CHAPTER 6.5:
SELECTED OTHER ECONOMIC SECTORS

ABSTRACT

The Covid-19 pandemic and the resulting national lockdown sharply reduced consumption and production in various sectors of the economy. Some of the worst-affected sectors were discussed in previous chapters in this section. This chapter deals with selected sectors in which the impact was less clear cut: mining, manufacturing, tobacco, finance, and real estate.

- In the *mining* sector, production declined by about 10–12% in 2020. This was, however, offset by higher commodity prices (e.g., platinum, gold, and iron ore), and the value of mineral sales was actually higher in 2020 than in 2019. Also, government, employers and labour were firmly committed to working together to mitigate the impact of the pandemic on the sector.
- In the fragile *manufacturing* sector, the pandemic hastened the process of deindustrialisation, and smaller businesses were badly affected. While the sector has rebounded from the sharp declines seen during the hard lockdown, production is not yet back to pre-pandemic levels. Positive signs include the repurposing of local capacity and the growing use of information technology.
- The *tobacco* sales ban seems to have been counterproductive. It had only a limited impact on the prevalence of smoking, but the already strained fiscus lost about R6 billion in excise revenue during the ban. More significantly, the sales ban entrenched illicit distribution channels.
- The *financial* sector was deemed to provide essential services. Two concerns are the structural constraints to access to finance by small and microenterprises, despite initiatives to provide liquidity, and the longer-term adverse effect of the pandemic on the short-term insurance sector.
- The impact on the *real estate* sector was not uniform. The retail sector suffered significantly, and many retailers required rent relief. Industrial and residential property was more resilient.

ACKNOWLEDGEMENTS

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ABBREVIATIONS AND ACRONYMS

4IR	Fourth Industrial Revolution
AMCU	Association of Mineworkers and Construction Union
BASA	Banking Association of South Africa
BATSA	British American Tobacco South Africa
bps	basis points
CoGTA	Department of Cooperative Governance and Traditional Affairs
CSIR	Council for Scientific and Industrial Research
DMRE	Department of Mineral Resources and Energy
FITA	Fair-trade Independent Tobacco Association
GDP	gross domestic product
HIV	human immunodeficiency virus
HSRC	Human Sciences Research Council
IT	Information technology
JSE	Johannesburg Stock Exchange
NIDS-CRAM	National Income Dynamics Study – Coronavirus Rapid Mobile Survey
NUM	National Union of Mineworkers
PPE	personal protective equipment
REEP	Research Unit on the Economics of Excisable Products
REIT	real estate investment trust
SAPOA	South African Property Owners Association
SARB	South African Reserve Bank
SAREIT	SA REIT Association
SARS	South African Revenue Service
SMME	small, medium or microenterprise
TERS	Temporary Employee/Employer Relief Scheme
UASA	United Association of South Africa
UIF	Unemployment Insurance Fund

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INTRODUCTION

The impact of the Covid-19 pandemic and the measures that government implemented in mitigation differed across the various sectors of the South African economy, depending on whether these sectors were deemed essential or non-essential, for example. A study by the United Nations on the pandemic in South Africa (UNDP, 2020) noted that its economic impact was profoundly asymmetrical, with relative 'winners' and 'losers'. 'Essential' services were by and large the winners. Among the losing sectors, the impact on some was more temporary, while others face more long-term problems. In this economics section of the Country Report, Chapter 6.1 discusses the economy at a macro level, along with fiscal and monetary measures taken to mitigate the impact of the pandemic. The next chapters discuss specific sectors to provide a more disaggregated view on the impact of government measures. To allow an in-depth assessment of particular concerns, the aim was not to analyse the entire economy; rather, the sectors reviewed in this chapter comprise the bulk of gross domestic product (GDP) and employment. Sectors that saw a significant impact include agriculture and food security (Chapter 6.2), tourism and leisure (Chapter 6.3), and transport (Chapter 6.4). This chapter deals with selected sectors in which the impact of the pandemic and the lockdown was less protracted and/or more muted: mining, manufacturing, tobacco, finance, and real estate.

This chapter focuses on the first and second waves of the pandemic. The economic impact of the further progression of the pandemic will be discussed in the second edition of the Country Report. The aim is to also consider the impact on other sectors, such as construction, wholesale and retail trade, insurance, and personal services.

