



SONA: Emphasis on rebuilding a democratic state and growth initiatives

Highlights

- The rand strengthened into the State of the Nation Address (SONA) but weakened again after the speech. The local unit was likely swayed on higher-than-expected inflation data from the United States.
- The SONA emphasised the importance of the country's vaccination drive, job and growth initiatives and the need to rebuild a democratic state, improve state capacity and fight state capture and corruption.
- The speech also addressed a continuation in social support measures following the concluding report of an expert panel deliberating on basic income support, which was published in December 2021.
- The importance of rebuilding a social compact among government, business, labour and civil society was once again highlighted as necessary to reduce polarisation and create an enabling environment to promote a national vision. A 100-day deadline was announced to find solutions to boost growth, create jobs and combat hunger.
- In our view, garnering positive consumer, business and investor sentiment requires political buy-in, progress on the execution of the economic development and reconstruction plan and a reduction in political and policy uncertainty. The president's plan to accelerate South Africa's (SA) growth trajectory to solve the unemployment quagmire remains heavily reliant on the ability and willingness of the top leadership to execute on the economic plans proposed.

Mitigating the effect of COVID-19

SA has registered 3.6 million cases of COVID-19 and just over 96 000 deaths to date. President Cyril Ramaphosa emphasised that our most important tool to mitigate the effects of the COVID-19 pandemic remains the national vaccination programme, as it has been proven to dramatically reduce severe illness, hospitalisation and death.

Data from the Department of Health shows that 41% of SA's population has been fully vaccinated. This proportion is higher for the older age cohort (above 60

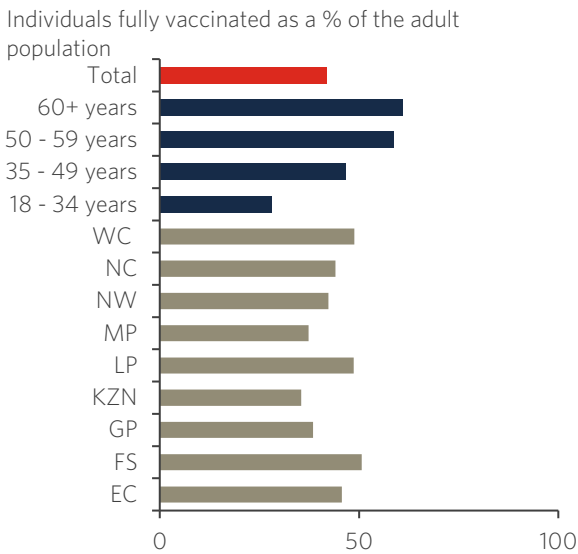
years) at 61% but remains low at 28% for those aged between 18 and 34 years (see chart 1).

Vaccination rates vary widely on the continent (ranging from as high as 192 doses per 100 people in Seychelles to less than 1 dose per 100 people in Burundi) but remains low on average at 26 doses per 100 people.

SA recently established a vaccine manufacturing campus in the Western Cape. Ramaphosa alongside Dr Patrick Soon-Shiong, founder of the multinational conglomerate NantWorks, LLC, launched the campus in

January 2022. They have also launched the Coalition to Accelerate Africa's Access to Advanced Healthcare (AAAH Coalition), which is a step forward to build capacity for advanced health care in Africa, by accelerating domestic production of pharmaceuticals.

Chart 1: Vaccination rates by group



Source: Department of Health, Momentum Investments
 WC = Western Cape, NC = Northern Cape, NW = North West, MP = Mpumalanga, LP = Limpopo, KZN = Kwazulu-Natal, GP = Gauteng, FS = Free

State, EC = Eastern Cape
 Government's intention to end the National State of Disaster necessitates a change in regulations under the National Health Act to regulate on matters involving mask-wearing, social distancing, vaccinations and large social gatherings. Notably, there was no mention of vaccine mandates to contain and manage COVID-19, while allowing for economic activity to remain

What this means: An improvement in the number of COVID-19 vaccinations issued has allowed the country to emerge from the fourth wave much quicker, with fewer deaths and without placing as high a burden on SA's health care facilities than in previous waves. Just as elsewhere in the world, the pandemic has defined a large portion of Ramaphosa's term as president in SA. His handling of the crisis will play an important role in shoring up support and re-establishing public trust in government's ability to lead in a crisis.

unhindered by restrictions.

