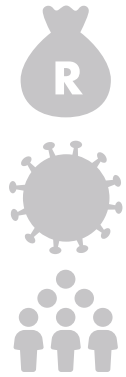


COVID-19 RESPONSE, POLICY BRIEF #4

ECONOMIC RELIEF IN THE FACE OF THE THIRD WAVE



R70 BILLION

needed for short-term emergency economic relief in the face of South Africa's COVID-19 third wave and humanitarian crisis

1. INTRODUCTION

COVID-19 infections continue to rise as South Africa's third wave worsens and the vaccination rollout programme falls short. This comes at a time when economically vulnerable groups have lost income. Most of the relief measures initially extended to workers, households, and businesses have expired, causing a humanitarian crisis.

In 2020, South Africa's economy contracted by 7%. Almost 1.4 million jobs have been shed, with the unemployment rate reaching a record high of 32.6% (expanded definition, 43.2%).¹ South Africans are still living under immense hardship, with approximately 10 million people and 3 million children living in a household affected by hunger in April/May 2021.²

IN THIS DOCUMENT

The fully-costed relief package outlined on pages 6-7 of this document is comprised of 10 key policies:

1. Business support through sector-specific grant programmes;
2. Business support through tax relief;
3. Maintain employment through wage support via TERS;
4. Sustain livelihoods through extended and improved social relief grants;
5. Mitigate child hunger by keeping the school feeding scheme open throughout the school holidays;
6. Increase support to informal sector workers through cash transfers and expanded business grants;
7. Greater support for those who lost their jobs through expanded UIF benefits;
8. Reduce unpaid care work through proper support for the Early Childhood Development (ECD) sector;
9. Disburse and increase Presidential Employment Stimulus (PES) Programme allocation; and
10. Ramp up vaccinations to save lives and relieve pressure on the healthcare sector.



2. VULNERABILITIES IN THE THIRD WAVE

In a recent [Policy Brief](#) assessing the vulnerabilities of the South African economy the Institute for Economic Justice found:

- Employment in construction, manufacturing, wholesale and retail, and private households** was particularly hard hit.
- Within manufacturing**, sub-sectors linked to construction activities; textiles, particularly footwear; and chemicals and plastics continue to struggle.
- Tourism and hospitality-linked services**, most within wholesale and retail, and transportation, struggled to recover from lockdown restrictions.
- Already vulnerable workers**, seen through lack of Unemployment Insurance Fund (UIF) registration or contracts, were much more likely to lose their jobs.
- Informal economy workers and businesses** suffered disproportionately.
- Small-scale farmers** continue to struggle to re-establish levels of production and sales.
- Women** were harder hit and have battled to regain employment and income, while suffering increased hunger and gender-based violence.
- Unpaid care work** has increased for women, particularly due to the closure of schools, school feeding schemes, and early childhood development centres.
- Hunger** has risen greatly, including for children.

We now know that Level 4 restrictions will further contract economic activity, with particularly dire consequences for the tourism and hospitality sectors and informal sector workers.

These vulnerabilities are shown in Table 1 where red indicates **severe vulnerability**, orange **high vulnerability**, yellow a **mid-level of vulnerability**, and green **low vulnerability**, across different dimensions.

Table 1: Economic vulnerabilities

Industry	Change in employment (%)			Change in basic wages (%)	Change in value added (%)	Change in turnover (%)
	Women	Men	Both sexes			
Agriculture, forestry & fishing	-20.7	-2.3	-8.4	*	7.5	*
Mining & quarrying	7.1	-12.1	-9.3	3.9	3.5	21.4
Manufacturing	-8.7	-14.1	-12.2	-5.7	-1.1	0.8
Electricity, gas & water	-0.7	-0.4	-0.5	0.3	-0.9	4.8
Construction	-16.6	-20.1	-19.7	-16.1	-17.5	-6.9
Wholesale & retail trade, including most hospitality	-13.8	-7.2	-10.3	-6.7	-3.8	2.9
Transport & communication	-14.9	-8.0	-9.2	-10.1	-11.5	-2.6
Financial intermediation & business services	1.3	-0.3	0.4	-3.9	-5.3	11.5
Communities & social services	-6.2	-3.3	-5.1	0.6	0.5	4.1
Private households	-14.5	-14.0	-14.4	*	-0.6	*