MINING[1]

The mining industry makes a significant contribution to society and the economy. However, mining's impacts are not all benign, and not all local communities welcome it. Before the pandemic, mining contributed 8,3% of GDP (R376,4 billion) in 2019; provided direct employment to 460 105 people; produced minerals valued at R552,4 billion, of which R462,5 billion were exported; and provided coal to generate power that met 85% of the nation's electricity demand. Mining contributed to the fiscus through pay-as-you-earn tax (R22,7 billion), royalties (R8,6 billion), company tax (R24,2 billion), value-added tax (R36,9 billion) and fixed direct investment (R102,9 billion) (Minerals Council, 2020e). By value of sales, the most important mining commodities are coal and platinum group metals, followed by gold. The eight most important commodities represent 91% of mineral and metal sales and employ

[1] Raymond J Durrheim (South African Research Chair in Exploration, Earthquake and Mining Seismology, University of the Witwatersrand), May Hermanus (University of the Witwatersrand & Harvard School of Public Health), Nancy Coulson (University of the Witwatersrand & Sarraounia Public Health Trust), Vanessa Govender (University of the Witwatersrand & Masakhane Strategic Health Consulting (Pty) Ltd), Khanyile Baloyi (Minerals Council South Africa), Heinrich Volmink (Independent Public Health Medicine Consultant & Anglo American) and Brian Ncube (Mine Health and Safety Council).

92% of the workforce, as shown in Table 6.5.5 in Annex 6.5.1. The annex also sets out the institutional arrangements and main players in the mining sector.

IMPACT OF THE PANDEMIC ON THE MINING SECTOR

Health

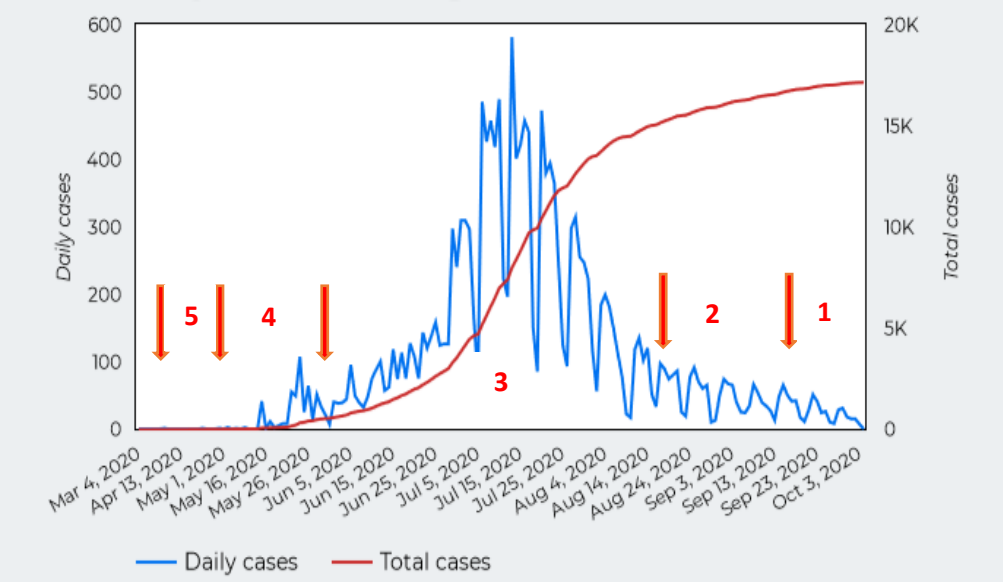
When news of the Covid-19 pandemic broke in January 2020, there was immediate concern in the mining sector. It was not clear at the time whether specific workplace conditions (e.g., dust exposure, high air velocities, and hot and humid environments) would modify Covid-19 transmission (Brouwer et al., 2020). Mineworkers were thought to be especially vulnerable because of difficulties around social distancing in dwellings and change houses, on commutes, when travelling down the shaft in tightly packed 'cages' (CPHM, 2020), and in some mining processes where teams work in close proximity. This was a particular concern for the labour-intensive gold and platinum group metal mines, if less so for surface mining operations and mechanised mining. Furthermore, some mineworkers suffer from comorbidities such as HIV/AIDS, tuberculosis, cardiovascular disease, diabetes, and hypertension, all known to increase the severity of the Covid-19 infection. In all mining regions, the incidence of HIV and tuberculosis is higher than in the general population, and the incidence of non-communicable diseases is also rising (PHRU, 2017; Balfour-Kaipa, 2016; DMR, 2017).

On 18 May 2020 the Department of Mineral Resources and Energy (DMRE) published 'Guidelines for a Mandatory Code of Practice on the Mitigation and Management of Covid-19 Outbreak' (DMRE, 2020). This followed a Johannesburg labour court decision on a case (J427/20200) brought by the Association of Mineworkers and Construction Union (AMCU) against the Minister of Mineral Resources and Energy, the Chief Inspector of Mines, the Minister of Cooperative Governance and Traditional Affairs, and the Minerals Council requiring the DMRE to declare Covid-19 a health hazard in mining and issue mandatory protective requirements.

Without minimising the impact of any death, the fear that mines would be Covid-19 hotspots did not materialise. By 5 October 2020, 17 155 positive cases had been detected (Figure 6.5.1), and 184 employees had died of Covid-19 (1,07% of the people testing positive). The platinum sector suffered the most deaths (76), followed by gold (70) and coal (22) (Minerals Council, 2021b). During the same period (1 March to 30 September), the industry recorded 33 fatalities and 904 reportable injuries owing to workplace accidents.