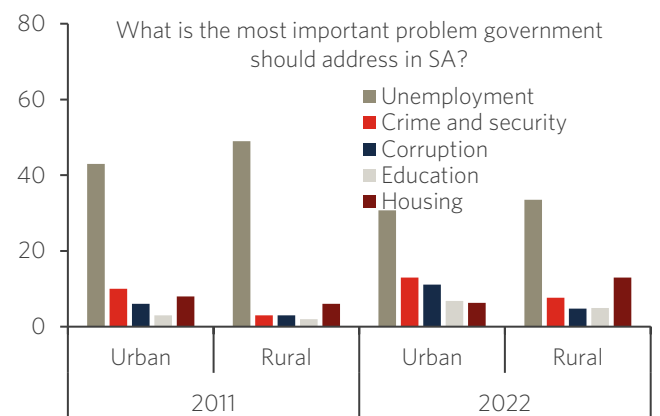
Addressing social challenges

Real growth in SA has averaged below 1% over the past decade, rendering economic conditions as insufficient to accelerate employment growth to a large enough degree to arrest the rise in the country's staggering rate of unemployment. Although growth in jobs in the public sector averaged 0.5% over the corresponding period, employment in the public sector grew at a faster pace of 1.5%. Nevertheless, the number of unemployed persons rose by 71% in the past ten years to 7.6 million, with nearly 60% of those below 35 years old.

Results of the Afrobarometer annual survey for SA, which surveys more than 2 300 households, still highlighted unemployment as the number one concern of citizens in November 2021 (see chart 2) relative to the same survey conducted a decade ago. Poverty concerns have dropped out of the top five concerns since 2011, but more citizens ranked crime/security and

corruption as their number one concern relative to the 2011 survey.

Chart 2: Citizens are most concerned about unemployment in SA



Source: Afrobarometer, Momentum Investments

Against this backdrop, Ramaphosa highlighted the need for reaching scale on job initiatives and highlighted successes of several job creation programmes already underway, including the:

- Presidential Employment Stimulus (launched in October 2020): Created more than 850 000 job opportunities (including 500 000 school assistants to alleviate teachers' workload during the pandemic)
- Social Employment Fund: It is expected to create 50 000 work opportunities
- Department of Higher Education and Training to place 10 000 unemployed graduates from April 2022
- National Youth Service: Plans to recruit 50 000
- Employment Tax Incentive: Criteria for participation will be expanded and the value raised (more detail to follow in the national budget)

What this means: The implementation of measures to bolster sentiment and improve growth and job prospects should allow government to start making inroads into the country's elevated levels of inequality and poverty. However, many businesses that have survived the pandemic have realigned their firms to cope with a reduced workforce, raising the hurdle for job creation even further. Improving the quality of education and training is, in our view, required to better align skills and job requirements in SA. Moreover, efforts to shore up employment opportunities should be focused on the labour-intensive sectors of the economy. Ultimately, raising the country's growth potential will be necessary to meaningfully accelerate job creation. Government has acknowledged that it 'cannot create jobs more efficiently and at a greater scale than the private sector' and has accepted that large scale job creation is only possible through increased support and a reduction in regulatory red tape for small and medium enterprises (SMEs). But with SMEs employing fewer than 30% of SA's workers (SME SA), more work needs to be done, in our opinion, to create a more enabling environment for SMEs to grow.

Economic reconstruction

For SA to escape high levels of unemployment, inequality and poverty, the pace of economic activity must exceed the rate of population growth. As such, growth-enhancing initiatives to propel trend growth are critical to enable government to improve citizens' standard of living.