Sources: Own calculations using data from Stats SA, QLFS (Q1:2021, Q1:2020) GDP (2021), QES (Q4:2020), QFS (Q1:2021).



At present only R207 billion, or 41%, of the “R500 billion” relief package has been used.

3. EXISTING SUPPORT

The original “R500 billion” relief package announced in April 2020, aimed at supporting workers, businesses, and households through the pandemic, has been insufficient and suffered numerous problems in implementation. At present only R207 billion has been spent, 41% of the promised relief.

Most of the relief programme has ended. Emergency social grants have been cut off, wage support through the Temporary Employment Relief Scheme (TERS) has ended, sector-specific business support run out, and tax relief halted. Only the failed Loan Guarantee Scheme (LGS) remains in place, and this has disbursed just 10% of what was planned. This is further unpacked in Table 2.





In addition, a significant amount of funds may have been misspent, undermining the impact of the emergency relief measures. The Auditor General’s (AG) third special report on COVID-19, shows an estimated R26 billion was spent through means non-compliant with supply management legislation. The AG further notes that

this “is likely to be even higher, as just over a third of municipalities were qualified on the completeness of their disclosure or were still investigating the full extent of the irregular expenditure”.⁴

Given this low level of spending, South Africa compares very poorly to other G20 countries. Having spent only 4% of GDP on emergency relief, compared to the G20 average of 10% South Africa is (tied) in third last place. This is shown in Figure 1.

Without adequate and speedy support, there is a significant risk of the humanitarian and economic crisis deepening.

Table 2: Assessment of “R500 billion” relief package

	PROMISED	USED	ASSESSMENT
	SOCIAL SECURITY		
	R50 billion	R43.6 billion	Existing social grants were increased until 31 October 2020 and a new COVID-19 Social Relief of Distress (SRD) grant put in place until January 2021 and further extended until April 2021. While the level and coverage was inadequate, these played an important role in staving off hunger.
	JOB CREATION AND PROTECTION		
	R100 billion	R12.6 billion	The Presidential Employment Stimulus (PES) create 700,000 employment opportunities in the first phase (2020/2021). ⁵ These were overwhelming socially useful jobs, of mixed skill levels, that increased employability and paid the national minimum wage. National Treasury’s whittling down of the budget, failure to disburse the next tranche, and the lack of commitment to allocate the balance of the R100 billion, compromise this promising programme.
	WAGE RELIEF – TEMPORARY EMPLOYMENT RELIEF SCHEME (TERS)		
	R40 billion	R60 billion	Unemployment Insurance Fund (UIF) surpluses were used to provide support to businesses to pay workers’ wages. Although difficult to access and insufficient, this provided important emergency relief. Economy-wide relief was withdrawn unilaterally at the end of October 2020, with remaining benefits ending in March 2021. In July 2021, President Ramaphosa said that more than R60 billion had been spent to protect the jobs of 5.5 million worker. ⁶
	SUBSIDISED CREDIT – CREDIT GUARANTEE SCHEME (CGS)		
	R200 billion	R18 billion	The CGS was meant to enable commercial banks to offer government-backed loans to businesses in need. Due to over indebtedness and stringent application criteria uptake has been dismal. ⁷





