Africa.

[18] Existing multipliers are calculated on the basis of aggregate government spending – this includes a certain ratio between capital and consumption spending. The recalibration of that ratio, due to a sever reduction in capital spending, is likely to change the multiplier.

Nevertheless, the multiplier from such transfers is likely to be reduced, even if this remains the optimal response. Some commentators, such as Pierre-Olivier Gourinchas, argue that fiscal spend should be at least as big as the projected GDP drop (an assumed multiplier of 1).[19] In general, many countries that have issued stimulus packages have done so to levels that exceed most expected GDP contractions. For example, while the IMF predicts that the US economy will contract by 5.9%;[20] their fiscal stimulus package is estimated at around 10% of GDP.[21] The UK's expected GDP contraction is 6.5% while their stimulus package is estimated at 15% of GDP.[22] Similar trends are evident for Germany and Japan. In many of these instances, policymakers have also indicated the possibility of further stimulus packages. If the multiplier is lower than in normal times then the fiscal response will need to be even greater and more protracted, as the economy waits for any potential cash to come back into circulation. It therefore becomes difficult to estimate the size of total spending required. Table 2 provides estimates based on two different multiplier scenarios.

We would argue that given the above, an initial injection of at least R310 billion, commensurate with the minimum predicted fall in GDP, is required. In addition we suggest the fiscus have available to it a further 2% of GDP, approximately R100 billion to facilitate various tax and payment deferrals. Over time, the amount needed could be much larger than this.

After such rescue measures, additional spending can target high-multiplier economic activity. This may include, for example, industrial policy measures to spur production of protective clothing and medical equipment, or more expansive measures to shift the directions of the economy into labour intensive and other high multiplier activities.

Table 2 Estimated size of expenditure required based on different multipliers

	Multiplier = 1.68		Multiplier = 1	
Size of rescue package	Expansion - Size of GDP expansion	Expansion - Percentage of GDP	Expansion - Size of GDP expansion	Expansion - Percentage of GDP
R185 billion (3.6% of GDP)	R310	6.0%	R185	3.6%
R310 billion (6% of GDP)	R521	10.1%	R310	6.0%
R520 billion (10% of GDP)	R874	16.9%	R520	10.1%
R620 billion (12% of GDP)	R1,042	20.2%	R620	12.0%

3 PRIORITY MEASURES

As noted above the most pressing priorities can be divided into five types:

1. Measures to support the public health response.
2. Subsidising people's income to prevent widespread destitution in a period of unexpected income loss.

[19] As quoted in: Sandbu, M. Huge fiscal spending is needed to fight the coronavirus downturn. 17 March 2020. *Financial Times*. Available: https://www.ft.com/content/9963f71e-67b2-11ea-800d-da70cff6e4d3

[20] IMF. April 2020. World Economic Outlook: The Great Lockdown. Available at: https://www.imf.org/en/Publications/WEO/Issues/2020/04/14/weo-april-2020

[21] Elliot, L. 25 March 2020. US stimulus package may be massive but it will not be enough. *The Guardian.* Available: https://www.theguardian.com/business/2020/mar/25/us-stimulus-package-may-be-massive-but-it-wont-be-enough

[22] Council on Foreign Relations. 10 April 2020. Coronavirus: How are countries responding to the economic crisis? Available at: https://www.cfr.org/backgrounder/coronavirus-how-are-countries-responding-economic-crisis

3. Supporting businesses to pay wages.
4. Supporting businesses to stay alive in a period of reduced economic activity.
5. Stabilising the macro economy.

3.1 MEASURES TO SUPPORT PUBLIC HEALTH RESPONSE

Further emergency funds will be required to support a coherent public health response. On a strategic level, the only way to halt the spread of the virus is through aggressive testing, tracing, treatment, and isolation/quarantine. The lockdown provides an opportunity to get the necessary measures in place in order to do this, but cannot on its own halt the spread. Unfortunately, health experts are increasingly arguing that the government is insufficiently prepared to ramp up to the scale required. Some of this relates to additional funding but better planning and coordination is also required.

A package of R20 billion is required in order to fund the necessary emergency health interventions.

Table 3 Proposals for expansion of medical interventions and costing

Proposal	**Cost (billions)**
1. Purchase the necessary preventative equipment.	R5bn
2. Roll out of appropriate testing (a minimum of 17 000 per day required and preferably up to 30 000).	R7bn
3. Additional treatment equipment.	R1bn
4. Expenses for the use of private-sector facilities.[23]	R3bn
5. Contact tracing, and isolation / quarantine facilitates – available through the hotel industry.	R4bn
6. Conversion of premises into temporary medical care facilities, such as convention centres.	Unknown yet
TOTAL	**R20bn**

In addition there is a need to vastly ramp up the local production of medical and associated equipment. Necessary industrial policy measures must be planned and costed.

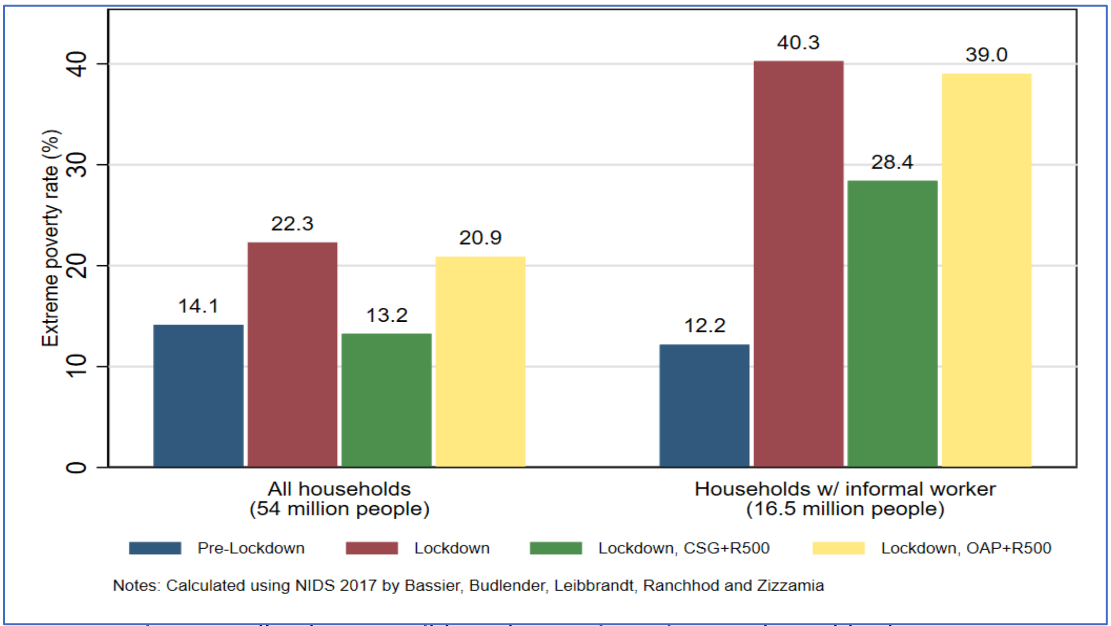
These costing, and the associated issues, will be worked on further in forthcoming collaborations with health experts.

3.2 SUBSIDISING INCOMES

A substantial share of the population will see a fall in income. This will be most acute for: shift workers, atypically employed workers, informal-sector workers, and self-employed. Figure 2, for example, shows the potential rise in household extreme poverty rates due to the 21-day lockdown, based on loss of income to informal sector workers (only). As is clear, extreme poverty rates would increase from 14 to 22%, for the population as a whole, and to 40% for households with an informal worker.

[23] A number of governments like Spain and Ireland have nationalised private hospitals in order to meet the needs of the public. Given state capacity in South Africa, it might be best *in the short-term*, that the government explores compulsory use beds at private hospitals, at cost, during the duration of the pandemic, as per similar measures done by Mexico. The crisis has revealed deeper conversations are needed about restructuring of the health care sector in an equitable manner.

Figure 2 Extreme poverty rate by lockdown scenario (100% loss of informal income)



Source: Bassier, I., Budlender, J., Meibbrandt, M., Zizzamia, R and Ranchhod, 2020.

This section explores income support through social grants; food parcel provision; unemployment benefits; and payment holidays.

3.2.1 SOCIAL GRANTS

Approximately 18.3 million people benefit from receiving social grants. An estimated 14 million people live in households receiving a grant, but don't receive it directly. This means a conservative minimum number of beneficiaries of 32 million. The social grant programme has been one of the most successful poverty alleviation programmes to date. Grants are the largest source of income for the poorest 40% of the population.[24] All, except the foster child grant, have strong targeting criteria.

The social grant system offers the easiest means of providing income support directly to poor and low-income households. Table 4 shows, for the five most significant grants, the number of recipients and cost of grant payments. Women and the unemployed make up the majority of recipients for all grants. We see the child support grant (CSG) supports the largest amount of people, almost all of whom are women, with relatively low monthly payments. 40% of households which receive a CSG also include someone dependent on income from the informal sector, and 70% of recipients are unemployed. This overlap is highest for the poorest. The old age pension (OAP) supports roughly 30% the number of recipients that the CSG does, although with much larger monthly payments, two-thirds women, and strong intrahousehold income sharing. While covering far fewer households, it includes the demographic most at risk from COVID-19.

[24] Finn, Arden. 2015. A National Minimum Wage in the Context of the South Africa Labour Market. National Minimum Wage Research Initiative, Working Paper Series no. 1.