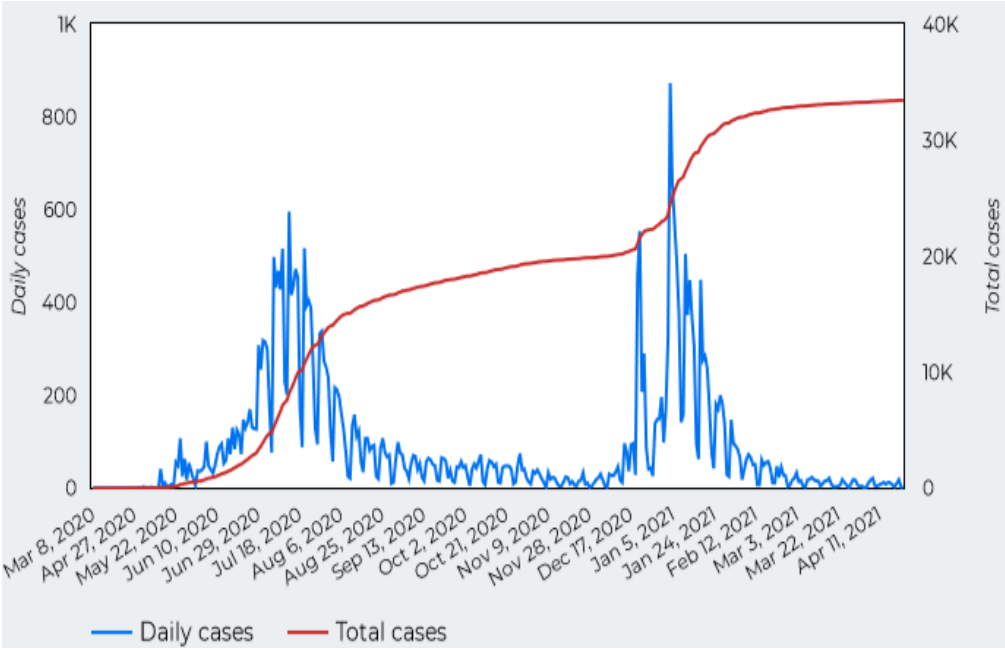
A second wave of the Covid-19 pandemic started around December 2020. In response, government implemented adjusted alert level 3 from 29 December 2020 to 28 February 2021, and adjusted level 1 from 1 March 2021 to the time of writing. Mining operations were permitted to continue. The impact of the second wave on the health of mineworkers was similar to that of the first (Figure 6.5.2). By 23 April 2021, 32 901 positive cases had been detected, 386 employees had died of Covid-19 (1,17% of the people testing positive), and 946 healthcare workers had been vaccinated. The platinum sector suffered the most deaths (143), followed by gold (11) and coal (62) (Minerals Council, 2021b).

Figure 6.5.1: Mining industry: Lockdown levels and Covid-19 cases, 4 March to 3 October 2020



Source: Minerals Council (2021b) Dashboard, 5 October 2020

Figure 6.5.2: Mining industry Covid-19 cases, 4 March 2020 to 23 April 2021



Source: Minerals Council (2021b) Dashboard, 23 March 2021

The reasons for this relative success are probably multifaceted and include government's rapid, hard lockdown; companies' provision of personal protective equipment (PPE), screening, testing and treatment; mineworkers' compliance with precautionary measures; and their younger age profile (mostly 20–50 years). It must be noted that the death rate (778 per million employees) was slightly below the national rate (854) (WorldoMeters, 2021). Also, challenges were experienced around polymerase chain reaction and antibody testing, especially around making excess mining testing capacity available to communities. Intensified stakeholder engagement is needed in this area to address remaining bureaucratic issues. Other concerns for the industry include the risks of waning

