



Sona 2021 focused on COVID-19, vaccines and economic recovery, but lacked details

Highlights

- The State of the Nation Address (Sona) 2021 contained no new plans.
- It focused on combatting COVID-19, its variant and securing vaccines, as well as implementing the Economic Reconstruction and Recovery Plan.
- The emphasis was on infrastructure rollouts, an increase in local production (import substitution), employment stimulus and an increase in electricity generation.
- Other issues discussed included plans to fight corruption and gender-based violence.
- There was no reference to fiscal challenges, issues that will affect South Africa's credit rating.
- A number of new bodies were established in areas where consensus is lacking.
- It seems as plans were made to accelerate economic reforms.

Background

President Cyril Ramaphosa announced South Africa's Economic Reconstruction and Recovery Plan (ERRP) on 15 October 2020. The ERRP has four core elements:

- Eight priority interventions for economic recovery: These are leveraging R1 trillion in new investment for infrastructure projects; energy security within two years; the Presidential employment stimulus that targeted the creation and support of 875 000 jobs in 2020/21; strategic localisation, industrialisation that will reduce imports and promote exports; tourism recovery and growth; the green economy; food security; and gender equality and economic inclusion.
- Creating enabling conditions for economic growth and inclusion: Lowering regulatory burdens on businesses; reducing the time to issue mining

licenses by 50%; Increasing critical skills; enabling international tourism through e-visas; and investments in network industries such as rail, ports and the digital economy.

- A supportive macroeconomic framework: This includes fiscal sustainability and reduction of the government's debt burden; strengthening the South African Revenue Service's capacity; fighting corruption in the tender process; and enabling innovative financing mechanisms allowing pension funds to invest in bankable projects.
- Institutional arrangements: The plan focuses on execution and is supported by enhanced institutional arrangements to ensure implementation and accountability.

The National Treasury estimated that the ERRP could on average:

- Increase trend economic growth from 1.3% to 3% over ten years.
- Increase trend job creation from 2 million to 3.6 million over ten years.

However, the ERRP's implementation and effect will be reviewed each year and if necessary, adjusted to pursue Vision 2030 of the National Development Plan, which has the following as its aim:

- An economic growth rate of 5.4% (currently estimated at negative 7.2% for 2020).

- Reducing the unemployment rate to 6% (30.8% in the third quarter of 2020 according to Stats SA).
- Increasing the investment to gross domestic product (GDP) ratio to 30% (15.1% of GDP in the third quarter of 2020 according to the South African Reserve Bank).
- Reducing income inequality as measured by the Gini coefficient to 0.6 (the gross income Gini for households was 0.65 before the pandemic according to Momentum Insights).
- Eradication of poverty (49.2% of adults were living below the upper bound poverty line in 2015 according to Stats SA).

January 8th statement to the African National Congress (ANC)

Ramaphosa, in his January 8th (2021) address to the African National Congress (in his capacity as leader of the party), indicated that there is no trade-off between health and the economy.

He stated "economic recovery and reconstruction are as important as protecting the health of our nation". Given the negative consequences on life of COVID-19 and a lockdown-affected economy, choices must be made that will provide the best possible outcome for both health and the economy.

In this context, two of the ANC's four priorities for 2021 are directly related to health and the economy. "Firstly, to act together with all South Africans to defeat the

coronavirus" and "Secondly, to place our economy on a path of renewal and recovery."

This approach differs somewhat from 2020 and set the tone for the 2021 Sona. Last year the government's social and economic response to the pandemic focused on several emergency economic interventions such as a temporary COVID-19 grant, topping-up existing social grants and transferring money from the Unemployment Insurance Fund (UIF) to firms and employees in distress. The grants assisted around 18 million people and lifted more than 5 million above the food poverty line, while wage support of R57 billion was paid to 4.5 million workers from the UIF. This year the emphasis will shift from emergency interventions to implementing the ERRP.

Sona 2021

General impressions

Ramaphosa elaborated on the ERRP and January 8th statements in Sona 2021. However, this Sona differed from previous ones as it did not focus on new plans but provided an impression of decisiveness evidenced by many report-backs of real change. From the contents of Sona, it does seem as if there will be movement on long-promised economic reforms. However, specific target dates lacked.

Another change was that the president actually reported back on some issues he mentioned in last

year's Sona, such as the smart city at Lanseria (estimating to house 350 000 to 500 000 people within 10 years) and signing of performance agreements with ministers (completed in October last year).

As target dates on several issues lacked, this created uncertainty on when and whether some of the plans will be implemented. No mention was made about addressing the country's fiscal problems and the issues that affect South Africa's credit rating (although this

might be attended by the minister of finance in the forthcoming budget).

Quite a number of new bodies will be created in different areas. This normally happens when sufficient consensus on particular issues can't be reached. The new bodies normally gain public support and provide direction on these issues, going forward.