Table 4 Current grant recipients (2020/2021)

	No. of beneficiaries (thousands)	Monthly payment	Monthly total (billions)
Child support grant	12 991	R445	R5.8
Old age pension	3 769	R1 860	R7.0
Disability grant	1 051	R1 860	R2.0
Foster care	326	R1 040	R0.3
Care dependency	158	R1 860	R0.3
Total	**18 295**		R15.4

Different grants benefit different people. Of the beneficiaries receiving the CSG and OAP, over 40% and 64% do not have access to other grant income. We estimate that only approximately 22% of grant recipients receive more than one type of grant.

There is still a large number of households that do not receive any social grant. Approximately one-third of households earning below R6,000 do not receive *any* grant. The most vulnerable will be those individuals who do not receive grants, are not registered for UIF and who are not in formal employment. This is 15.1 million people or 9.3 million households. A proposal has been put forward to implement a special COVID-19 grant targeting this group. Despite detailed implementation proposals, problems of targeting (identifying eligible beneficiaries), and registration and distribution in a manner compatible with physical distancing, remain.

Table 5 gives our proposals for the expansion of existing social grants and the implementation of a once-off emergency universal basic income grant during the three-month rescue period, and their costing. These interventions taken together amount to just under R190 billion. We suggest that an emergency grant for all adults is more viable than new targeted grants; and by making it a once-off lump sum payment, simplifies the administrative burden.

We propose stations be set up using the election infrastructure (venues, volunteers, equipment) across the country during a multi-day period, say over a week.[25] Each adult arrives, has their ID book scanned and uploaded, is given a temporary bank card with R4,500 loaded onto it, and is able to enter a pin. Thumbs are marked with the same indelible ink as during elections as an extra safe guard. All banks would be required to allow for the withdrawal of funds from any ATM. Mobile ATMs could be provided by banks. Strict physical distancing measures would need to be put in place.

Appropriate taxation should be levied to "claw back" funds from higher-income and wealthy households, which would mean that the UBI is only benefiting the roughly 80% of the population likely to be worst hit by the crisis, but at the same time assisting well-paid workers who may have been badly affected, as well as the poorest South Africans. If individuals earning above R1 million covered the cost of two UBI grants each, and individuals earning between R350 thousand and R1 million covered the cost of one UBI grant each, this would generate revenue of R3 billion and R8 billion respectively. This is included in the tax section below.

[25] To avoid excessive congestion people could be allocated days using specific criteria, for example, based on month of birth..

NOTE: the once off UBI is an emergency relief measure to get income into the hands of all South Africans, including those not currently covered by social grants. It is not intended to pre-empt the important debate around the introduction of a BIG, or the appropriate amount, a necessary discussion which will need to be had in the months ahead.

Table 5 Proposals for expansion of social grants and costing

Proposal	Cost (billions)
1. An emergency mid-month amount of R500 in April 2020 should be given to all grant beneficiaries	R9.2bn
2. All grants should be increased by R500 for three months.	R27.5bn
3. A once off UBI of R 4,500 should be given to all adults (18+ years – 39 million people, 85% claim rate) in South Africa in May 2020.[26]	R150bn
4. The extension of the child support grant to pregnant women (the normal CSG and the R500 top up). With an eligible group of approximately 670,000.	R1.9bn
5. Automatic renewal of disability grants. Disability grants are approved for 12 month periods. During lockdown they must be extended automatically.	Cost neutral as new grantees cannot be enrolled during same period
TOTAL	**R188.6bn**

3.2.2 FOOD PARCEL PROVISION

Direct distribution of food parcels provide an additional means to ensure that destitute households are able to avoid hunger during this period.

This is not a substitute for increased income transfers and wage support, and has a number of limitations:

- The system of food parcel provision is fragmented with 1000s of NGOs and private sector entities operating.
- The system advantages large retailers and food processors while potentially undermining small-scale and informal food economies – both in the composition of food in the parcels and in displacing demand for food by poor families.
- It is difficult to identify food stressed households.
- Food parcels are constructed on a household basis (aiming to feed households of four) and it is almost impossible, upon distribution, to discern which adults may be in the same household.

These issues notwithstanding this offers an important means to prevent hunger and starvation. Food parcels generally attempt to feed a household of four for 3-4 weeks.

[26] Statistics South Africa, 2019, Mid-year population estimates.

Food parcels in the private sector average around R400, with the Department of Social Development (DSD) normal parcel costing R700 and the Social Relief of Distress parcel R1,300. There are also distribution costs.

Scaling up to 2 million food parcels a month will cost roughly R1.5 billion (including some distribution costs). This should be done for at least 3 months at a cost of R4.5 billion.

3.2.3 UNEMPLOYMENT BENEFITS

Unemployment will increase over the short to medium term. As of early April 2020, UIF commissioner Teboho Maruping noted: "Ordinarily, we pay between R15 million and R20 million a day and now we're paying an average of R30 million a day on claims. The number of people applying has increased substantially since the lockdown."[27] This indicates up to a doubling of claims, this number will likely rise. While estimates are difficult to make, we know that there were approximately 640,000 approved unemployment claims in 2019, averaging R15,000 per claim. Based on their proportional weight in UIF data that is approximately 596,500, 43,000 and 500 for commercial, domestic, and taxi claimants, respectively. In Table 6 we estimate the *additional* cost, leaving the amount claimed the same despite inflation (in case of reduced contribution periods or lower earnings), for a 20%, 50%, 100%, and 200% increase in claims.

Presuming a minimum 66% increase an additional R6.1 billion will be required. For a 100% and 200% increase the amounts are R9.2 billion and R18.4 billion respectively.

It is safe to assume that the UIF should ensure it is able to pay out the higher amount of an additional R18.4 billion in additional claims.

Table 6 Estimates in additional unemployment benefits to be paid out

	UIF registered 2019 total	Estimated number of claims in 2019	Increase on 2019 claims (%)	Increase on 2019 claims (number)	Cost per claims	Total additional cost (R millions)
Commercial	9 310 000	596 500	66%	393 690	R15 000	5 905
			100%	596 500	R15 000	8 948
			200%	1 193 000	R15 000	17 895
Domestic	674 000	43 000	66%	28 380	R6 000	170
			100%	43 000	R6 000	258
			200%	86 000	R6 000	516
Taxi	7 200	500	66%	330	R6 000	2
			100%	500	R6 000	3
			200%	1 000	R6 000	6
Total	**9 991 200**	**640 000**	**66%**			**6 078**
			100%			**9 209**

[27] Mahlakoana, T.8 April 2020. UIF Paying out about R30m per day since Covid-19 Lockdown. Eyewitness News. Available: https://ewn.co.za/2020/04/08/uif-paying-out-about-r30-million-per-day-since-covid-19-lockdown

			200%			**18 417**

Given that the UIF covers only 61% of employed persons in South Africa the complementary measures above and below are essential.

It should also be considered how to support those with more precarious employment statuses who are more vulnerable to losing their income generating opportunities.

3.2.4 PAYMENT HOLIDAYS

Households incur a large number of fixed costs, including public utilities like municipal bills as well as private payments, such as loan repayments or rent. This is likely to place a majority of households with reduced incomes under immense strain. Compounding this is the fact that South African households are already highly indebted. In the fourth quarter of 2019 the SARB placed the household debt-to-disposable-income ratio at 73%.

In addition to direct cash transfers, households must therefore be helped through temporary reductions in their fixed monthly costs. Similar measures have been instituted in a number of countries including Italy, some parts of the US, and the UK. Payment holidays have significantly lower administrative burdens than other income support measures and will provide immediate relief, especially to lower-middle class households who will suffer under this crisis but may not be eligible for some of the other means-tested grants.

We propose consideration of the following:

- **Deferment on bond, student and other personal loan repayments for 90 days.** While some banks have implemented some relief measures, this needs to be regulated by government to ensure across the board relief. The SARB may need to provide funding support to commercial lenders.
- **Deferment of municipal rates for 90 days.** This can be progressively implemented by exempting properties above a certain threshold to ensure some revenue generation for municipalities. National transfers will need to be made to municipalities.
- **Issuance of electricity vouchers for pre-paid customers:** This can be limited to one voucher per electricity meter number with potential for re-issue depending on the length of the lockdown/crisis. This is particularly important as we move into winter.
- **All households who have had water turned off, should have this reinstated urgently.** Municipalities should respect the request by the Department of Water and Sanitation to suspend all cut-offs during this time.

These measures will require bridging support from the government but will not necessarily incur costs as they are deferments rather than write-offs. A sustainable recouping of the deferment should take place over a 24-month period. Support would be needed from national government to municipalities and utility providers. The cost of this remains to be fully calculated but we set aside R100 billion in short-term borrowing for such support for households and businesses (see below).

3.3 SUPPORTING BUSINESSES TO PAY WAGES

Wage support measures are a critical element of the economic policy response toolkit, and have been adopted by a growing number of governments worldwide. As of March 30 2020, the OECD found around 40 countries had wage subsidy schemes in place or schemes to cover partial redundancies, and more have subsequently been announced.[28] Such measures involve government funding companies to pay the salaries of workers who have been furloughed or put on reduced hours. Besides sustaining incomes, the importance of the measure is in incentivising companies to retain rather than retrench their workers thus reducing strain on the unemployment benefits system and ensuring a more rapid return to normal operations when restrictions are lifted.