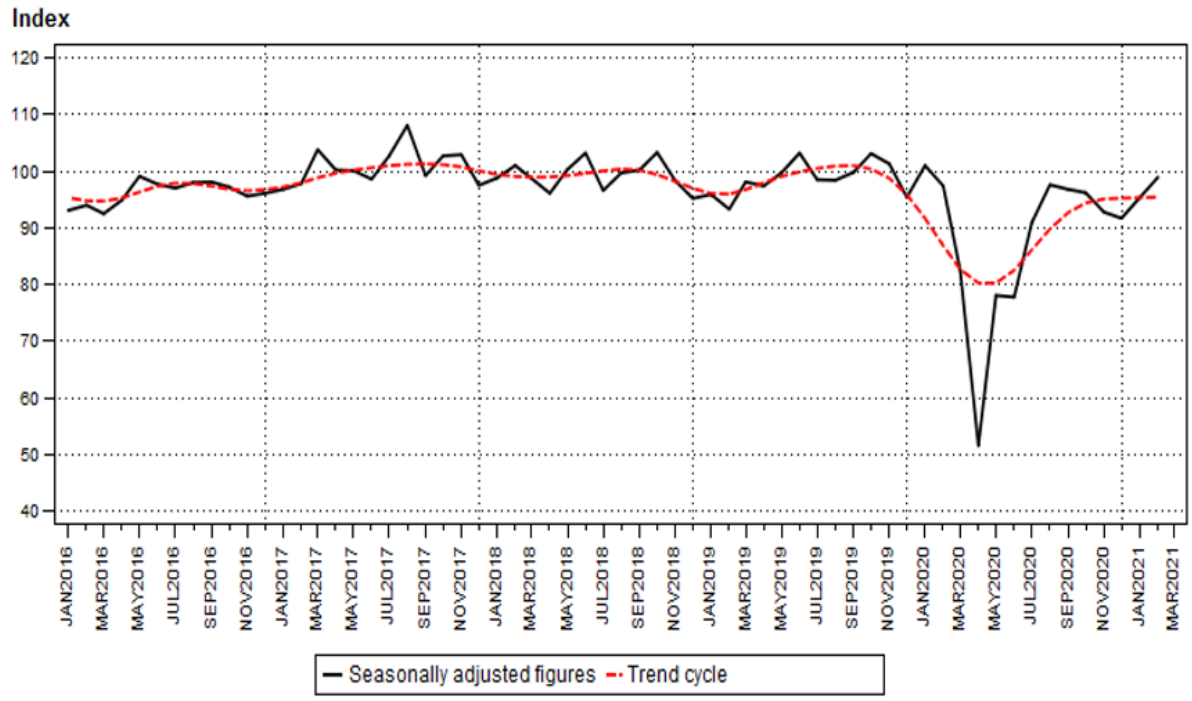
immunity, possible reinfection, and appropriate mitigation strategies for subsequent waves. Furthermore, a prompt response to the emerging challenge of 'long Covid' is necessary, given the risks of manifestations such as post-Covid-19 fatigue in a mining context.

The mining industry is hopeful that a vaccine that is more effective against local Covid-19 variants will soon be available; several candidates show considerable promise (WHO, 2020). Stakeholder engagement around the roll-out any vaccines is important to ensure that mineworkers and surrounding communities gain access to vaccines. The mining sector has offered to support government in this regard.

Output and sales

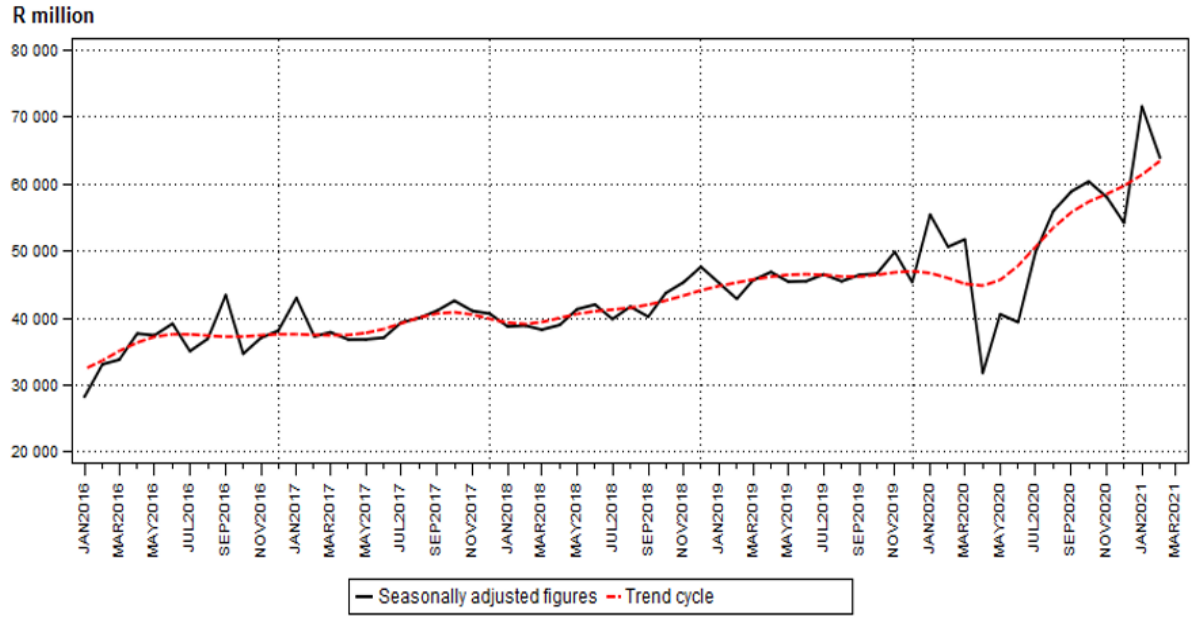
When many large economies implemented lockdowns early in the pandemic, the global demand and supply of metals and minerals plummeted. The impact on South African mining companies, equipment and service providers, employees, and their dependants, and the fiscus was expected to be large. Indeed, mining was one of the worst-affected sectors, with a 73% quarter-on-quarter contraction in output in the second quarter of 2020 (Stats SA, 2020c). Monthly production reached a low in April when the only activity allowed was the supply of coal to power stations and coal-to-liquid plants. Production started to ramp up in May and by end-August had nearly reached pre-lockdown levels in terms of volume (Figure 6.5.3) and sales (Figure 6.5.4). No major problems had occurred in the supply of electricity and water to mines, smelters, and refineries or in the road, rail, and port infrastructure. Most employees received their normal remuneration or an amount close to it, in some instances supported by the Temporary Employee/Employer Relief Scheme (TERS), as discussed below.