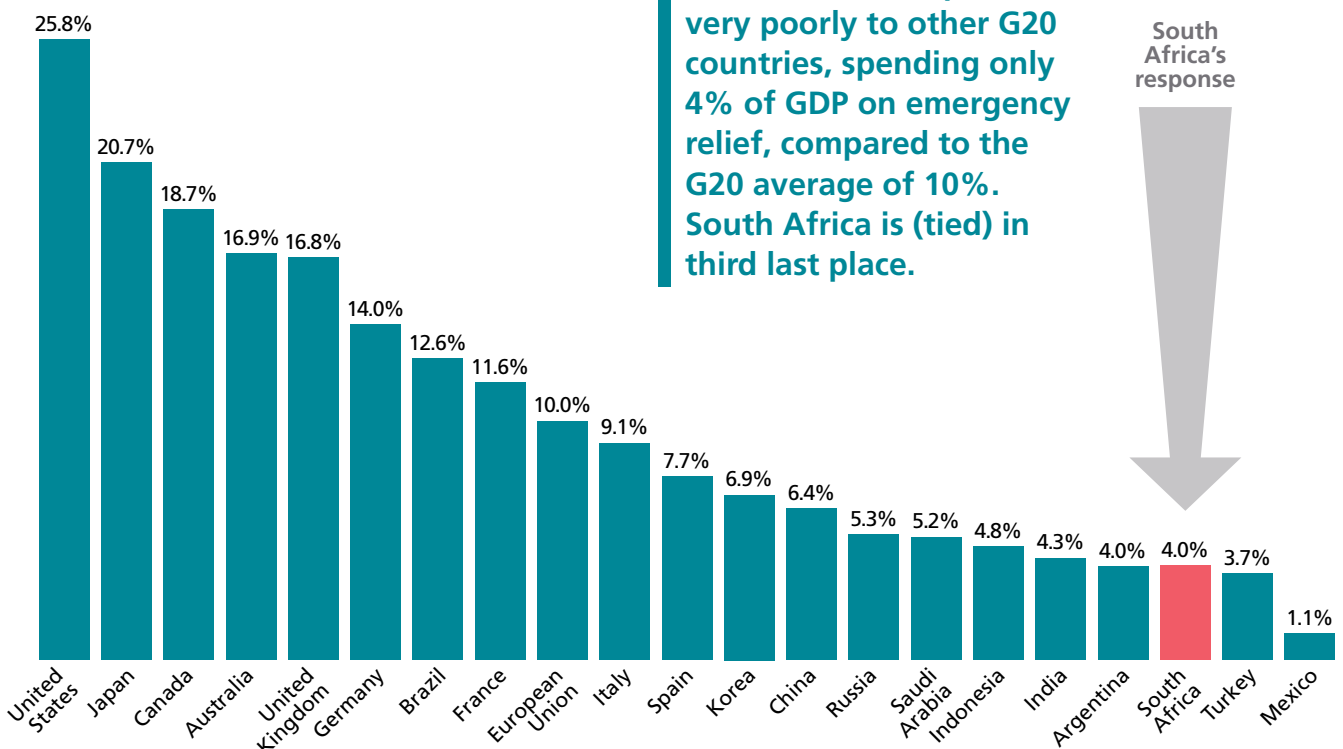
	PROMISED	USED	ASSESSMENT
	TAX RELIEF		
	R70 billion	R41.2 billion	According to the 2021 National Budget, ⁸ R28 billion was used for general tax deferral measures (provisional tax, specific excise duties, and case-by-case deferrals) and an additional R1.9 billion in PAYE tax deferrals was taken up. A further R4 billion in tax deferrals was given to the alcohol industry. Direct tax relief measures, via exemption from the Skills Development Levy (SDL), amounted to R5.9 billion, with R1.4 billion given from the expanded Employment Tax Incentive.
	MUNICIPALITIES		
	R20 billion	R14.4 billion	An AG real-time audit report ⁹ indicates the municipalities audited were granted R14.4 billion out of the R24 billion that was announced for the municipal response to COVID-19. Of this amount, 42% had been spent by 31 March 2021. The 2021 National Budget said that municipalities had spent R4.2 billion of the R11 billion that had been added to the local government equitable share.
	HEALTH		
	R20 billion	R12.8 billion	At the beginning of the final quarter of 2020/21, provinces had spent R12.8 billion (60%), of the additional funding granted, mainly on compensating employees, increasing hospital bed capacity in existing facilities, building field hospitals, purchasing and distributing personal protective equipment and medical supplies, and paying for laboratory services. Between April and December 2020, provinces employed almost 17,000 additional health professionals to manage the pandemic.
	TOTAL		
	R500 billion	R202.6 billion	