3.3.1 THE CURRENT APPROACH

The current approach in South Africa is to offer wage support via the "Covid19 Temporary Employee / Employer Relief Scheme" (TERS).[29] This enables UIF-registered employers (companies and individuals) to claim funding to cover salary costs in the event of total or partial closure of operations as a direct result of Covid-19. The funding covers a percentage of the cost of salaries on a sliding scale from 38% for high earners to 60% for low earners with a maximum pay-out of R6,730 (based on a maximum salary of R17,712) and a minimum pay-out of R3,500 per month. Employers can supplement this.

Claims with corroborating documentation are submitted by companies by email for processing by the UIF. It is also possible for bargaining councils to apply on behalf of their members, as has been the case with the National Bargaining Council for the Clothing Manufacturing Industry.

The UIF have committed to deposit funds within 10 working days of receiving the correct documentation. Payments must then be passed on to workers within 48 hours, with the UIF having the ability to audit recipient companies. The support will be available for up to 3 months.[30]

Government have advised that R30bn is available through the TERS. How far this funding stretches depends upon the volume of claims, and the income distribution of claimants. Based on income distribution figures, we estimate that the average claim to the TERS for commercial employees covered by UIF – constituting 93% of workers covered by UIF – would be R4,200 per month.[31] For the 7% of UIF workers in the domestic and taxi industries, the average claim would be at the R3,500 minimum.

On these assumptions, the R30bn is sufficient to support in the region of 2.4 million workers' wages for a three-month period. This represents around a quarter of the 9,990,100 UIF workers (as of the end March 2019), and around 15% of the total workforce of 16.4 million.[32]

[28] OECD. 30 March 20202. SME Policy Responses. Available: https://read.oecd-ilibrary.org/view/?ref=119_119680-di6h3qgi4x&title=Covid-19_SME_Policy_Responses

[29] Government Gazette Vol 658 No. 43216. 8 April 2020. Available: http://www.gpwonline.co.za/Gazettes/Gazettes/43216_08-04_Labour.pdf

[30] Business Insider SA. 29 March 2020. Payouts of up to R6700 per month: This is what workers in struggling firms could get from govt. Available: https://www.businessinsider.co.za/government-pays-workers-during-lockdown-2020-3

[31] These estimates are highly uncertain given that the manner in which the sliding scale applies, and the existing income distribution of claimants, is not public. This estimate uses potential claims across income deciles in order to generate a very rough figure. The UIF should released projections urgently.

[32] StatsSA. 20 February 2020. 2019 Q4 Labour Force Survey.

Table 7 Potential claims made to TERS – current system

	UIF registered	Estimated claims[33]	Cost per claim	Total cost pm (R million)	Total cost 3 months
Commercial	9 310 000	2 236 368	R4 200	R9 392.75	R28 178.24
Domestic	674 000	161 902	R3 500	R566.66	R1 699.98
Taxi	7 200	1 730	R3 500	R6.05	R18.16
Total	9 991 200	2 400 000		R9 965.46	R29 896.37

3.3.2 LIMITATIONS OF THE CURRENT APPROACH

A number of limitations arise:

- **Needs are likely to far outstrip funds available.** Given the scale of the lockdown it is unlikely that businesses employing only a quarter of workers have suffered sufficient harm to warrant wage support.
- **By international standards the percentage of wages covered is low**. Wage support from governments internationally has typically been between 75% and 80% of the salary/wage, without a sliding scale.[34]
- **Approximately only 60% of all workers are UIF registered, 88% of the non-agricultural formal sector**.
- **It is unclear the UIF is equipped to process such a large volume of claims.**[35] There are suggestions that the UIF is understaffed and ill equipped, with employers struggling to access support from the facility.[36] The time lag between UIF receipt, acceptance, and payout is of great concern.
- **Many employers seem not to be claiming**. As of 9 April 2020, the UIF reports just 27,000 claims[37] from its 1,803,831 registered firms, and in some cases those that do claim will not claim for the full amount available.[38] A survey suggests this is principally because UIF compliance (or an undertaking to pay outstanding UIF fees) is an eligibility requirement.[39]

[33] The proportion of claims allocated between sectors is based on the proportions of claims in 2019.
[34] Apuzzo, M and Pronczuk, M. 23 March 2020. Covid-19's Economic Pain is Universal. But Relief? Depends on where you live. New York Times. Available: https://www.nytimes.com/2020/03/23/world/europe/coronavirus-economic-relief-wages.html See also, for example, reports on the United Kingdom here: https://www.theguardian.com/uk-news/2020/mar/20/government-pay-wages-jobs-coronavirus-rishi-sunak
[35] Moneyweb reported on 16 April that the UIF has received 39 000 applications and has only processed 136 claims. https://www.moneyweb.co.za/news/south-africa/incomplete-applications-hold-up-uif-relief/
[36] Squazzin, A. 11 April 2020. South Africa's Cosatu Warns Key Virus Intervention May Stall. *Bloomberg*. https://www.bloombergquint.com/politics/south-africa-s-cosatu-warns-key-virus-intervention-may-stall
[37] Maromo, J. 9 April 2020. Employers unable to meet full salaries should seek UIF help. Independent Online. Available: https://www.iol.co.za/business-report/companies/employers-unable-to-meet-full-salaries-should-seek-uif-help-46490485
[38] Business Insider SA. 26 March 2020. Here's how UIF money will help clothing workers during lockdown. Available: https://www.businessinsider.co.za/clothing-salaries-uif-2020-3. See also: Mkentane, L. 24 March 2020. Clothing industry workers to get full pay during Covid-19 lockdown. Available: https://www.businesslive.co.za/bd/national/labour/2020-03-24-clothing-industry-workers-to-get-full-pay-during-covid-19-lockdown/
[39] Runciman, C and Dor, L. April 2020. Profit or workers lives? Employer responses to the Covid-19 pandemic.

- **Coverage is unclear and potentially limited.** The legislation *seems* to only cover companies that close operations 'as a direct result of Covid -19 pandemic... for a 3 (three) months or lesser period and suffer financial distress'. That is, those directly affected by outright closure, rather than the wider indirect affects that can be anticipated through e.g. falling demand, supply chain disruption. This disruption can be expected to last for some time beyond the point where lockdown restrictions are eased to enable re-opening of businesses.

- **The UIF must continue to fulfil its core responsibilities.** As noted above, these claims will increase, placing an additional administrative burden on the system.

3.3.3 PROPOSALS

In order for coverage to be sufficient:

- **The sliding scale should be amended so that 80% of wages can be claimed for lower-wage workers.**
- **Stringent criteria need to be relaxed.** To limit it to businesses who closed as a 'direct' result of COVID-19 is inappropriate given the dynamic economy-wide nature of economic collapse.
- **The minimum available should be increased to reflect the actual national minimum wage** (R20.76 x 45 hours x 4.33 weeks ~R4 045 per month).

Adjusting in this manner and increasing the number of claimants to 3 million or 4 million means a required amount of R45 billion or R60 billion, respectively.

Table 8 Potential claims made to TERS – project claims based on proposed system

	UIF registered	Estimated claims	Cost per claim	Total cost pm (R million)	Total cost 3 months
Commercial	9 310 000	2 795 460	R5 100	R14 256.85	R42 770.54
Domestic	674 000	202 378	R4 045	R818.62	R2 455.86
Taxi	7 200	2 162	R4 045	R8.74	R26.23
Total	9 991 200	3 000 000		R15 084.21	R45 252.63
	UIF registered	**Estimated claims**	**Cost per claim**	**Total cost pm (R million)**	**Total cost 3 months**
Commercial	9 310 000	3 727 280	R5 100	R19 009.13	R57 027.38
Domestic	674 000	269 837	R4 045	R1 091.49	R3 274.48
Taxi	7 200	2 883	R4 045	R11.66	R34.98
Total	9 991 200	4 000 000		R20 112.28	R60 336.84

In order for this to operate effectively

- Payments must be paid faster.
- Automated payments could be made to badly affected industries instead of individual business vetting.
- SARS should take over the scheme, using reverse PAYE payments (similar to the UK model).

- Commercial banks could make short-term loans for salaries, with loans guaranteed by government (similar to the US model).

3.4 BUSINESS LIFE SUPPORT MEASURES

Given the dramatic slowdown in economic activity business require additional support to remain viable. In the medium term it will be much cheaper to maintain existing businesses than to suffer the economic impact of their closure.

3.4.1 PROVISION OF FUNDS

Due to the lockdown and the reduced demand which will follow, businesses face, and will continue to face, major challenges with cash flow. This section considers mechanisms to improve companies' access to finance.

Support currently offered includes:

- **The Industrial Development Corporation (IDC).** The IDC has R3 billion available to support firms that are either vulnerable or involved in critical activities related to combatting COVID-19. The IDC is engaging clients to identify additional needs.
- **DTIC's Manufacturing Competitiveness Enhancement Programme**. R700m is available from the DTIC's Manufacturing Competitiveness Enhancement Programme to assist working capital support for critical good suppliers.
- **Debt Relief Finance Scheme (R200 million).** This is a fund operated by the Department of Small Business Development (DSBD) to provide soft loans for relief with working capital requirements (e.g. debts, rent, trade creditors, payroll). Eligibility requires being 100% South African owned with 70% South African employees, registered and compliant with CIPC, SARS and UIF, alongside a requirement to provide a range of documentation. The scheme is open to informal small businesses, with the Small Enterprise Development Agency (SEDA) assisting informal enterprises to gain compliance. Registration on an online database is required before applying, with the DSBD promising an application turnaround time of seven days and payments within five days. The DSBD have indicated that a maximum of R500,000 per business will be made available. Information on how much is available in aggregate or per-application is not available online.
- **SMME Business Growth/Resilience Facility (R300 million)**. Details about the scheme are limited but the DSBD describes this as for "small, medium and micro businesses geared to take advantage of supply opportunities resulting from the Coronavirus pandemic or shortage of goods in the local market". This would include items such as medical and healthcare goods. The aim is to fill critical shortages of goods, and position small businesses for growth in the post-lockdown economy. It will provide concessional loans (prime less 5%) to SMMEs engaged in these activities, covering "working capital (only direct costs), stock, bridging finance, purchase order finance and capital equipment finance". Funding available per company is based on the DSBD's assessment of needs. Eligibility requires being 100% South African owned with 70% South African employees, registered and compliant with CIPC, SARS and UIF, alongside a requirement to provide a range of documentation.
- **SEFA Payment Moratorium/Holiday**. SEFA funded SMMEs will receive a 6-month payment holiday, with deferments of both capital and interest payments, contingent on submitting proof of negative impacts. Analysis of clients will be undertaken to assess requirements for debt restructuring or additional funding. As of the 31 March 2019 balance sheet, SEFA has

loans and advances valued at R389 million, meaning this is not a significant amount of funding support to the private sector.