Figure 6.5.3: Volume of mining production, January 2016 to March 2021 (base: 2015=100)



Source: Stats SA, 2021a

Figure 6.5.4: Value of mineral sales at current prices, January 2016 to March 2021



Source: Stats SA, 2021a

The Covid-19 lockdown and the worldwide decline in manufacturing and mineral imports led to a decline in mineral production in South Africa of about 10–12%, a decrease in employment of 1,9% (during the first three quarters), and a decline in employee earnings by 9,5% in nominal terms. Fortunately, the drop in production was offset by increases in the price of some commodities, notably the platinum group metals, gold, and iron ore. Consequently, the value of mineral sales was actually higher in 2020 than in 2019 (Figure 6.5.4 above). In 2020, mining contributed R361,6 billion directly to GDP; provided direct employment to 451 427 people; sold minerals to the value of R608 billion, of which R575,1 billion were exported; and provided coal to generate power that met over 83% of the nation's electricity demand. Mining contributed to the fiscus through pay-as-you-earn tax (R26,2 billion), royalties (R11,8 billion), company tax (R27,2 billion), and value-added tax (R34,7 billion) (Minerals Council, 2021a).

Mineral sales increased by 26,0% year-on-year between February 2020 and 2021. The largest positive contributors were platinum group metals (71,5% and contributing 18,9 percentage points), iron ore (47,0% and 6,9 percentage points), and manganese ore (39,7% and 2,1 percentage points) [2] (Stats SA, 2020d). The Minerals Council Covid-19 dashboard for 23 April 2021 reports the total number of employees as 474 484 (Minerals Council, 2021b).

MITIGATION MEASURES

Table 6.5.6 in Annex 6.5.1 sets out a chronology of the main events in the mining sector during the pandemic. The measures taken by the main players in the sector are summarised below.

[2] Sales of some other commodities decreased in value, notably coal at -2,8% (Stats SA, 2020f).

Government

When the Department of Cooperative Governance and Traditional Affairs (CoGTA) declared a state of disaster in March 2020 (later extended and amended), it included specific conditions for the mining sector (CoGTA, 2020). The Department of Health published guidelines for monitoring the symptoms of essential workers (DoH, 2020), and the Department of Employment and Labour issued regulations on matters such as compensation for Covid-19 acquired in the workplace, leave and remuneration (DEL, 2020a). As noted, the DMRE (2020) produced guidelines for a mandatory code of practice for managing the pandemic in the mining industry, and the Mine Health and Safety Inspectorate monitored the implementation of the code. Restarting mining after an extended period is usually risky because the rock mass has deteriorated. To mitigate this risk, the Council for Geoscience was mandated to monitor mining-related seismicity, using data collected by the national seismic network, 'cluster' networks in mining regions, and in-mine networks (supplied by mining companies). The Council delivered a weekly report to a Tripartite Committee. The Mine Health and Safety Council convened a Fall of Ground Task Team, comprising rock engineering practitioners, researchers, academics, and representatives of the Inspectorate, to review the risk posed by falls of ground (both gravity- and seismically driven). The Parliamentary Portfolio Committee on Mineral Resources and Energy was briefed on 19 June on measures taken to mitigate the impact of Covid-19 on the health and safety of mineworkers and on the economy and communities.

Employers

On 14 April, the Minerals Council (2020f) published Standard Operating Procedures for screening, testing and hygiene measures, social distancing, and other new operational methods. By July the (revised) procedures had been downloaded more than 36 000 times (Minerals Council, 2020a). They formed the basis for both the interim procedures ordered by the High Court in the AMCU case in late April and the regulatory guidelines finalised by the Chief Inspector of Mines in terms of that judgment in May. The Minerals Council (2021b) also put a Covid-19 'dashboard' on their website with up-to-date information on the health status of employees; the site was updated daily during the 'waves' and otherwise weekly. Furthermore, it launched two Covid-19-related field guides, on 17 July and 16 September 2020 (Minerals Council, 2020b & 2020c). The first aimed to reinforce healthy and safe ways of working on the mines; the second provided safety guidance to promote healthy and safe behaviour within communities.

