



A TRIM DOWN APPROACH FOR SOUTH AFRICA

Getting SMME's, the economy, and
the country into a state of recovery

 **IRR**
South African Institute of Race Relations
The power of ideas



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A ‘trim down’ approach for South Africa:

Getting SMMEs, the economy, and the country into a state of recovery

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Introduction

South Africa's lockdown cannot remain in place for long. What is needed now is a strategy for what follows the lockdown. The Institute of Race Relations (IRR) recommends that government immediately adopts a 'trim down' approach as a way both to manage the risks of Covid-19 and to avoid incurring dangerous economic damage.

Part 1 of this document addresses the risks of the lockdown approach; Part 2 the urgent need for getting the economy into a state of recovery and how a 4-point 'trim down' plan can achieve that; and Part 3 the steps government should take to ensure the success of the strategy. This draws extensively on [*Friends In Need – Covid-19: How South Africa Can Save #LivesAndLivelihoods*](#), the comprehensive policy response framework published by the IRR in March.

Part 1: The risks of the lockdown approach

The Department of Health's response in terms of healthcare has on balance been good. Some frustration has been expressed by NGOs and journalists about insufficient access to data, but it seems government has taken steps to address this. While this is encouraging, pressure on government to be transparent about the data on which it bases its decisions must be sustained.

Where the Department of Health has performed less well is in rolling out testing infrastructure and equipment. The lockdown has so far seen a decline in the number of tests performed daily, though there are some indications that this might be corrected in coming weeks. This is vital. A global consensus has developed on the importance of testing on a large scale. That there are some weaknesses in the

government's roll-out, limiting its ability to test sufficient numbers of people, is perhaps the most concerning failure of the Department of Health. This can be corrected, and it seems steps are being taken to do this.

The uncomfortable reality is that South Africa's public health system is not up to the task of responding to this crisis in the same way as the hardest-hit countries around the world. The point at which the public health system reaches the limit of its capacity to deal with the Covid-19 pandemic leaves little to no room for manoeuvre. It is not yet clear what can be done during the lockdown period to shore up the weaknesses in the public health system, as these weaknesses are great and widespread. Fixing what is broken in the system cannot realistically be achieved over the coming months.

In this regard, it is important for the Department of Health to ensure efficient collaboration between the private and public sectors. This relationship is likely to be key to the success of South Africa's efforts to deal with Covid-19, as well as to determining what the state's powers and standing will be as the country exits the crisis. Overly aggressive state intervention rather than outcome-based collaboration would pose huge risks to the healthcare sector's ability to achieve its diagnostic and treatment objectives, and would risk a broader fallout in a post-crisis South Africa.

Given what the Department of Health has achieved, and is seeking to achieve, and on the assumption that a pragmatic and solution-orientated Department of Health could ensure effective collaboration between the private and public healthcare sectors, the government's strategy to push the peak of the pandemic to September might be sound.

However, the relative successes of the Department of Health cannot be viewed in isolation from significant errors by other departments, chief among them the

Departments of Police, Transport, Agriculture, Forestry and Fisheries, Rural Development and Land Reform, Tourism, Trade and Industry, and Justice. Should such misjudgements persist, socio-economic pressures will significantly compromise the effectiveness and purpose of any lockdown, with negative knock-on effects on the structures, protocols and resources needed to enable the healthcare system to collaboratively respond to the Covid-19 pandemic.

If the lockdown fails to enable the Department of Health to test at sufficient scale, then – having not laid the groundwork for a sensible way forward in defeating the disease – we face the very real risk of an ‘all pain, no gain’ lockdown scenario.

Given this danger, the scale and extent of the current lockdown should be cause for concern. If the most vulnerable South Africans are the elderly in multi-generational households and the immuno-compromised, the most at-risk communities are the poor, typically living in informal settlements.

For these communities, however, the intended benefit of the lockdown in halting the spread of the pandemic could be limited. This might be because:

- a. Socio-economic pressures prove so severe that, despite lockdown measures, increasing numbers of people are compelled to try and gain an income, and thus risk spreading the virus;
- b. Ignorance or widespread misinformation about the disease lead to a dismissive underestimation of the seriousness of the risks;
- c. Lack of trust between poorer communities and law enforcement entities undermines effective collaboration in ensuring the lockdown regulations are peacefully adhered to; and

- d. Government inconsistency in implementing sensible and pragmatic lockdown measures leads to sectors such as the taxi industry continuing to operate much as it had prior to the lockdown, risking the spread of the virus.

Suburban, middle-class South Africans are more likely to endure the lockdown measures, mainly because they are materially cushioned against the socio-economic pressure that might otherwise impel them to risk violating isolation protocols. As this population segment represents a vast chunk of the consumer spending that accounts for more than 60% of South Africa's GDP, a *de facto* 'middle class only' lockdown risks suspending the activities of the economy's most productive participants, causing great economic damage, only for the spread of the virus in poorer communities to become a mounting health risk. As middle-class South Africa accounts for much of the employment of poorer demographics, the knock-on effects of the middle class becoming economically dormant are likely to exacerbate the socio-economic pressures that risk negating the health imperatives of the lockdown.