The presidency announced the following economic reforms to bolster economic activity and enhance the country's relative competitiveness:

- Energy security and transitioning to a low carbon economy:
 - New energy generation projects that will come online in the next few years:
 - 500MW of remaining renewable energy projects under bid window 4
 - 2 600MW of renewable energy projects from bid window 5
 - 800MW from risk mitigation power projects
 - 2 600MW from bid window 6 (soon to be opened)
 - 1 400MW secured by municipalities
 - 4 000MW embedded generation in the mining sector
 - 300MW gas power
 - 500MW battery storage
 - A separate transmission company has been established (this will increase the competitiveness of the energy sector and reduce costs)
 - Eskom's unbundling to be completed by December 2022
 - Electricity Regulation Act amendments approved by Cabinet for public comments

- Development of a R270 billion green hydrogen pipeline
 - R131 billion international green energy deal
- Port efficiency:
 - Establishment of the National Ports Authority as a subsidiary of Transnet (this will enable reinvestment of port revenues into port infrastructure, enable greater private sector participation in terminal operations, lower port charges and enhance the country's export competitiveness)
 - Request for information issued for a private operator at the Durban and Ngqura ports and should allow for private partnerships to be in place by October 2022
 - Transnet to provide third party access to rail network by April 2022
- Digital migration and access to broadband:
 - Communications Minister Khumbudzo Ntshavheni announced in November 2021 that the broadcast digital migration programme was about halfway through to reaching all targeted households
 - The president announced the remaining provinces would be completed by the end of March 2022
 - Spectrum auction deadline set three weeks from now (which will drive down the cost of digital communications and lower the cost of doing business)
- Improving the ease of doing business
 - 80% of water-use applications to be processed within 90 days (used to take up to three years)
 - Backlog of water use applications to be cleared by June 2022
- Fast-tracking regulations for the cannabis industry (which can create up to 130 000 jobs)
- Revised critical skills visa list (government, business, community and labour have deliberated on a revised list of 101 critical skills and this is expected to improve immigration processes for skilled workers)
- eVisa system launched in 14 countries (will improve inward-bound travel for business and tourism)
- Investigating different visa categories such as new remote working visas and start-up visas to enable higher economic growth
- District Development Model (aligning national, provincial and local government to ensure budgeting and planning are co-ordinated, which will ultimately improve the level of service delivery)
- Infrastructure Fund:
 - Total fixed investment has grown at an average negative rate of 1.2% over the past decade partly due to insufficient demand concerns and policy uncertainty plaguing the private sector
 - The Presidency announced that the annual investment conferences have generated R776 billion in investment commitments with more than R300 billion already invested
 - The fourth Investment Conference will be held on 24 March 2022
 - Private sector bulk infrastructure projects to the value of R133 billion is expected to be unlocked
- Mining exploration strategy to be unveiled soon
- Support for small businesses
 - New bounce-back loan scheme with redesigned eligibility criteria to address the shortfalls with the previous loan guarantee scheme
 - Reviewing legislation to reduce regulatory red tape and dedicating capacity in the Presidency to spearhead this initiative
- State-owned enterprises (SOEs):
 - Centralised shareholder model recommended by the Presidential SOE Council (to minimise political interference and better manage state assets)
 - Working towards establishing a state-owned Holding Company to house strategic SOEs
 - Presidential SOE Council preparing recommendations on retaining, consolidating or disposing of SOEs
- Regulatory certainty:
 - Land reform will remain in line with stipulations outlined in the Constitution (Expropriation Bill to be approved this year)
 - The President noted that government already owns enough arable land to support small-scale farmers
 - National Health Insurance
 - 59 million people registered on the Health Patient Registration System

- 56 000 additional health workers and 46 000 community health workers recruited and integrated into the public health system

In November 2021, Invest SA (a Department of Trade and Industry) alluded to SA being a well-respected investment destination of choice based on the World Economic Forum’s Global Competitiveness Index (WEF GCI) and the Global Innovation Index. According to the latest WEF GCI, SA improved from the 67th position to the 60th out of 140 countries, but this remains a weaker position than ten years ago (see chart 3).