- **Tourism Relief Fund**. The Department of Tourism is providing R200 million to affected SMMEs. Funding is capped at R50,000 per entity as grant funding. Applicants will be assessed by a panel of experts and scored in terms of criteria, which will be guided by the Tourism Broad Based Black Economic Empowerment (B-BBEE) Codes of Good Practices.

Numerous problems exist with the present approach:

- **The overall levels of loan/equity support to South African businesses is small by international standards and strictly limited to certain types of business – predominantly SMMEs.**

- **It is unclear whether the designated state agencies which the funds are being channelled through have the capacity to assess the enormous volume of claims they are receiving**. The effectiveness of this support will depend on how fast they are able to distribute funding and assess claims.

- **Overly stringent eligibility requirements** require extensive documentation and regulatory compliance with UIF, SARS and CIPC. While SEDA will assist informal companies with necessary formalisation procedures, it is unclear how long this will take given the likely volume of claims and the complexity of the processes, which are time consuming in normal circumstances. Delays will prove fatal to many businesses. Local ownership for multiple programmes and BB-BEE requirements for the Tourism Relief package will come at the expense of jobs.

- **Neglect of large businesses**. SMMEs are more vulnerable to COVID-19 disruptions than large businesses, but as the crisis extends businesses of all kinds are likely to be severely affected and consideration should be given to how to extend lifelines to large companies that encounter difficulties.

In the face of these weaknesses additional interventions are required.

A critical intervention is to extend additional credit, this would entail:

- **Credit guarantees and 'funding for lending' schemes** as they are sometimes referred to, provide the fastest means of extending funding to the private sector. Countries that have adopted a form of credit guarantee programme in response to COVID-19 include Argentina, China, Indonesia, Morocco, Peru (4%), Poland (3.3% GDP) Sweden, the UK, Turkey (US$3.8bn), and the UAE.

- **Proposals for a multi-faceted credit guarantee strategy are outlined in a TIPS report**. TIPS propose three categories of credit guarantee to de-risk increased lending to hard-to-reach SMMEs: (i) a credit card issued to SMMEs used for essential purchases (similar to BNDES in Brazil) of R5000 – R20,000; (ii) expansion of Small Enterprise Finance Agency trade guarantee fund, or use of the IDC to similar effect, with R300m providing support for 50,000 small businesses; (iii) guaranteeing commercial banks' small business loan portfolios, contingent on a <1% premium payment. The advantage lies in utilising the existing lending capabilities and infrastructure of the private banking sector, and that there are additional benefits in allowing SMMEs to develop a credit history through participation. A potential disadvantage of pressing the commercial banking system to divert additional resources to SMMEs (as per the measures above) is of course that this may further limit the accessibility of finance for large firms at a time of critical need. Additional funds will need to made available to banks by the SARB.

- **Incentives to lend to SMMEs can also be provided through the central bank**. In the UK, the Bank of England's Term Funding Scheme offers commercial banks improved access to cheap funding (at or close to the Bank Rate) for banks which increase SME lending. A similar programme should be adopted through the US Reserve Bank to ease access to credit.

- **Dramatic expansion in South Africa's development bank activities** (the Development Bank of Southern Africa). The funds could be used to take direct equity stakes in ailing domestic companies and extend loans underwritten with government finance. This what is being pursued by the German government through the state-owned development bank, *Kreditanstalt für Wiederaufbau*.

Other proposed actions:

- **The DSBD's support measure eligibility requirements should be loosened** such that all companies regardless of levels of foreign ownership or foreign employment are able to access the scheme. The ultimate purpose of these measures should be to provide emergency protection to jobs and livelihoods and keep supply chains functioning rather than support indigenisation. Indeed, such restrictions could cost many South African citizens their jobs.

- **Improve access to finance through enabling the central bank to purchase corporate debt or providing loans from the Treasury**. A measure of this kind is being used in the UK through the BoE's Corporate Financing Facility, in which businesses issue a special form of 1-year corporate bond which the central bank purchases to increase liquidity, based on pre-shock credit ratings and borrowing rates. In the US, Treasury is providing direct loans to the aviation industry, air cargo and businesses critical to national security. In Brazil, the central bank has created a facility providing loans to financial institutions with private corporate bonds as collateral.

- **Bailouts to large firms should give the government equity stakes in those companies.** This will allow the state's balance sheet to be preserved so that dividends or sale of equity can pay down any borrowing necessary.

Conditionality with respect to the above should be applied carefully as there is a risk of not achieving breadth and speed of support if restrictions are too exacting. But commitments to the following should be considered:

- Suspension of dividend payments and share buy-backs for a prescribed period of time or until state funds have been repaid.
- Commitments to prevent redundancies, if not absolutely then up to a set level of the workforce such as 90% (a measure used in the US).
- Salary reductions for executive staff and suspension of bonuses.

3.4.2 TAX RELIEF AND PAYMENT HOLIDAYS

Governments around the world have offered companies tax relief or deferments, and various forms of payment holidays, and South Africa should consider such measures to ease short-term cash flow pressures on companies. Tax measures could include either suspensions, rate reductions or deferrals, forms of direct payment, and forms of tax credit (either new credits or accelerated payments of future credits).

The current government's proposals are outlined in the Draft Disaster Management Tax Relief Bill, which is out for comment until 15 April 20.[40] According to SARS, relief to employers includes the following components taking effect from 01 April 2020.

- **Employment Tax Incentive (ETI) expansion (for all employers).** Employers receive this incentive as a reduction in PAYE liability for employees aged 18-29 earning less than R6,500 per-month, for a period of 24 months per qualifying employee.[41] They will receive an additional R500 per-month on top of the existing maximum incentive per qualifying employee for the next four months, and the range of qualifying employees will be increased.[42] Refunds will be made monthly rather than every six months.[43] The incentive covers approximately 4 million employees,[44] but it is not clear how many would qualify for the maximum R500. Assuming each did, this would represent up to R8bn. These funds are for businesses not employees.

- **Employees' tax deferral (for employers with turnover <R50m).** Companies are permitted to defer 20% of their monthly employees' tax liability for the four months starting from 01 April 2020, with no penalties or interest on the deferred amounts. The measure applies to SMEs and 75,000 are expected to benefit.[45] It is not clear that the 20% deferral is significant enough to have a substantial impact.

- **Provisional tax deferral (for employers with turnover <R50m).** Qualifying companies can defer a percentage of their provisional tax payments (advance payments of corporate income tax liabilities spread over the year of assessment), such that they are paying less tax early on in the tax year then they would normally be obliged to do. They could also defer a larger portion for payment within the next tax year.

- Alongside these measures, SARS have indicated that they are accelerating refund processes.

Potential **additional measures** include:

- **Expanding the employee tax deferment scheme and provisional tax deferment scheme from SMEs to support a wider range of medium and large-scale businesses, or extend the deferment period, as needed**.

- **Total or partial suspension, deferral or rate reduction of VAT**, as has been done for affected sectors in Austria, the UK, Bolivia, Canada, Croatia, Cyprus. Honduras, Israel, Jordan, Kenya, Kosovo, Norway, Sri Lanka, Sweden, Tunisia, and Vietnam.[46]

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[40] Republic of South Africa. Draft Disaster Management Tax Relief Bill. Available: http://www.treasury.gov.za/public%20comments/DMTRB2020/Draft%20Disaster%20Management%20Tax%20Relief%20Bill%20-%201%20April%202020.pdf

[41] For further details see here: https://www.sars.gov.za/TaxTypes/PAYE/ETI/Pages/default.aspx

[42] Employers can claim a maximum of R1,000 per qualifying employee for the first 12 months of employment, and a maximum of R500 per qualifying employee in the second 24 months. So the maximum claims will now be R1,500 and R1,000. Employers can also claim for 18-29 year old employees beyond their 24 month qualifying period, and will be able to claim for employees aged 30-65 who earn less than R6,500 per month. For more detail see here: https://www.grantthornton.co.za/insights/articles/summary-of-covid-19-tax-relief-measures/

[43]SARS. Disaster Management Tax Relief FAQ's for Employees' Tax, ETI and Provisional Tax. Available: https://www.sars.gov.za/AllDocs/Documents/customsandexcise/Tax%20Measures%20FAQs%2003042020.pdf

[44]Steenkamp, L. 12 April 2020. Covid-19 Tax Relief: A snapshot of what's out there. Available: https://www.enca.com/analysis/covid-19-tax-relief-snapshot-whats-out-there

[45] Ibid.