If those most vulnerable are not protected during the remainder of the lockdown and after, and, simultaneously, the most productive parts of the South African economy are effectively shut down, the result would be an 'all pain, no gain' lockdown, with few options for success in both saving lives and saving livelihoods. Thus, to avoid a humanitarian crisis, South Africa must immediately embark on a recovery through the sensible resumption of economic activity. A four-point 'trim down' approach can do that.

Part 2: The urgent need to get SMMEs and the broader economy into a state of recovery, and how a 'trim down' 4-point plan can achieve that

Instead of a lockdown, government should pursue a 'trim down' approach to save #LivesAndLivelihoods and get the economy into a state of recovery. This will allow small, micro, and medium-sized enterprises (SMMEs) to re-open without putting the health of society in danger.

Point 1: Trim down state expenditure

The first part of the 'trim down' would be to cut public expenditure through reasonable and targeted departmental austerity, shelving expensive projects like the National Health Insurance (NHI), scrapping all bailouts for state-owned enterprises (SOEs) without compromising economic productivity, and cutting the public sector wage bill by 20%.

Point 2: Trim down risks associated with economic activities by introducing a Covid-19 Risk Scale

Trimming down the state would allow the economy to enter a state of recovery. This would mean scrapping the essential/non-essential business distinction in favour of a Covid-19 Risk Scale. This would involve two stages of assessment: an industry-based classification by government of broad-risk categories to establish baseline restrictions of allowable operational capacity, and a second stage in which businesses would determine their own risk quotients.

The first stage would require government to categorise industries by risk, based on virological and epidemiological advice and economic and financial considerations. Industries should accordingly be categorised in consultation with stakeholder representatives. The following criteria should be the basis of establishing these broad-risk categories:

- i. Inherent virological and epidemiological risks in the industry’s operations;
- ii. Ability of the industry to financially survive at limited operational capacity;
and
- iii. Inherent risks and requirements in the normal functioning of the industry and relevant supply chains.

This provides industry-wide baseline restrictions on operational capacities, with higher-risk categories necessitating lower baseline restrictions on operational capacity, and *vice versa*.

Possible Covid-19 Risk Scale categorisation:

Risk category	Industry example (using government industry categorisation)	Operational capacity baseline restriction
1	Recreational, cultural and sporting activities, such as sporting events,	30%
2	Hotels and restaurants	60%
3	Non-specialised retail trade in stores	70%
4	Manufacture of electrical machinery and apparatus n.e.c.	80%
5	Agriculture, hunting and related services	90%
6	Computer and related activities	100%

The second stage of the application of the Covid-19 Risk Scale would be in the hands of individual businesses or entities, providing them the scope to improve their specific risk quotients to levels exceeding industry-wide baseline restrictions. All industries would therefore return to some state of economic activity in line with relevant risk categories, but individual businesses would be able to adopt measures to improve their risk profile and so function at a level above the given industry-wide baseline restriction.

Restaurants, for example, which would generally be considered high-risk businesses in terms of the Covid-19 Risk Scale, could operate at a general sectoral baseline restriction of a set percentage of capacity, and pay employees accordingly within special legal parameters exempt from pre-crisis labour legislation and regulations. But, under the Covid-19 Risk Scale, unlike a fixed lockdown approach, a restaurant, for instance, could expand its operational capacity by taking further steps to diminish the risk to public health. (This would be done through employee and consumer-based assessments, coupled with independent inspections provided by contracted entities, functioning in a manner similar to existing auditing processes and best practices.)

For example, a restaurant should be allowed to operate at a baseline restriction capacity plus X% capacity if it provides sufficient sanitization equipment for staff and customers; at base capacity plus Y% capacity if it adopts a staggered time schedule to accommodate at-risk age groups; or at base capacity plus Z% capacity if it instals isolation measures, such as acrylic barriers already in use in places like Hong Kong. By such improvements on a business's risk quotient along the sliding Covid-19 Risk Scale, SMMEs would be able to open, function within reasonable constraints, and improve the operational and income capacity of their business – with livelihood-saving knock-on benefits for employee pay and income. The precise percentage values

businesses can add to the baseline restriction should be determined in consultation with relevant stakeholders.

In the event of a carrier of Covid-19 having recently visited the premises of a business – either an employee or customer – a ‘circuit breaker’ mechanism should be implemented, with the business closing operations for a given period, or until it can be confirmed that all staff members test negative for the virus. After this is confirmed, the business can reopen. The period of closure should be used to track and trace the movements of anyone who may have come into contact with the infected person. Such a strategy would also help more accurately identify possible carriers of the virus so that they can be isolated sooner.

Point 3: Trim down SMME expenses and enable them to improve their position on the Covid-19 Risk Scale

To ensure the ‘trim down’ approach operates smoothly and equitably for all SMMEs, government should provide once-off Risk Quotient Improvement Subsidies (RQISs), and banks can be incentivised to provide very lenient Risk Quotient Improvement Loans (RQILs). Through freeing up resources by scrapping non-essential SOEs, government should introduce, fund, and allow for the independent management of a ‘Trim Down Income Protection Plan’ to lessen the income shortfall of employees of businesses operating under ‘trim down’ capacity regulations.