Chart 3: SA’s global competitiveness ranking has dropped but higher than a decade ago



Source: World Economic Forum, Momentum Investments

What this means: If effectively implemented, many of these announced reforms would boost labour-intensive programmes, uplift SA’s infrastructure and enhance service delivery. The pace of progress however remains important against a pedestrian growth outlook and a slow recovery in jobs. Moreover, reducing political uncertainty can raise foreign and local investor confidence and generate higher levels of fixed investment over time.

The need for continued social support measures

The social relief of distress (SRD) grant was initially implemented to relieve households of financial strain during the COVID-19 pandemic. After a temporary removal, the grant was reinstated following damaging social unrest in July 2021.

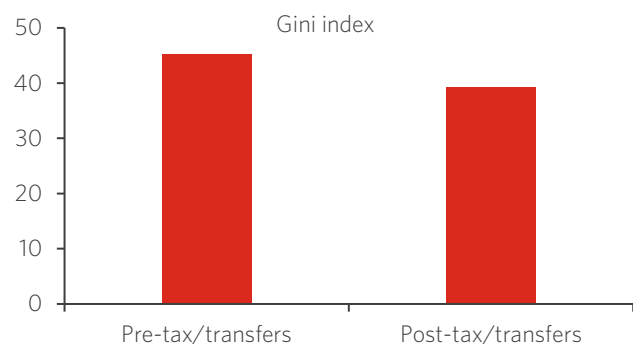
The Global Economic Prospects publication authored by the World Bank notes that the pandemic has worsened inequality trends across emerging markets (EMs). The World Bank estimates that the Gini coefficient has increased by 0.3 for an average of 34 EMs, which erodes the improvement seen over the past two decades. The World Bank acknowledges that taxes and transfers have aided a drop in the Gini index across the globe, with the biggest positive effects on advanced economies. Social transfers directed to vulnerable population groups have assisted the drop in the Gini index for EMs (see chart 4), but the World Bank found that universal health care coverage, universal access to

education and early childhood development schemes, labour market reforms, financial inclusion and investment in rural infrastructure have also had a significant impact.

In some cases, countries have made cash transfers conditional on health check-ups for children or school enrolment to improve health and education outcomes, which have furthered the reduction in equality within countries.

In the same light, the SA Basic Income Support panel published their findings in December 2021 advising that some intervention is necessary to widen the country’s social net. The panel recommended that the targeted entry level for the proposed grant should increase in sustainable increments over time, with fiscal constraints in mind.

Chart 4: EM Gini coefficient improved on changes to taxes and transfers



Source: World Bank, Momentum Investments

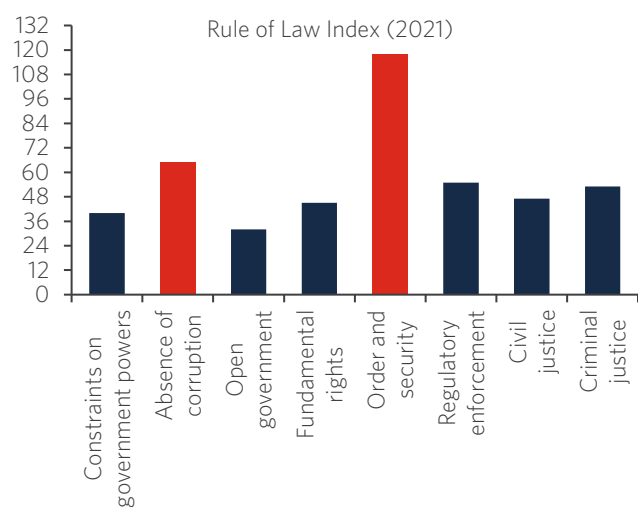
Ramaphosa announced a 12-month extension on the SRD grant of R350 per month between 1 April 2022 and March 2023. On Citi’s calculations this would amount to 0.6% of GDP (based on 9.5 million beneficiaries at a cost of R40 billion per year). The speech alluded to further discussions being held to identify an affordable replacement for this grant.