Mining companies supported their employees and communities in various ways. Employees who worked during the lockdown were paid their normal salaries; most companies also paid those who were not working for the first 21 days of the lockdown. Companies that could not afford to pay these salaries claimed from the Unemployment Insurance Fund's (UIF) TERS. At the Parliamentary Portfolio Committee briefing on 19 June 2020, the Minerals Council reported that financial assistance provided or pledged by companies included equipment and consumables for testing facilities; PPE and critical equipment for health and social development personnel; water tanks for public facilities and communities; food parcels for vulnerable families; contributions to the Solidarity Fund and other non-

governmental organisations; and efforts to increase awareness through radio and print and social media. Non-financial support included providing contact tracers in priority municipalities; sharing mine ambulances and paramedics; providing access to tap stations, underutilised water tanks, mine water and tankers for refilling water at various locations; providing facilities for self-isolation by mineworkers and community members who test positive; and engaging with schools to explore options for further support.

Labour and the community

Unions sought to keep their members abreast of developments and to protect the industry in general and the interests of their members in particular. For example, as noted, AMCU brought applications in the Gauteng High Court and the Labour Court that forced the DMRE to set national standards for managing the risk posed by Covid-19. The threat of job losses was a serious consideration. Preliminary *estimates suggested that 10 000 jobs would be at risk after a 21-day lockdown, with about 45 000 jobs at risk if the lockdown were to be prolonged* (Minerals Council, 2020d).

The media (e.g., *Mining Weekly Online*) played a vital role in disseminating information. Experts at universities, science councils and industry practitioners advised companies and unions and commented on the DMRE guidelines (Annex 6.5.1). The South African Resources Watch, a non-governmental organisation, published a report on Covid-19 and mines (Mosweu, 2020), highlighting the connection between infections among mineworkers and their communities, and the difficulties migrant miners faced in returning to work.

In conclusion, the state, employers, and labour were firmly committed to working together to mitigate the impact of the pandemic on the mining sector. To a large extent, these engagements have been constructive and the actions effective.

MANUFACTURING

Despite the importance of manufacturing to South Africa's economic development agenda (Annex 6.5.2), the country has undergone a gradual process of 'deindustrialisation' (Andreoni & Tregenna, 2020). Whereas manufacturing comprised about 20% of the economy in 1994, by 2019 it contributed only 13% of GDP. That year, manufacturing employed about 1,21 million people and accounted for 56,4% of merchandise exports. The pandemic has massively accelerated this deindustrialisation trend, heavily shaking a manufacturing landscape that was already fragile.

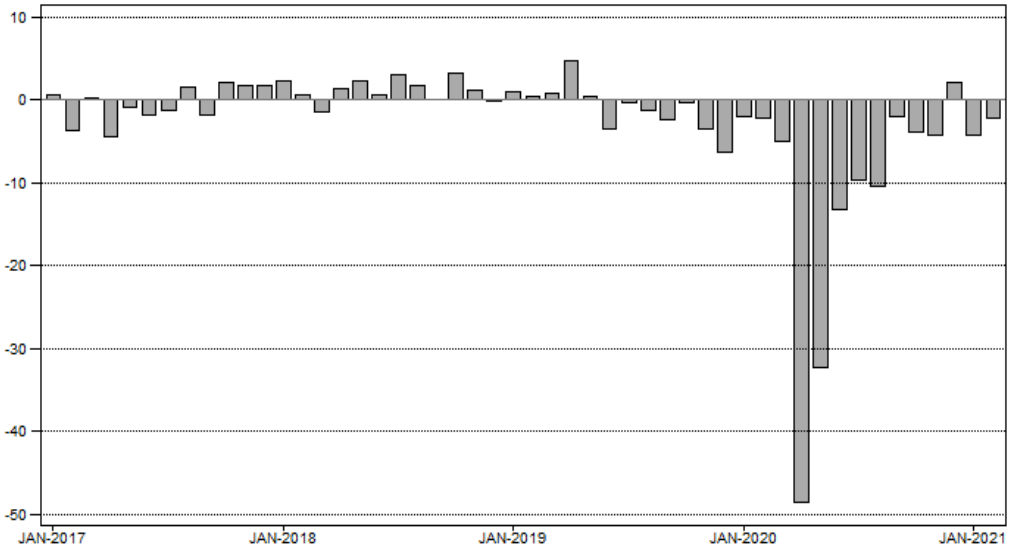
MANUFACTURING OUTPUT AND EMPLOYMENT

Manufacturing was severely affected during the early stages of the nationwide lockdown, which forced many factories to close, exports to grind to a halt, and workers to be sent home. For five weeks under alert level 5 (27 March – 30 April) manufacturing activities were restricted to selected retail products and input products for essential products (primarily food and health); paper and paper products (excluding stationery); packaging; winter clothing, bedding, and heaters (starting at 25% and

scaling up to 50% of employment), and petroleum smelters, refineries, and furnaces. Under alert level 4 (1–31 May), several other manufacturing activities were allowed to restart and scale up in phases to 50% employment: automotive manufacturing (including components), stationery, cement and other construction material and hardware. All other manufacturing could scale up to 20% employment. (Annex 6.5.2 shows the regulations in detail.)