[46] IMF. Policy Tracker: Policy Responses to Covid-19. Available: https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19

VAT makes up the second largest component of tax revenue in South Africa so provides a major potential lever for supporting businesses. 97.5% of VAT vendors pay monthly or bi-monthly,[47] meaning this is a regular outgoing that has a bearing on short-term cash flow.

An alternative to blanket deferrals could be to grant deferrals only to vendors in badly affected industries, such as manufacturing or wholesale (R53.8bn, 2018/19), retail, catering and accommodation (R55.8bn, 2018/19) – as shown in Table 9. Another measure could be to allow suspension or deferral of VAT payments for smaller businesses, for example, in the <R30m turnover bracket. These constitute more than 90% of VAT vendors but less than a quarter of VAT revenue – as shown in Table 10.

Table 9 Domestic VAT payments by economic activity

	2018/19	**2018/19**	
	Number of vendors	**Payments (R billion)**	
Financial intermediation, insurance, real-estate & business services	185,106	R158.9bn	42.1%
Manufacturing	41,685	R53.8bn	14.2%
Wholesale & retail trade, catering & accommodation	83,979	R55.8bn	14.8%
Construction	33,544	R22.4bn	5.9%
Transport, storage & communication	13,744	R22.3bn	5.9%
Community, social & personal services	29,250	R24.0bn	6.4%
Mining and quarrying	3,179	R14.0bn	3.7%
Other sectors	58,223	R26.6bn	7.0%
Total	**448,710**	**R377.7bn**	**100.0%**

Source: SARS

Table 10 Domestic VAT payments by company size

Turnover bracket	**Number**		**Turnover**		**Payments**		**Refunds**	
	(rands)	**(percent)**	**(rands)**	**(percent)**	**(rands)**	**(percent)**	**(rands)**	**(percent)**
Rnil	33,170	7.40%	–	0.00%	2,628	0.70%	-4,830	2.10%
R1-R1m	134,203	29.90%	54,894	0.40%	4,771	1.30%	-4,569	2.00%
R1m - R14m	215,027	47.90%	920,302	6.70%	55,515	14.70%	-12,865	5.60%
R14m - R30m	27,744	6.20%	561,884	4.10%	26,125	6.90%	-6,656	2.90%
R30m +	38,566	8.60%	12,161,081	88.80%	288,636	76.40%	-201,038	87.40%

[47] SARS data

	448,710	100.00%	13,698,161	100.00%	377,675	100.00%	-229,957	100.00%

Source: SARS

- **The skills development levy (SDL) and UIF could be suspended or waived during the immediate crisis period (approximately three months).** SDL is paid monthly by all employers with salaries above R500,000, as 1% of total salaries paid,[48] in 2019/20 employers paid R18.5bn, meaning a ~R4-5bn cash flow benefit from a quarterly deferral – although if salary payments decline due to furloughing workers then so would SDL contributions. Employers pay equivalent to 2% of workers' salaries to the UIF: 1% from the worker, 1% from the employer. The UIF collected R19.2bn from contributors in 2019. So a total or partial deferral for a quarter could provide up to ~R5bn cash flow benefit – though again if salary payments decline due to furloughing workers then so would UIF contributions.

Tax relief measures should be conditional on maintaining employment at a set level, as has been done in Brazil.

Tax deferrals should be preferred over tax relief so as not to place unnecessary strain on the fiscus. This would not reduce taxes, only postpone the time horizon for payments to be made. However, it will be necessary to protect the sustainability of the fiscus. Short-term borrowing can also be used to smooth government expenditure in the face of these deferrals.

Further relief measures that should be considered are the following:

- For small and medium enterprises, especially in at-risk industries, rent payments could be deferred for the duration of the lockdown as tenants are essentially unable to utilise properties. These typically constitute a large proportion of overhead costs and are fixed.

- While individual banks have announced a number of measures to support businesses, this should be regulated across the industry. In particular, banks should offer holidays on loans on assets that are not able to be used during lockdown (e.g. vehicles or other machinery). The overall loan period can then be extended by the payment holiday amount but interest should not be capitalised during the holiday period. The SARB should provide financial backing if needed.

3.4.3 FUNDING THESE MECHANISMS AND OTHER GRANTS AND INCENTIVES

Most of the support mechanisms discussed here involve either increasing access to credit through forms of direct state lending or state-backed lending, or tax liability deferral to improve short-term cash flow. Both are attractive from the perspective of public finances. Both may require the fiscus plug revenue gaps in the short-term, for example, if taxes are paid six months later than usual. To facilitate this and the similar measures outlined for households we suggest R100 billion in short-term borrowing (see below), this may need to be increased.

More radical grant financing measures may also need to be considered. Taking into account the long-term economic consequences of COVID-19, and the need to think towards how actions taken (or indeed not taken) now affect the recovery, it is imperative to prevent business failures. Regarding credit-based methods of business support, additional debt, even at concessional interest rates, will not

[48] SARS. Skills Development Levy. Available: https://www.sars.gov.za/TaxTypes/SDL/Pages/default.aspx

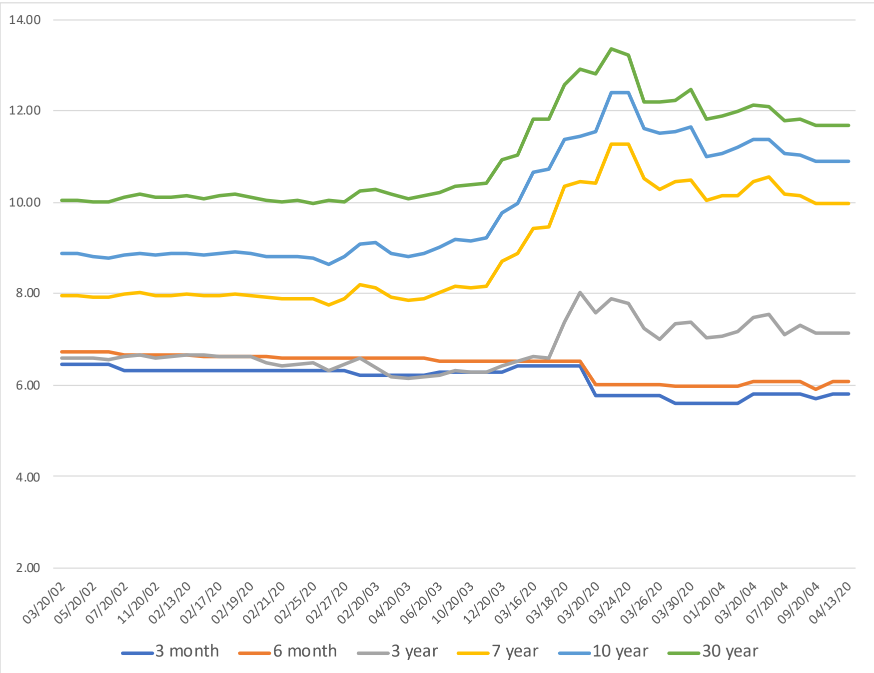
be appropriate for businesses facing a risk of insolvency. Similarly, it may prove optimistic that short-term tax deferrals will be an adequate or effective measure given the likely persistence of severe disruption and low demand beyond the end of the lockdown. A means of accessing emergency grant funding should be made available for companies that do not have access to capital markets (such measures have been adopted in Finland, UK, Germany). Grant funding could be distributed to companies through development finance institutions following applications, or through SARS in the case of sectors facing severe and widespread impacts. We set aside a fund of R50 billion for such grant financing with further research pending.

3.5 STABILISING THE MACRO ECONOMY

Four main macroeconomic risks have presented themselves: 1. A fall in aggregate demand; 2. A rise in borrowing costs; 3. Exchange rate depreciation; 4. Potential lack of access to dollar liquidity. Macroeconomic measures must be taken to counteract these. Measures to increase demand are covered above, this section focuses on the other three elements.

All of these relate to capital outflows with emerging markets (EM) experiencing a reversal of $30.0 billion and $23.0 billion in bonds and equities, respectively (year to date). Interestingly, the last week has seen an inflow into EM equities but on-going outflows from bonds. To date the rand has depreciated against the dollar, falling from R14 at the start of 2020 to R19 on 5 April 2020, making the rand one of the hardest hit emerging market currencies.[49] Borrowing costs have risen as shown in Figure 3. Interestingly, borrowing costs have not yet hit unprecedented levels; between 2000 – 2004 average yields on 10-year government bonds were 11.2%, falling from an average of 15.3%, in the difficult period of the 1990s. Low commodity prices will further deplete foreign exchange earnings and create a weaker rand (which in turn feeds into higher US$-denominated borrowing costs).

Figure 3 Yields on South African government bonds of different maturities (1 February 2020 -13 April 2020)



Source: FactSet

[49] Ulku, U. Hilgenstock, B., and Ribakova, E. 1 April 2020. Macro Notes- South Africa in Need of IMF Support. Institute of International Finance. Available: https://www.iif.com/Portals/0/Files/content/IIF20200401_MN.pdf

Proposals:

1. **The SARB needs to continue to purchase bonds in the secondary markets**, that is, to purchase bonds from those who already hold them. This will contain the cost of borrowing – the fall in bond yields at the end of March 2020 following the SARB beginning to purchase bonds, illustrates this. It will also inject liquidity into the market.
2. **Prescribed borrowing costs** will be necessary for certain tranches of borrowing (see next section).
3. **Targeted capital flow management measures need to be put in place to manage capital outflows.** The IMF notes that:

   'CFMs on capital outflows can be considered in crisis or near crisis conditions. In such cases, CFMs may help to prevent the free fall of the exchange rate and the depletion of international reserves. CFMs may in fact be necessary in some cases, for example when countries face domestic or external shocks that cannot be handled by macroeconomic adjustment or financial sector policies alone (or when the size or duration of the shocks are highly uncertain).' Clearly the current situation meets these requirements.