What this means: While a monthly payment of R350 can be funded by a likely revenue overrun or expenditure reprioritisation in the next fiscal year, longer-term financing decisions need to be taken to ensure fiscal sustainability in the longer run.

Rebuilding a democratic state

The World Justice Project Rule of Law Index reported a general deterioration in the rule of law worldwide in its 2021 report. Although SA’s maintained its position on the global ranking (52nd out of 139 countries), underlying factors show weakness in order and security (118th out of 139 countries) and absence of corruption (65th out of 139 countries), see chart 5. In our view, the social unrest which erupted in Gauteng and KwaZulu-Natal in July 2021 and state capture revelations have likely contributed to SA scoring low on these measures.

Chart 5: SA scores poorly on order and security in the Rule of Law Index

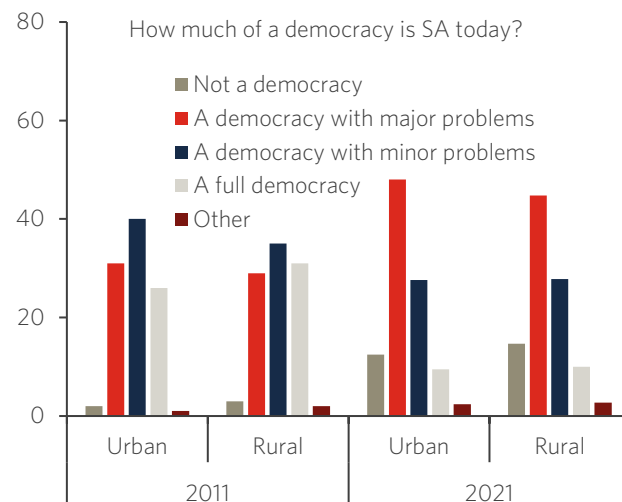


Source: World Justice Project, Momentum Investments

In his weekly newsletter, Ramaphosa cited the July 2021 riots, state capture, the fire at parliament and attacks on the integrity of the judiciary as attempt to undermine the democratic order in SA. He took the opportunity at the SONA to reinforce the importance of safeguarding against any efforts to diminish our democracy.

Worryingly, while there is still a slim majority of South Africans that prefer a democracy to any other form of government, more citizens view SA’s democracy as one with major problems relative to their rating a decade ago (see chart 6).

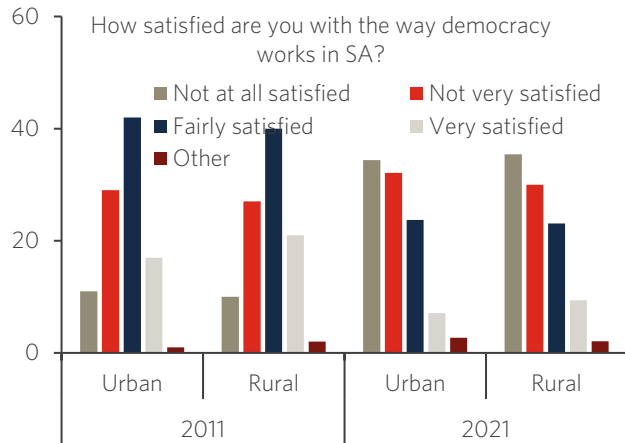
Chart 6: SA democracy under fire



Source: Afrobarometer, Momentum Investments

Survey data from Afrobarometer further shows a distressing rise in the number of survey respondents who are not at all satisfied with the way democracy works in SA (see chart 7).