Figure 1: G20 relief spending as a percentage of GDP



South Africa compares very poorly to other G20 countries, spending only 4% of GDP on emergency relief, compared to the G20 average of 10%. South Africa is (tied) in third last place.

South Africa's response

Source: IMF (2021) Fiscal Monitor Database of Country Fiscal Measures in Response to the COVID-19 Pandemic, April 2021 version, South African spending adjusted according to spending analysis here.

4. RELIEF PACKAGE: TOP TEN POLICY PROPOSALS

In this context, an immediate R70 billion needs to be allocated to emergency relief over the next three months. A broader discussion of these measures – including supporting data and international comparisons – can be found in the recently published IEJ [Policy Brief Vulnerabilities and Policy Priorities for South Africa's COVID-19 Third Wave](#).

An immediate R70 billion needs to be allocated to emergency relief over the next three months.







There can be no viable economy in the future without relief now.





Over 40% of the package (R29.5 billion) can be allocated from the current R39 billion UIF surplus. The balance (R40.5 billion) requires additional spending by the fiscus. These amounts could be fully covered within the underspend on the original R500 billion relief package.

We make the recommendations on the next pages with the following in mind:



- **Speed, ease, and efficiency of implementation are critical.** There is no use making proposals, even if they are seemingly better, that the state cannot effectively and quickly implement. Therefore, we overwhelmingly rely on existing mechanism – TERS, existing sector-specific grant programmes, and so on – that can be reactivated, rather than proposing a plethora of new ones.
- **The triad of rescuing businesses, supporting wage payments, and sustaining livelihoods forms the basis for the proposals.** This incorporates the majority of international policy responses. Rescuing businesses through grants, loans, and tax and other relief; supporting wage payments through wage subsidies; and sustaining livelihoods through social transfers and services.
- **Eligibility and access must be prioritised.** Many of the schemes have been difficult to access due to inefficiencies (e.g. TERS), unrealistically stringent criteria (e.g. ECD relief), or overly means tested (e.g. turnover threshold conditions and SRD grants.).
- **Cash transfers should be prioritised over more complex and limiting alternatives.** For example, the voucher system of the COVID-19 Farmer's Relief Fund for Smallholder Farmers has been widely criticised.
- **Spending now will pay off in the medium term.** While concerns are raised about South Africa's fiscal position it is economically imprudent to let that preclude emergency measures. There can be no viable economy in the future without relief now.