Manufacturing output fell dramatically during the lockdown (Figure 6.5.5); the sector contracted by 8,2% in the first quarter of 2020 and by nearly 75% in the second (Figure 6.5.6). Two of the hardest-hit sectors were the automotive industry (a 98% slump in production, as vehicle sales were prohibited in April), and basic iron, steel, and metal products (a 65% decline). However, with the easing of lockdown restrictions, manufacturing rebounded to become one of the biggest drivers of growth and economic recovery. In the third quarter of 2020, the sector grew at an annualised rate of 210,2%. This impressive surge in manufacturing activity is, nevertheless, mainly a reflection of the sharp decline recorded in the second quarter. Despite the rebound, manufacturing production has not yet recovered to the levels seen before the pandemic. Relative to the first three quarters of 2019 (not annualised), manufacturing in the first three quarters of 2020 is down by about 15%, making it one of the worst-affected industrial sectors. Moreover, as discussed below, the recovery has been uneven, with good performance in sectors such as food, beverages, and motor vehicles, alongside setbacks in the petroleum subsector and weak demand for non-durable goods.

Figure 6.5.5: Volume of manufacturing production, 2017 to 2021 (% change; base: 2015=100)

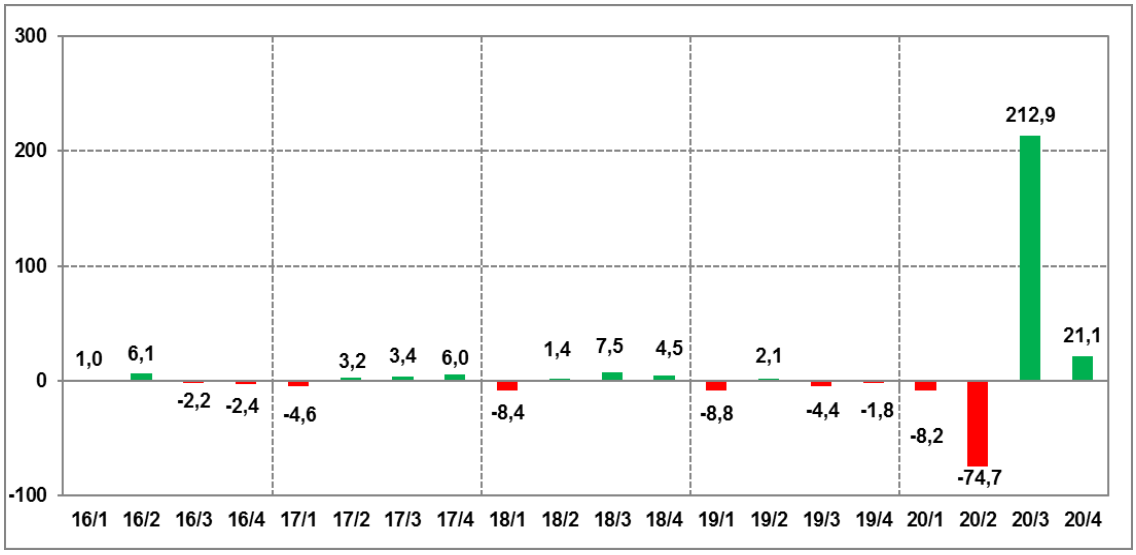


Source: Stats SA, 2021b

All manufacturing divisions reported negative growth rates in the second quarter of 2020 (Table 6.5.1). As noted, some manufacturing activities, such as automotive and furniture, saw sharp declines during alert levels 5 and 4. Activities that comprised primarily essential services, such as food manufacturing, were less affected; the main decline here was in the manufacturing of beverages because of the ban on alcohol sales. In a series of three business surveys conducted by Statistics South Africa to explore the impact of the pandemic on local businesses, about 90% of manufacturing firms reported that their

turnover had been below normal between March and May 2020 (Stats SA, 2020a). Once the lockdown was eased, production restarted in all manufacturing divisions. In the third quarter of 2020, manufacturing production increased by 32,9% quarter-on-quarter. All ten manufacturing divisions reported positive growth rates in this quarter. Production continued to increase in the fourth quarter, and by February 2021 the recovery was well underway; however, further restrictions in December 2020, notably the alcohol ban, affected the speed of growth in industries such as food and beverages.