Noteworthy issues that deserve mention

The president listed four priorities for South Africa:

- Defeat the coronavirus pandemic
- Accelerate the economic recovery
- Reform the economy to drive job creation and economic growth
- Fight corruption

The following include some of the notable mentions: COVID-19, its variant and vaccines

Government had its challenges with the procurement of vaccines, procuring enough vaccines and then finding the right vaccines against both COVID-19 and the 501Y.V2 variant. Government changed its focus to acquiring the right vaccine to counter the new variant. In this endeavour, government managed to secure 9 million doses from Johnson & Johnson, of which 80 000 will arrive next week for use by frontline workers. Another 420 000 doses will arrive in the next four weeks. Furthermore, 12 million doses were secured via the Covax Facility and 20 million from Pfizer, of which the first batches will arrive at the end of March. This totals 32.5 million doses from various sources.

However, detail lacked on the number of doses needed, arrival dates and how the administration thereof will work. In addition, there was no reference to whether South Africa possessed the storage facilities (for instance a minus 72 degrees storage capability) for the different types of vaccines.

Restoring the economy and creating jobs Investments and infrastructure

Some R773 billion in investment commitments had already been received, closing in on the five-year target of R1.2 trillion. Large-scale public investment in energy, water and sanitation, roads and bridges, human settlements, health and education, digital infrastructure,

and public transport are envisaged. The president views this as crucial to reviving the construction sector.

Public-private investments in sectors such as agriculture, manufacturing, mining and tourism are on the table, while support will be provided to sectors including poultry, sugar, automotive, as well as small-scale manufacturers and township and rural entrepreneurs.

Electricity

Eskom has been restructured into three separate entities for generation, transmission, and distribution, while plans are underway for new generation. The successful bids for 2 000 megawatts of emergency power will be announced shortly, while the procurement of an additional 11 800 megawatts from renewable energy will be initiated soon. Despite this, Eskom estimates that, without additional capacity, there will be an electricity supply shortfall of between 4 000 and 6 000 megawatts over the next five years, as old coal-fired power stations reach their end of life. To address this shortfall, government will in the coming weeks issue a request for proposals for 2 600 megawatts from wind and solar energy and a similar bid will be forthcoming in August. Analysis suggests that easing the licensing requirements for new embedded generation projects could unlock up to 5 000 megawatts.

However, independent power producers have the capacity to provide at least double this capacity they can apply for, which makes the limits peculiar.

Telecommunication

Reforms in the telecommunications sector will see the allocation of high demand spectrum. This will accelerate the rollout of 5G, enhance the economy's competitiveness, lowering data costs and boosting the operation of large firms and small, medium and micro-enterprises (SMMEs). However, nothing was said on exactly when this will happen.

Climate

The recently established Presidential Climate Change Commission will support a just transition to a low carbon, climate-resilient growth path that will ensure that no one is left behind.

Employment

The process of rolling out public employment programmes that will offer greater work opportunities, especially for women, youth, persons with disabilities and other marginalised groups have started. The Presidential Employment Stimulus supported a large number of jobs.

Made in South Africa

The emphasis will be on localisation (made in South Africa) so that South African businesses can benefit from all areas of economic activity and create jobs. The aim is to reduce South Africa's reliance on imports by 20% over the next five years that can return R200 billion to the country's national output.

Implementation (not only of the ERRP)

Governance and state machinery will be reformed to enhance the implementation capabilities of the state. A District Development Model will be put in place to align the work of the three spheres of government. This model is aimed at ensuring that all stakeholders are involved with the integration of planning and implementation. The model recognises that the most successful municipalities are those that work in partnership with provincial and national government.

In addition, the public sector will be strengthened via courses at the National School of Government. At the same time, qualified personnel will be appointed at municipalities.

Land redistribution

To date, government has redistributed over 5 million hectares of land to more than 300 000 beneficiaries. This is in addition to the land restitution process, which has benefited over two million land claimants and resulted in the transfer of around 2.7 million hectares. A Land and Agrarian Reform Agency will be established this year to fast-track land reform.

Corruption

There is improved cooperation and sharing of resources between the respective law enforcement agencies, enabling a more integrated approach to investigations and prosecutions. Implementation of the National Anti-Corruption Strategy has started. Members will soon be appointed to the National Anti-Corruption Advisory Council, a multi-sectoral body that will oversee the initial implementation of the strategy that will directly report to Parliament. This is a significant change as such bodies normally reports to ministers of government departments.

The information used to prepare this document includes information from third-party sources and is for information purposes only. Although reasonable steps have been taken to ensure the validity and accuracy of the information contained herein, Momentum Metropolitan Life Limited does not guarantee the accuracy, content, completeness, legality or reliability of the information contained herein and no warranties and/or representations of any kind, expressed or implied, are given to the nature, standard, accuracy or otherwise of the information provided.

Neither Momentum Metropolitan Life Limited, its affiliates, directors, officers, employees, representatives or agents (the Momentum Parties) have any liability to any persons or entities receiving the information made available herein for any claim, damages, loss or expense, including, without limitation, any direct, indirect, special, incidental, punitive or consequential cost, loss or damages, whether in contract or in delict, arising out of or in connection with information made available herein and you agree to indemnify the Momentum Parties accordingly. For further information, please visit us at momentum.co.za. Momentum Investments is part of Momentum Metropolitan Life Limited, an authorised financial services and registered credit provider, and rated B-BBEE level 1.