   Measures could include:

   3.1. Limits on investments and transfers abroad (e.g. in Iceland following the 2007/8 global financial crisis);

   3.2. The repatriation of rands offshore (e.g. as Malaysia did following 1998 East Asian crisis). To an extent this is already happening because of the requirement that institutional investors only invest a limited share of assets abroad.[50] This means they must repatriate some of those assets when the rand depreciates in order to stay within the limit.

   3.3. Restrictions on the sale and repatriation of non-residents' investments in the country in foreign currency, such as waiting periods for nonresidents to transfer proceeds from domestic securities (e.g. Ukraine post 2008 financial crisis), minimum holding periods (e.g. Chile), and taxes or time restrictions on the transfer of proceeds from selling rand assets (e.g. as in Malaysia post 1998).

   3.4. Requirement to settle international operation obligations in rands (e.g. as in Malaysia post 1998).

   3.5. Ban on early repayment of foreign exchange loans (e.g. Ukraine post 2008).

4. **Measures to reduce the offshore trading of rands**. Approximately 80% of rand foreign exchange transactions take place outside of South Africa. This means that the government has less room for managing the exchange rate.

5. **Reduce the interest rate (the SARB repo rate) by a 100bps (this was done on 14 April 2020 after drafting)**. This will take the real interest rate to slightly below 0%. The extent to which South African can lower the interest rate into significant negative territory is uncertain – experience from developing countries doing this must be drawn upon to understand how they have managed the impact over this period. The difficulty in further rate cuts is that this could spark a large sell off of rands and further depreciation, without more stringent capital controls, in addition to those listed

[50] SARB. 20 August 2018. Guidelines: South African Institutional Investors. Available: https://www.resbank.co.za/RegulationAndSupervision/FinancialSurveillanceAndExchangeControl/Guidelines/Guidelines%20and%20public%20awareness/Guidelines%20South%20African%20Institutional%20Investors.pdf

above, and/or a further fall in inflation. Given these trade-offs, further consideration would need to be given to conditions under which significant negative real interest rates would be of net benefit to the economy, and how best this can be managed.

6. **Measures must be put in place to limit the spread charged by commercial banks and to ensure that the subsidised credit discussed above is passed on at preferential rates**. One proposal is that the banks reduce their 3.5% spread above the repo rate by 50 basis points to complement the impact of the repo rate cut.

7. **Secure access to dollar swap lines with the Federal Reserve.** The current temporary facility, allowing central banks to exchange US Treasuries securities for dollars will not be sufficient for South Africa given the size of the reserve holdings.[51] Establishing such a dollar swop line will make available US dollars to the South African economy. It is also likely to reduce offshore currency markets, as it could encourage domestic banks to trade with the SARB, which has direct access to the Federal Reserve. This could reduce exchange rate volatility.

8. **Monetary policy coordination.** Coordination between the National Government and SARB is essential, as is international coordination. As the IMF has noted: 'Synchronized actions across countries increase the power of monetary policy.'[52]

3.5.1 REGIONAL DIMENSIONS

There are important regional dimensions to a viable response to the crisis and trade and financial measures which will be needed to support the economic, financial, and healthcare systems of neighboring economies. This has significant benefits to South Africa too as its economy benefits from buoyant demand and stable supply regionally. South African Custom Union (SACU) members are particularly reliant on South Africa's monetary response since SACU also forms a Common Monetary Area (CMA) linking South Africa, Namibia, Lesotho, and Eswatini into a monetary union. Regional measures could include:

- **Ensuring food and healthcare goods and services can still move freely across borders with other African countries who may become in need shortly.** South Africa could ramp up supply of key goods and services which will be in demand regionally, while ensuring port and border infrastructure remains functional. The latter will become a key challenge.

- **1% of South Africa's debt monetisation be directly handed over to SACU member states.** This will help SACU countries finance their expenditures and help avoid a liquidity crisis which might arise if bilateral trade and investment flows come to a halt.

- **Mobilising international development support for the region.**

4 FINANCING THE INTERVENTIONS

While it is necessary to approach government financing responsibility, it is also imperative to state the importance of keeping the people and economy alive. The costs of failing to act boldly are not only unacceptable in social terms, but will also place unacceptable costs on society in terms of lost productive capacity, increased unemployment, loss of revenue, and destruction of human and physical capital. We explore five streams of financing which are summarised in Table 11 which provides a set

[51] Politi, J., Greenlley, B., and Smith, C. 31 March 2020. "Fed sets up scheme to meet booming foreign demand for dollars." *Financial Times.* Available: https://www.ft.com/content/6c976586-a6ea-42ec-a369-9353186c05bb

[52] Adrian, T. Monetary and Financial Stability during the Coronavirus Outbreak. 11 March 2020. IMF Blog. Available: https://blogs.imf.org/2020/03/11/monetary-and-financial-stability-during-the-coronavirus-outbreak/

of potential funding options. This provides R135 billion more than the costed interventions above and these funds should be used for phase two of a recovery plan, potentially along with additional funds.

Table 11 Potential revenue sources (R billions)

	Borrowing	Cash accessible
Borrowing		
Regular bond issuance - local and foreign investors (short-term)	R50bn	
SARB bond purchases (short-term)	R50bn	
COVID-19 bond - GEPF and other PIC bond purchases using money-market funds	R50bn	
COVID-19 bond - private institutional investors	R100bn	
Deploying existing funds		
UIF bonds		R89.5bn
UIF money-market funds		R18.4bn
Deposits with SARB and commercial banks	Maximum R239 billion as bridging financing	
Delayed or non-payment from ring-fenced funds	Unclear requirements / availability	
Reprioritisation from budget lines	Unclear requirements / availability	
Tax		
Solidarity tax - removal of retirement fund deduction for those earning above R1million		R30.5bn
Solidarity tax – 5% increase in effective income tax rates for those earning above R1 million		R17.2bn
UBI "claw back" tax – R4,500 x 2 for those earning above R1 million, R4,500 x 1 for those earning R0.35 – R1 million		R11bn
Multilateral institutions		
Grants and loans	Unclear requirements/ availability	
SDRs	Unclear requirements / availability	
SARB monetary financing		
SARB crediting government	Unclear requirements / capacity	
SARB providing loans, bridging finance or guarantees to commercial & development banks	Technically unlimited	
Subtotals	R280bn	R166.6bn
TOTAL		**R416.6bn**

4.1 GOVERNMENT MARKET BORROWING

The fiscal rules will need to be temporarily abandoned and additional government debt secured. As noted in our paper on fiscal stimulus,[53] there is no consensus as to what "too much debt is" and South Africa's debt is currently only moderately above emerging market averages. As IMF Chief Economist Gita Gopinath said about significantly expanding borrowing: "If you don't do what you're doing now, you can actually end up in worse situation because the economic activity would collapse so severely that your debt-to-GDP would be even worse. So things could be worse if you didn't do what is needed right now – and I think that is something everyone recognises as this point."[54] (It is not clear though if South Africa's National Treasury accepts this.)

We suggest that government could increase total borrowing by 5% of 2019/20 GDP, approximately R268 billion.

Table 12 gives an *illustration* of potential bond purchases to make up an initial R200 billion, leaving the door open for further borrowing. Of course these would need to be further interrogated in light of finalisation of a comprehensive rescue package.

Table 12 Illustration of potential bond purchases

	Borrowing (R billion)
Regular bond issuance - local and foreign investors	R50bn
SARB bond purchases	R50bn
COVID-19 bond – GEPF and other PIC bond purchases using money-market funds	R50bn
COVID-19 bond – private institutional investors	R100bn

We suggest that the R100 billion of regular bond issuance (open market and SARB) be undertaken as short-term borrowing, which is currently cheaper than it was prior to the COVID-19 outbreak (Figure 3 above). This would be used as initial bridging finance to facilitate tax and payment deferrals, with further borrowing as needed. The other borrowing is longer-term but with concessional rates applied, thereby counteracting the increased borrowing costs noted above.

Unpacking these four sources of borrowing further:

- *Open-market bond sales to private-sector local and foreign investors*. Despite the increased borrowing costs noted above, South Africa can still issue bonds on the open market. As noted above, short-term loans are currently meaningfully cheaper than long-term loans and although this will weaken the risk profile of government's liabilities, it is a strategic risk worth taking, particularly for relatively short-term expenditure. Foreign currency loans should be avoided due to currency risks.

- *A special COVID-19 bond*. In exceptional circumstances special bonds have been issued, such as, the extensive use of war bonds. As suggested by Stuart Theobald, and noted by Michael

[53] Busi Sibeko and Gilad Isaacs. Forthcoming. A Fiscal Stimulus for South Africa, Institute for Economic Justice, Working Paper Series, No. 3 (2020 – forthcoming)
[54] Gita Gopinath. 8 April 2020. The Economic Aftermath of Coronavirus. The Daily Show with Trevor Noah. Available: https://www.youtube.com/watch?v=H_K3dMpdqpc

Sachs as a possibility: 'A special "Covid19" bond to finance the crisis response at low and stable interest rates could be developed as a vehicle to channel pension fund support for the crisis response and recovery effort.[55] The benefit with these bonds is that, as Sachs' notes, they can be prescribed at lower interest rates. The African Development Bank, for example, has launched $3 billion worth of a Fight Covid-19 Social Bond.[56] However, this must be approached cautiously and without special restrictions or conditionalities.