POLICY RECOMMENDATION	FUNDED BY	AMOUNT
 1. Support business through sector-specific grant programmes		
<ul style="list-style-type: none"> • Tourism Relief Fund: R50,000 in working capital for ~50 000 tourism SMMEs¹⁰ (R2.5 billion). • COVID-19 Farmer's Relief Fund for Smallholder Farmer: Smallholder farmers at sliding scale of R2,000 to R10,000 (R3 billion). • Construction Sector Relief Fund established:¹² up to R100,000 in working capital, depending on business turnover, for approximately 30 000 businesses, and an average grant of R50,000 (R1.5 billion).¹² • A manufacturing support fund needs to be established. 	National fiscus	R7 billion
 2. Support businesses through tax relief		
<ul style="list-style-type: none"> • Tax holiday on Skills Development Levy (SDL) for Q3 2021 (R4.4 billion). • Tax deferrals (provisional tax, specific excise duties, and case-by-case deferrals) (R19 billion). PAYE tax deferrals (1.9 billion). • Fast track VAT refunds. 	National fiscus plus deferrals	R4.4 billion cost R20.9 billion in deferrals
 3. Maintaining employment through wage support via TERS		
<p>TERS benefits for workers in:</p> <ul style="list-style-type: none"> » Accommodation, food and beverage servicing (excluding fast food), passenger transport, transport rentals, travel agencies and services, cultural industry, and sports and recreation (~1.4 million workers).¹³ » All bottle stores and liquor traders (~32 000 workers).¹⁵ » Small businesses in alcoholic beverage manufacturing (unknown number of workers).¹⁵ » "Owner-drivers" / independent contractors transporting liquor (unknown number of owner-drivers). » Businesses who can show a 5% or greater fall in real turnover between Q1 2020 and Q1 2021 (~630 000 workers).¹⁶ <ul style="list-style-type: none"> • Assuming a 75% uptake: ~1.55 million workers. • TERS quantum increased to 80% of wages below the stipulated cutoff. The minimum claim paid should equal the national minimum wage. The average claim is estimated to cost R5,200.¹⁷ 	UIF	R24.2 billion
 4. Sustain livelihoods through extending and improving and social relief measures, specifically the COVID-19 SRD grant and Caregivers Allowance.		
<ul style="list-style-type: none"> • SRD grant (~6 million recipients) and Caregivers Allowance (~7.1 million recipients) at the level of the food poverty line (R585) for 3 months.¹⁸ • This is an interim measure towards further extension of the grants and implementation of a Universal Basic Income Guarantee. 	National fiscus	R23 billion
 5. Mitigate child hunger and relieve pressure on households through ensuring the school feeding scheme remains open throughout the holiday period		
<ul style="list-style-type: none"> • Cost should be able to be absorbed by previous closures/suspension of the scheme. 		R0 in additional funds
 6. Increase support to informal sector workers through cash transfers and expanded business grants.		
<ul style="list-style-type: none"> • Informal business grant on sliding-scale to at least 500 000 (of the estimated 1.8 million) informal SMEs of R1,000 to R5,000 each, depending on size (R1.25 billion). Additional funds should be made available if there are over subscriptions. 	National Fiscus	R1.25 billion

POLICY RECOMMENDATION	FUNDED BY	AMOUNT
 7. Offer greater support to workers who have lost employment through expanded UIF benefits		
<ul style="list-style-type: none"> Once-off R1,000 additional UIF payment to all workers who claimed unemployment benefits since 26 March 2020 (~2.3 million) and those who lost employment but were not enrolled for UIF benefits (~3 million).¹⁹ 	UIF	R5.3 billion
 8. Reduce unpaid care work through ensuring the Early Childhood Development (ECD) sector is properly supported.²⁰		
<ul style="list-style-type: none"> Provision of grant of R6,000 per ECD worker.²¹ <ul style="list-style-type: none"> » R1,814 top-up for 33 533 workers already provided an initial R4,186 (R61 million).²² » R6,000 to 83 045 workers already processed but awaiting payment (R498 million, R496 million of which is allocated and rolled over from 2020/21). » R6,000 for workers who didn't originally apply (max 58 423) (R351 million). Provision of subsidy to 30 000 ECD operators: <ul style="list-style-type: none"> » R3,000 to fund reopening health protocol (R90 million). » R6,000 in operating support for 6 months (R1.1 billion). 	National fiscus	R1.6 billion
 9. Disburse and increase allocation towards Presidential Employment Stimulus (PES) programme		
<ul style="list-style-type: none"> The PES Phase 2 has an R11 billion budget that is sitting with National Treasury for final signoff. This must be immediately disbursed, together with an additional R4 billion (raising this to R15 billion in total) in order to renew all successful elements of Phase 1 at the original scale and implement new planned programme elements. The PES must be put into the Medium Term Expenditure Framework and the balance of the R100 billion allocated. 	National fiscus	R4 billion
 10. Ramp up vaccinations to relieve pressure on the healthcare sector and save lives		
<ul style="list-style-type: none"> Institute weekend vaccinations. The main additional cost would be for staff. An estimated 11 500 nurses²³ would be needed to vaccinate 300 000 persons per day, at a daily cost of R2,000 per nurse. An average additional R20,000 is allocated per vaccination site (600 sites) per day for security and incidentals.²⁴ 	National fiscus	R450 million
TOTAL		R71.2 billion in costs
		+ R20.9 billion in deferrals