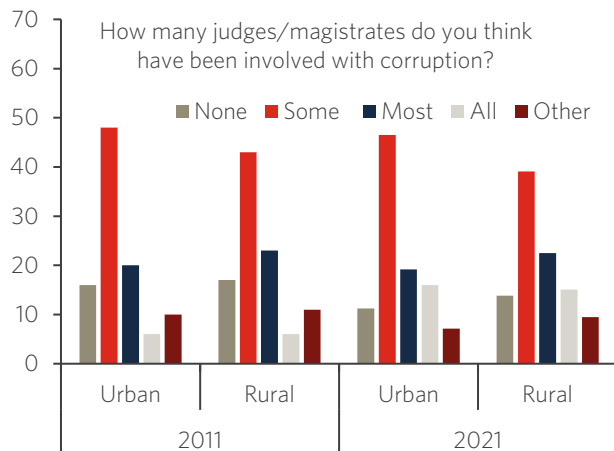
Chart 7: Dissatisfaction with how democracy works in SA



Source: Afrobarometer, Momentum Investments

Public trust in institutions has declined in recent years, with the judiciary being no exception. Survey data from Afrobarometer in 2021 indicates that more than a third of survey respondents believe that either most or all of SA’s magistrates have been involved in corruption. This is up from 26% in the 2011 survey (see chart 8).

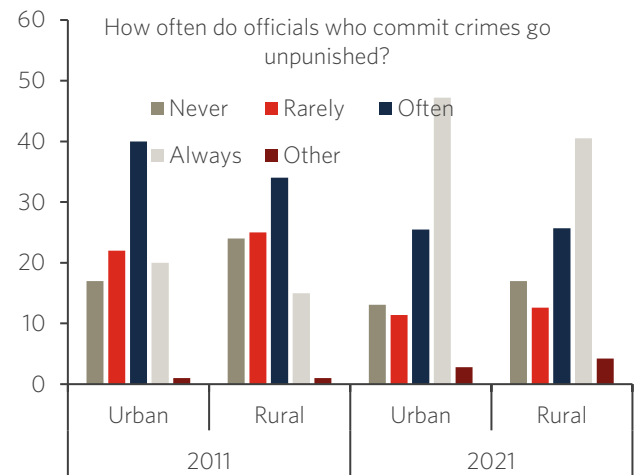
Chart 8: Rising public distrust in the judiciary



Source: Afrobarometer, Momentum Investments

In Ramaphosa’s newsletter, he further noted that the recommendations of the Zondo Commission would enable the country to rebuild institutions that were subverted by state capture and hold those responsible to account. This is important in the context of citizens’ opinions that government is handling the anti-corruption fight poorly. Perceptions of impunity have grown since the Afrobarometer 2011 survey results, with nearly half of urban respondents in 2021 suggesting that officials who commit crimes always go unpunished (see chart 9).

Chart 9: Rising perceptions that crimes committed by officials go unpunished



Source: Afrobarometer, Momentum Investments

Announced efforts to strengthen whistle-blower protection should further aid in the fight against corruption, while accepting support from the private sector to fill skills gaps should enhance government’s ability to investigate and prosecute.

The President alluded to the successes of the Special Investigative Unit, which has referred 224 government officials for disciplinary action and 386 cases for possible prosecution.

What this means: Allegations and incidences of state capture, corruption and the mismanagement of public funds have tarnished the attractiveness of SA as an investment destination. A clear timeline (June 2022) to implement the findings of the Zondo Commission Report and plans to recapacitate institutions to deal with these cases of criminality, are welcome steps to improve confidence in SA's rule of law. Given that Ramaphosa has positioned himself as an anti-corruption leader, it is concerning that South Africans perceive corruption as increasing under his presidency. Public trust in state institutions is unlikely to change unless the fight against corruption gathers momentum, those who are guilty of wrong-doing are apprehended and there are tangible indications of an improvement in the performance of crime-fighting agencies.

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