- *Prescribed assets*. The government can issue regulations that domestic institutional investors (for example, pension funds, unit trusts, and insurers) must hold a certain percentage of their portfolio in government bonds. These portfolios are already regulated in other ways, for example, they may hold only 30% of their portfolio abroad. There is already money returning to South Africa within these portfolios because as the exchange rate depreciates, institutional investors must repatriate funds to not fall foul of the 30% limit.

  If only 2% of funds out of the approximate R8.75 trillion in institutional investor assets was prescribed to government bonds, this would amount to R175 billion. Factoring in a 20% decline in asset values this equates to R140 billion.

  The danger is that these investors would be selling assets – in order to purchase government bonds – at a very unfavourable time, as those assets would surely have depreciated significantly in recent months. On the upside, the market rate for government bonds has increased and the exchange rate depreciation would have cushioned losses on assets denominated in foreign currencies. This needs to be managed in a manner which prevents a mass selling off of equity within the JSE. It is possible that the 25% limit for international investment should be lowered at the same time as any prescribed assets for government borrowing implemented to avoid this. There could be the ability for weak funds to apply for an exemption if this would recalibrate their portfolio in an unsustainable manner.

  Assuming losses on various markets, we estimate that approximately R120 billion – predominantly from the selloff of international assets – could be safely channelled into a special COVID bond via a 2% PAR. We include R100 billion of this within our initial calculations.

  We propose this with regards to the special COVID-19 bonds, within the immediate emergency rescue plan. This does not mean that a higher percentage should not be designated for prescribed assets in the near future, as is currently under debate.

- ***The SARB***: The reserve bank could lend the government money by purchasing primary issuance on the open market. This would make the SARB a regular bond holder. It would expand the SARB's balance sheet. This is a form of Quantitative Easing. The current legal framework places limitations on this, but estimates show that the SARB may be able to purchase, at least, R239

[55] See for instance Theobald, S. 2020. Covid 19 Impact Bond: Concept Document. Intellidex.
[56] AfDB. 27 March 2020. African Development Bank launched record breaking $3 billion "Fight Covid-19" Social Bond. Available: https://www.afdb.org/en/news-and-events/press-releases/african-development-bank-launches-record-breaking-3-billion-fight-covid-19-social-bond-34982

billion,[57] although this requires further scrutiny. Such purchase could also be prescribed at the repo rate. The caution is to keep this within manageable limits.[58]

- ***The GEPF assets:* money market funds of R70 billion could be used to purchase special COVID bonds**. It would not be advisable to liquidate PIC held equity. If necessary, the SARB could purchase the bonds held by the GEPF thereby providing liquidity to purchase special COVID bonds.

Table 13 PIC assets under management (R billions)

Asset class	**GEPF**	**UIF**	**Comp fund**	**Other**	**Total**
Equity	1 032.4	40.0	16.2	-	1 088.6
Bonds	574.9	89.5	41.5	13.1	719.0
Money market	75.1	18.4	8.5	34.0	136.0
Property	95.4	4.8	0.1	1.4	101.7
Unlisted investments	70.9	13.6	1.9	-	86.4
	1 848.7	166.3	68.2	48.5	2 131.7

Source: National Treasury and Public Investment Corporation

Further phases of economic recovery may require additional funding. This could be achieved through additional borrowing.

4.2 DEPLOYING EXISTING FUNDS

Various existing pools of funds can be deployed. These include:

- **R108 billion of the R166.3 billion UIF surplus could be safely accessed.** We argue that this should be used for *employment-related* compensation. The breakdown of assets under management is given in Table 13. As 90% of PIC listed equity is invested in South Africa, and using the 22% fall in the value of the JSE All Share Index (20 Feb – 08 Apr 2020), the R40 billion would now be worth around R32 billion. It is therefore not advisable to liquidate these funds. The best option would be for the SARB to purchase the R90 billion in bonds held by the UIF, thereby providing the UIF with a liquid cash surplus. The money market funds of R18 billion could also be easily accessed. Its other reserves could be drawn down if needed. These would be needed for the expanded TERS scheme and additional unemployment claims.

- **Specified payments from ring-fenced funds could be halted,**[59] in particular non-medical payments by the Road Accident Fund and medico-legal claims – "In 2018/19, medico-legal

[57] Malikane, C. 8 April 2020. The SA Reserve Bank can print money to finance fiscal deficits. Independent Online. Available: https://www.iol.co.za/business-report/opinion-the-sa-reserve-bank-can-print-money-to-finance-fiscal-deficits-46384052
[58] Kantor, B. 14 April 2020. Central banks are rightly seizing the Covid-19 moment. *Business Day*. Available: https://www.businesslive.co.za/bd/opinion/columnists/2020-04-14-brian-kantor-central-banks-are-rightly-seizing-the-covid-19-moment/
[59] See for example: Sachs, M. 2020. Macro-Fiscal considerations in response to the COVID-19 crisis.

contingent liabilities reached R99.2 billion, while medico-legal claim payments reached R2 billion"[60]

- **Funds could be accessed from the approximate R239 billion in deposits that the government held at the end of 2019/20 with commercial banks and the SARB**; approximately R177 billion of these were foreign exchange reserves. These funds can also serve as bridging finance until further bond issues.

- **Existing ear-marked government funds (conditional grants and capital expenditure budgets) could be redeployed** towards the emergency rescue package. Calculations in this regard require further research.

4.3 FINANCING FROM SARB

In addition to the SARB purchasing bonds (as above), the SARB could simply "give" the government money, rather than lending it to them. This would entail the SARB crediting the government's account with the SARB. The Bank of England, the central bank of the UK, has recently announced that it will provide such monetary financing.[61] The scope for developing countries to do this is highly contested. One option would be for the SARB to do this on a small scale, for example, R25 billion, and observe market reactions.

The SARB should capitalise development finance institutions (DFIs) directly, see above, as well as backstop government guarantees and provide ear-marked subsidised credit to the private sector – as discussed in Section 3 above.

4.4 TAX

COVID-19 will significantly depress tax revenue. It is, however, necessary to consider ways in which tax revenue can be boosted. Taxation has the highest potential of contributing to demand growth and economic stability when it targets high incomes (which are largely saved) and speculative activities.

In particular a COVID-19 solidarity tax can be levied on those with high incomes. High-income earners have experienced significant growth in their income and are the most likely to have remained in employment and saved on monthly expenses during the lockdown period. The top 1% of income earners in South Africa averaged "a compounded growth rate of 5.43% over the years 2003-2015, whilst the majority (at least 80% of income earners in South Africa) have experienced declining negative growth in income over the same period".[62] Effective tax rates for the earners above R500,000 have declined by 5% between 2008 and 2018. Higher income groups have also received higher deductions on their taxes. In 2018, those earning above R500,000 received tax deductions of 12% of their income.

- **R7bn in "claw back" taxation from UBI.** Individuals earning above R1 million are taxed the cost of two UBI grants each (R9,000), and individuals earning between R0.35 million and R1 million

[60] National Treasury. 26 February 2020. Budget Review 2020., p. 58. Available: http://www.treasury.gov.za/documents/National%20Budget/2020/review/Prelims.pdf

[61] Giles, C. and Georgiadis, P. 9 April 2020. Bank of England to directly finance UK government's extra spending. *Financial Times*. Available at: https://www.ft.com/content/664c575b-0f54-44e5-ab78-2fd30ef213cb

[62] AIDC. 2019. Personal Income Taxation in South Africa: The Struggle Against Inequality and Poverty in an Era of Crisis. Available at: http://aidc.org.za/personal-income-taxation-south-africa-struggle-inequality-poverty-era-crisis/

are taxed the cost of one UBI grant each (R4,500), generating revenue of R3 billion and R8 billion respectively.

- **R30.5 billion could be raised by not granting deductions on retirement fund contributions to those earning above R1 million.**

- **An additional R17.2 billion could be raised by increasing the effective tax rate on those earning above R1 million by 5%,** even when taking account of 5% less taxable income for this grouping as is done in Table 14.

Table 14 Adjustments to personal income tax effective rates

	Taxable income (R billions)	Effective tax rate	Tax assessed (R billions)	Effective tax rate	Tax assessed (R billions)
0 - 150 000	454.1	4.9%	22.4	4.9%	22.4
150 001 - 250 000	354.3	8.1%	28.8	8.1%	28.8
250 001 - 500 000	742.4	16.6%	123.5	16.6%	123.5
500 001 - 1 000 000	593.9	25.7%	152.4	25.7%	152.4
1 000 000 - R1 500 000	217.2	32.3%	70.1	37.3%	76.9
R1 500 000+	376.4	39.7%	149.6	44.7%	160.0
Total:	**2 361.9**		**546.8**		**564.0**
Additional revenue					**17.2**

4.5 MULTILATERAL BORROWING AND GRANTS

South Africa needs to give careful consideration to its engagement with international and multilateral institutions, including international financial institutions (IFIs), such as the International Monetary Fund (IMF) and World Bank, and international bodies such as the G20 and BRICS. These measures could increase its lines of credit and borrowing, and improve its debt sustainability.

Three principles should guide these interactions: 1. That global transfers from rich to poor countries are essential; and 2. This support should come without onerous conditionalities. Any terms should be transparent and publicly available. This would work to reduce suspicion of any foreign financing. 3. **Key social partners should be consulted** on the acceptability and terms of such a loan, given the controversial history of IMF and World Bank loans which are seen as imposing unacceptable conditions on debtor countries.