5. CONCLUSION

Measures to save lives through lockdowns will only be successful if the accompanying economic relief measures are in place. This R70 billion package over the next three months offers a real opportunity to arrest South Africa's economic decline and the ongoing humanitarian crisis. Without such measures the current landscape of hunger, unemployment, and despair, and the political instability this gives rise to, will worsen. This package offers a credible way forward, it is time for government to act swiftly to preserve livelihoods, save businesses, and sustain the economy. We do not have a minute to waste.

6. NOTES

1. StatsSA (2021) Quarterly Labour Force Survey.
2. Spaul, N., Daniels, R. C et al. (2021) NIDS-CRAM Wave 5 Synthesis Report.
3. IEJ (2021) Vulnerabilities and Policy Priorities for South Africa's COVID-19 Third Wave. <https://www.iej.org.za/vulnerabilities-and-policy-priorities-for-south-africa-covid-19-third-wave/>
4. Auditor-General South Africa (2021) Third special report. <https://www.agsa.co.za/Reporting/SpecialAuditReports/COVID-19AuditReport3.aspx>;
5. Presidency (2021) Presidential Employment Stimulus Dashboard <https://www.stateofthenation.gov.za/employment-stimulus-dashboard>
6. Presidency (2021) President Cyril Ramaphosa: Progress in national effort to contain the Coronavirus COVID-19 pandemic <https://www.gov.za/speeches/president-cyril-ramaphosa-progress-national-effort-contain-coronavirus-covid-19-pandemic-1>
7. The Banking Association South Africa (2021). Loan Guarantee Update. <https://www.banking.org.za/news/may-covid-19-loan-guarantee-scheme-update/>
8. National Treasury (2021) Budget Review. <http://www.treasury.gov.za/documents/national%20budget/2021/review/FullBR.pdf>
9. Auditor-General South Africa (2021) Third special report. <https://www.agsa.co.za/Reporting/SpecialAuditReports/COVID-19AuditReport3.aspx>
10. Most industry analysis puts the number of tourism SMMEs between 45 000 and 50 000. See OECD (2021) OECD Tourism Trends and Policies accessed here: <https://www.oecd-ilibrary.org/sites/01ad4412-en/index.html?itemId=/content/component/01ad4412-en#component-d1e143540> and TBCSA (2021) South Africa's Inbound Tourism Survival.
11. As seen in Table 1, the construction sector suffered the largest reduction in turnover, a 6.9% fall between Q1 2020 and Q1 2021, of any major sector aggregate. It also suffered the largest percentage contraction in employment (19.7%) with 265 000 jobs lost, over the same period.
12. The exact number of enterprises in the construction sector is not known. As of July 2020, 16 502 contractors were registered with the cibd. But this would exclude contractors only registered with the NHBRC and non-contractor businesses in the sector. Business turnover and grading levels could be used to make very large construction firms ineligible.
13. This uses the Tourism Satellite Accounts 2018 data (latest available), increases the employment level by 2% in 2019 and 2% in 2020, and then decreases it by 10% for current figure.
14. Archer (2021) South Africa's alcohol industry faces 'economic abyss' as alcohol ban persists. <https://www.beveragedaily.com/Article/2021/01/25/South-Africa-s-alcohol-industry-faces-economic-abyss-as-alcohol-ban-continues>
15. Data by enterprise size is difficult to acquire. The Craft Brewers Association report 4,000 employees in the sector.
16. This is a very rough estimate. It is calculated by adding the employment during Q1 2021 in sub-sub-sectors who show a >5% real fall in turnover in the QFS, excluding sectors already included.