Point 4: Trim down red tape to ease pressure on SMMEs

This ‘trim down’ element means providing peace of mind to crucial economic participants (such as SMMEs) that economic pressures will be significantly relieved

as South Africa exits the crisis. It also means providing economic and financial lifelines to SMMEs now. To this end:

- All race-based criteria for government assistance and employment should be scrapped to ease the pressure of doing business as an SMME;
- All minimum wage regulations should temporarily be suspended to save SMMEs, jobs, lives, and livelihoods; and
- Based on their positions on the Covid-19 Risk Scale, SMMEs should receive appropriate tax relief.

Part 3: Steps government should take to enable a successful ‘trim down’ strategy

The Department of Health must use the breathing space provided by the lockdown and follow-up measures to put in place necessary infrastructure for testing and treatment.

This is fundamental to South Africa’s ability to weather the remainder of the Covid-19 storm.

This means close and constructive collaboration with the private healthcare sector, which has already shown its willingness to play a vital role in saving lives amidst this pandemic. The reality is that the private sector is best placed to provide care and treatment, while the state can provide the funds. That is where the collaboration must be.

To achieve this, government must adopt Emergency Covid-19 Treatment Vouchers to create the most effective bridge of collaboration, where the care standards of the private sector can be made available to those who need more intensive care, even if

they cannot afford it. In addition, government must adopt Emergency Covid-19 Isolated Care Vouchers to ensure that the most vulnerable people can be safely isolated, while giving much-needed economic lifelines to the tourism and hospitality industries, which the vouchers would enable to provide such isolation accommodation. To ensure the healthcare system can accommodate vast numbers of patients in need of basic treatment, public infrastructure such as university residences, town and school halls, or stadiums should be converted into temporary medical facilities.

Government must manage social pressures in a way that avoids pushing people into violating isolation protocols.

Already, food shortages are giving rise to protest action. The social pressures flowing from the risks of unrest gaining momentum must be urgently addressed. To curb civil unrest arising from socio-economic frustration, the logistical capacity of SANDF should be paired with commercial entities such as food and pharmaceutical retailers and a newly created Emergency Citizen Volunteer Service (ECVS) to ensure those in need are provided with food. Furthermore, to provide continuity in education, government must make use of extensive e-learning and reorientation of public broadcasting, coupled with online and postal academic assessment.

The Presidency must show zero-tolerance for any Department, Minister, or government official compromising the effectiveness of the remainder of the lockdown and any follow-up strategy either by exacerbating economic or social pressures, or by failing to address pressures that threaten the effectiveness of lockdown measures.

It is necessary for President Ramaphosa to prove that his call for a concerted national effort brooks no ill-discipline from his government or any of its officials. While the steps taken against Stella Ndabeni-Abrahams are welcome, she is not the greatest threat to President Ramaphosa's call for a united effort against Covid-19 and its consequences. The Minister of Police has severely compromised the ability of state and citizen to work together. The behaviour and ill-preparedness of the police for this crisis illuminates the short-comings of the current leadership of Minister Bheki Cele. He is unfit for leading the Department of Police at this time and President Ramaphosa must act against him.

The Minister of Transport has also weakened the standing of the government as a whole with his absurd antics and his impotence in trying to impose a lockdown on the taxi industry. This would never have been successful, and the fact that Fikile Mbalula persisted, then folded, in his ill-considered attempts to exert a top-down management strategy over the unwieldy taxi industry by government diktat, shows how out of depth Minister Mbalula is. He must be relieved of his duties.

The Minister of Tourism must be the focus of particular criticism for making a mockery of South Africa's constitutional democracy and making a liar of President Ramaphosa.

While the President has made it his aim to provide leadership based on the necessity of South Africans agreeing to 'act together' in defeating Covid-19, Mmamoloko Kubayi-Ngubane's insistence, amidst a pandemic and an economic crisis, on discriminating on the basis of race in apportioning government assistance to the tourism sector has severely damaged national cohesion. Minister Kubayi-Ngubane has irresponsibly stirred racial division and animosity, fundamentally undermining South Africa's ability to respond to this crisis as a united country. Having made a liar of President Ramaphosa in hollowing out his calls for national unity, Kubayi-Ngubane must be dismissed.

The failures and misjudgements of these ministers have exacerbated both social and economic pressures, heightening the risks associated with the lockdown and doing great damage to any possible future strategy of keeping #LivesAndLivelihoods safe. President Ramaphosa must show leadership by demonstrating zero tolerance for those in government who risk undermining the country's efforts against the Covid-19 crisis.

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This 'trim down' approach can provide South Africa with a route towards something resembling normality, and lay the groundwork for life-saving economic activity and recovery. People are scared and many are already suffering. We must do everything we can to save #LivesAndLivelihoods amidst this crisis. We must make sure the sacrifices that have been and are being made are not in vain. We must at all costs avoid 'all pain, no gain' lockdowns, and lay the groundwork for recovery now.



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