4.5.1 BORROWING AND SPECIAL FINANCING MEASURES

Subject to the above conditions, such multilateral borrowing measures might consist of the following:

- **South Africa should consider, if conditions are minimal, accessing $500 million from the IMF's Rapid Financing Instrument (RFI) where interest rates are currently very low.** This should only be undertaken if conditions to achieve "debt sustainability" are absent entirely or do not work to depress spending and economic growth in South Africa, which will make it impossible to repay any debt.[63] As most emerging markets will try to access these facilities the stigma is likely to be minimal. The money available is not unlimited and at present a first-come-first-serve system seems to be in place.

- **Private sector support via loans** from bodies within the World Bank Group, such as the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA), should be explored. Both have expanded their available financing. Again, only absent conditionalities.

- **Borrowing from, and having an open credit line with, the New Development Bank,** provided borrowing costs and loan conditions are those associated with any normal type of borrowing.

- **Special issuance of special drawing rights** (SDRs) may prove to be an important potential avenue for additional financing. As of the end of 2019 South Africa held approximately $2.5 billion in SDR holdings. As noted below, South Africa should call on the IMF to vastly increase the issuances of special drawing rights. These should be accessed without conditionalities and can help to finance progressive social spending.[64]

- **Sovereign debt management.** South Africa should explore debt management options such as temporary standstills on debt service payments and new debt-relief programmes. As UNCTAD has argued, precedent for such a move includes a cancellation of half of German debts in 1953 with future payments made contingent on export earnings.[65]

4.5.2 GLOBAL APPROACHES TO DEVELOPING COUNTRY SUPPORT

South Africa has a potentially unique role to play in the global financial architecture at this juncture – far in excess of its actual relative economic weight – in negotiating better terms on behalf of emerging markets and least developed countries (LDC). Around $2.5 trillion is needed for developing economies (including South Africa) to help fund the response to COVID-19, according to IMF estimates.[66] South Africa is the only African member state in the G-20, and one of the only emerging markets in the G-20 to have shown a degree of economic and social resilience in the last several years. South Africa's democratic transition still serves as an historical point of inspiration. South Africa should join a coalition of other developing countries, including perhaps UNCTAD and UNDESA's international financing division, to call for the following:

[63] A country's debt needs to be considered sustainable or on track to be sustainable for the Fund to provide support to South Africa through this facility.

[64] See UNCTAD. March 2020. The Covid-19 Shock to Developing Countries: Towards a "whatever it takes" programme for the two-thirds of the world population being left behind. P. 10-11. Available: https://unctad.org/en/PublicationsLibrary/gds_tdr2019_covid2_en.pdf See also: Ghosh, J. 9 April 2020. COVID-19 is the IMF's Chance at Redemption. Available: https://www.project-syndicate.org/commentary/how-imf-can-lead-global-covid19-response-by-jayati-ghosh-2020-04

[65] See UNCTAD. March 2020. The Covid-19 Shock to Developing Countries: Towards a "whatever it takes" programme for the two-thirds of the world population being left behind. P. 10-11. Available: https://unctad.org/en/PublicationsLibrary/gds_tdr2019_covid2_en.pdf

[66] See: IMF. 1 April 2020. Transcript of Background Briefing Conference Call on IMF Resources and the Fund's Strategy to Help Countries combat Covid-19. Available: https://www.imf.org/en/News/Articles/2020/04/03/tr040120-transcript-background-briefing-conference-call-imf-resources-strategy-help-combat-covid-19

- **A percentage of the debt monetisation/transfers from central banks to governments in the European Union (EU), Japan, and the US – say 1% of the overall amount – should be set aside** to help fund the COVID-19 fiscal response in developing economies and LDCs that are not in a position to borrow cheaply or print their own money.[67]

- **Increase in IMF capacity geared towards emerging markets and LDCs**[68] so that IMF financing does not get largely utilised by countries able to access alternative avenues of concessional financing, such as via the European Union (EU).

- **Increase special issuance of special drawing rights** (SDRs)[69] by the IMF designated for least development economies (LDCs) and emerging markets in the order of 500 billion SDR. This would be a 200% increase in the total outstanding global allocation of SDRs, which is currently at 204.2 billion.[70]

- **Switch conditionality away from 'debt sustainability' to 'health care sustainability'**:[71]
    - **IMF debt sustainability conditions should be temporarily abandoned and replaced with health sustainability conditions**, such that money can be borrowed (up to say 2% of pre-crisis 2019 GDP levels) conditional on it being spent on targeting the health and social crisis, directly or indirectly. This appears to be the approach the EU is adopting.
    - **Delay IMF debt sustainability discussions**, which are usually the first initial hurdle in assessing loan types and agreements, to instead first deal with the health crisis.
    - **Debt restructuring discussions with the multitude of private creditors**, for those countries deemed not to have sustainable debt, can be frozen and delayed, to ensure that the process is orderly. The IMF and World Bank should assist in such negotiations.

- **Bilateral sovereign debt**: Governments should implement an immediate debt holiday on all their official credits to emerging market and LDC governments, waiving interest payments for 24 months and converting at least 50% to official development assistance (ODA). A large portion of the debt issued by middle-income countries is held by public bondholders.[72] This follows a recent G-20 meeting, due to be finalised at a finance ministers' meeting this week, which would see a freeze on sovereign debt repayments for 6-12 months, in line with the

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[67] Access to foreign exchange to fund essential imports of medical goods, food, and sustain government activity will become vital. See: https://voxeu.org/article/fight-covid-pandemic-policymakers-must-move-fast-and-break-taboos. This is based on a proposal by Willem Buiter, previously chief economist at Citi Bank.

[68] See: Truman, E. 29 March 2020. The IMF will need more resources to fight the Covid-19 pandemic. Available: https://www.piie.com/blogs/realtime-economic-issues-watch/imf-will-need-more-resources-fight-covid-19-pandemic

[69] For an overview see: IMF. 2014. Chapter 4: Special Drawing Rights in *IMF Financial Operations.* Available*:* https://www.imf.org/external/pubs/ft/finop/2014/pdf/ch4.pdf

[70] See: IMF, 24 March 2020. Factsheet: Special Drawing Rights. Available: https://www.imf.org/en/About/Factsheets/Sheets/2016/08/01/14/51/Special-Drawing-Right-SDR. Alternative proposals are mentioned in this FT editorial for transferring advanced economy's 'surplus' quota allocations for the benefit of poorer countries: FT. 12 April. New Issuance of SDRs is vital to help poorer countries. Available: https://www.ft.com/content/2691bfa2-799e-11ea-af44-daa3def9ae03

This would need to be accompanied by IMF measures to ensure such SDRs are purchased by IMF member states with stronger balance sheets, thereby exchanging the issued SDRs for one of the permitted convertible currencies. All interest payments due from this, owing to the SDR allocation being used (i.e. exchanged for hard currency), should be delayed by 24 months. Note that: "Countries that use their SDRs—and therefore hold fewer SDRs than their cumulative allocations—pay interest at the SDR interest rate on the difference between their cumulative allocations and their current holdings"

[71] See: Djankov, S. 8 April 2020. The G20 Should do more to harness the IMF and World Bank. Available: https://www.piie.com/blogs/realtime-economic-issues-watch/g20-should-do-more-harness-imf-and-world-bank

[72] Ibid.

appeal last month from the IMF and World Bank.[73] The latter's call, however, only relates to debt relief for 76 of the poorest nations eligible to receive International Development Association (IDA) funding.

- **Regional revenue raising.** The African Union, or the nascent CfTA, might explore issuing special bonds,[74] such as the African Development Bank's recent issue $3 billion of 3 -year COVID-19 'social bonds' (see above).

4.6 EQUITY AND LOANS – BUSINESS BAILOUTS

Not all government spending will result in a net loss to the fiscus. In particular:

- **Deferred payments (see Section 3.2 and 3.3) will be paid at a later date**.
- **Numerous forms of funds given to businesses should be given in the form of loans**, backed by funds from the SARB or government guarantees; these will be repaid.
- **Any funds directed towards large companies should involve the government acquiring a commensurate equity stake in the company**. This could be put into a sovereign wealth fund or special purpose vehicle. The dividends received therefrom, or the funds received upon resale of the equity after the crisis, could be used to pay down government's debt.

This should not become too prescriptive or administratively cumbersome so as to deny these businesses access to funds.

5 CONCLUSION

This Brief has laid out the contours of an economic rescue package, its size, cost, and financing. Such interventions are urgently required. They are essential if we are to lay the basis for any form of meaningful and equitable recovery in coming years.

Recovering from the social and economic impacts of the pandemic will be a slow and painful process, made more difficult by the structural conditions of the South African economy. It requires boldness, determination, and joint action by all stakeholders, led by the government. These actions must begin immediately to mitigate against lasting harm to the economy, people and livelihoods. It is an immediate imperative but also an opportunity for us to make far-reaching systemic change, to address the inherent vulnerabilities and inequities of our society and economy and to change the way in which we relate to one another.

[73] See: England, A. Wheatley, J and Politi, J. 12 April 2020. G20 nations close in on debt for poor countries. Available:: https://www.ft.com/content/30321fc4-e77c-4688-8d87-ef344108ed6b

[74] Eligible social or sustainability bonds with use of proceeds aligned to mitigating the impact of Covid-19 will be admitted on the exchange with admission fees waived for an initial period of three-months, London Stock Exchange has announced.