17. NIDS-CRAM estimates previous TERS claims worth an average of R4,100 per worker. TERS data itself suggests a current claim on R4,200. In April 2020, the IEJ calculated the cost of claims at 80% of wages and a minimum of the national minimum wage to cost R5,100. This has been increased to R5,200, taking account of the increase to the national minimum wage and limited wage inflation.
18. An alternative would be to expand the eligibility criteria of the SRD to allow caregivers who meet the other criteria to apply, this would cover ~3 million persons. However, this would require these people to register, resulting in additional administration and delays.
19. Exact data on UIF beneficiaries are not available. The Department of Labour and Employment reports 2.1 million persons claimed UIF benefits between March 2020 and January 2021. The National Treasury estimates R101.9 billion in UIF benefits paid in 2020/21 (including the TERS benefits). In 2019/20, 85% of UIF beneficiaries were receiving unemployment benefits (opposed to other benefits) accounting for 90% of benefits paid out. Assuming R60 billion in TERS payments, the remaining R41.9 billion divided by the average quantum of claims in 2019 and separating between unemployment and other benefits, gives roughly 2.3 million unemployment beneficiaries in 2020/21. The share of claims for unemployment (opposed to other) benefits would be higher in 2020/21. These 2.3 million unemployment beneficiaries is a similar figure if you take the 2.1 million from March 2020 to January 2021, exclude maternity and other non-unemployment benefits, excluding claims before 26 March 2020, and increase the time period. In the absence of better data, to assume 2.3 million unemployment beneficiaries since the start of COVID-19 lockdowns appears reasonable. Further, the ratio of unemployment loss for those with and without UIF is 43:57. This means that for the ~2.3 million claiming unemployment benefits, a further ~3 million who do not have UIF also lost employment. Although the number of individuals who lose employment will almost always be higher than the number of jobs lost to the economy – because new hires will include the previously unemployed – the vast gap between UIF data and that reported by surveys, indicates that unemployment lost may be *understated* in the survey data.
20. The Department of Social Development's failure to implement this scheme indicates that ECD employment support may be better placed within the PES.
21. Proposal and figures drawn from Bridge, Ilifa Labantwana, National ECD Alliance, Nelson Mandela Foundation, Smartstart, and South African Congress for Early Childhood (2020) The plight of the ECD workforce. <https://www.bridge.org.za/wp-content/uploads/2020/04/Final-report-The-plight-of-the-ECD-workforce-1.pdf>
22. Department of Social Development (2021) Update On Ecd Stimulus Employment Relief Fund From The Department Of Social Development <https://www.dsd.gov.za/index.php/latest-news/21-latest-news/345-update-on-ecd-stimulus-employment-relief-fund-from-the-department-of-social-development>
23. Van der Heever et al. estimate a nurse can administer 26 vaccinations per day. They consider this a very conservative estimate. van der Heever, Valodia, Allais, Veller, Madhi, and Venter (2021) Towards herd immunity from Covid-19: Costing a vaccine strategy for South Africa. <https://www.wits.ac.za/news/latest-news/opinion/2021/2021-01/towards-herd-immunity-from-covid-19-costing-a-vaccine-strategy-for-south-africa.html>
24. According to the Occupational Specific Dispensation of 2019, a sessional Professional Nurse would earn between R170 and R253 per hour depending on experience and a sessional Speciality Nurse Between R253 and R311. Considering subsequent salary increases, and an unknown spread of types of nurses and experience levels, we estimate R250 per nurse per hour for an eight-hour work day.