Figure 6.5.6: Manufacturing growth rate, Q1 2016 to Q4 2020 (%)



Source: Stats SA, 2020c

Table 6.5.1: Seasonally adjusted manufacturing production by major division (base: 2015=100)

	Jan–Mar 2020	Apr–Jun 2020	% change quarter-on-quarter	Jun–Aug 2020	% change quarter-on-quarter	Sept–Nov 2020	Dec 2020–Feb 2021	% change: Sep–Nov 2020 & Dec 2020–Feb 2021
Food and beverages	108,9	89,9	-17,4	105,1	12,8	110,7	109,0	-1,5
Textiles, clothing, leather and footwear	79,1	47,9	-39,4	80,8	76,8	80,8	84,3	4,3
Wood and wood products, paper, publishing and printing	89,7	61,6	-31,3	83,0	34,1	87,2	89,9	3,1
Petroleum, chemical products, rubber and plastic products	96,0	74,1	-22,8	93,3	24,4	93,0	87,0	-6,5
Glass and non-metallic mineral products	87,8	42,4	-51,7	86,4	87,8	93,3	96,8	3,8
Basic iron and steel, non-ferrous metal products, metal products and machinery	96,6	61,2	-36,6	89,2	43,9	94,1	97,0	3,1
Electrical machinery	73,6	49,8	-32,3	71,8	45,9	76,8	81,1	5,6
Radio, television and communication apparatus and professional equipment	88,1	60,1	-31,8	82,6	42,2	87,0	87,0	0,0

Motor vehicles, parts and accessories and other transport equipment	93,9	34,9	-62,8	78,5	144,5	96,7	108,6	12,3
Furniture and other manufacturing	97,8	40,4	-58,7	77,2	89,2	88,8	89,9	1,2
Total	97,4	68,0	-30,2	91,8	32,9	96,8	97,1	0,3

Source: Stats SA, 2020e, 2020f & 2021b

According to Statistics South Africa's latest quarterly employment statistics, manufacturing lost 98 000 jobs between March and June 2020 (Stats SA, 2020b). While some jobs were recovered during the third quarter, the manufacturing industry reported a total annual decrease of 106 000 employees (-8,8%) by December 2020 relative to December 2019. The vast majority of people who lost their jobs (103 000) had been full-time employees.

SMALL BUSINESSES

South Africa has between 2,4 million and 3,5 million small, medium and microenterprises (SMMEs), most of which are in the informal and micro segments. The country's industrial landscape is characterised by concentration in production and sales, with a limited number of large players. Small businesses in some sectors, such as agro-processing, had already been in a precarious position before the pandemic, and informality levels were high. Still, the contribution of small business to total turnover in manufacturing rose from 18% in 2015 to 21% in 2019. This trend was halted by the pandemic, which had a severe impact on small and micro businesses. Microenterprises, particularly informal ones, serve local and municipal markets, and are significantly affected by changes in these markets, as happened during lockdown.

A Finfind (2020) report assessed the impact of the lockdown on SMMEs in the five months since the start of alert level 5. It found that 43% of the 1489 SMMEs in the sample had to close down, and those that did survive had to make significant adjustments, often by cutting staff. Overall, full-time employment fell by 60% and part-time employment by 76,8%. Businesses that closed down accounted for 68% of the loss of full-time jobs and those that survived for 32%. Employment opportunities for casual workers in the gig economy also decreased, by 53%.

REPURPOSING MANUFACTURING

As an immediate response to the pandemic, South Africa was quick to mobilise local manufacturers to produce much-needed medical supplies and protective equipment. For example, the National Ventilator Project aimed to produce 10 000 ventilators by the end of June. Production started in July, and 20 000 ventilators had been completed by November 2020. Other manufacturers switched production lines – some moved from making perfumes to making hand sanitiser. Textile companies produced hygienic masks and protective equipment; and distilleries created disinfecting alcohol. Sasol Ltd also switched to the production of alcohols for hand sanitisers and disinfectants, and prioritised local supply to help contain the Covid-19 pandemic.

DIGITISATION, TECHNOLOGY, AND INNOVATION

The need for South Africa to adapt to the Fourth Industrial Revolution (4IR) has been high on the national agenda in recent years. However, the adoption of artificial intelligence and other forms of technology has been hampered to some extent by fears of job losses and privacy issues. The urgent challenges posed by the Covid-19 pandemic has forced a renewed focus on the possible solutions that technology can provide in times of crisis. The Covid-19 crisis has highlighted the centrality of Internet access, as businesses found IT solutions to emerging issues related to the restructuring of manufacturing production, as well as marketing and online sales.

Moreover, the importance of data and data analytics has become evident in the fight against Covid-19. As an immediate response, a Covid-19 Information Centre was set up to monitor and track the spread of the virus across the country. Housed at the Council for Scientific and Industrial Research (CSIR), the centre has provided real-time analytics and dashboards on the coronavirus outbreak to enable rapid decision-making by the National Coronavirus Command Council (see also Chapter 2).

CONCLUSIONS AND LESSONS LEARNT

The impact of the Covid-19 pandemic on South Africa's already fragile manufacturing sector has been dramatic. Despite the historical contraction experienced by most manufacturing subsectors and the widespread job losses, manufacturing appears to have been progressively recovering since the third quarter in 2020. However, the impacts of the pandemic have not been homogeneous, and smaller businesses have been worst affected. The full effects of Covid-19 on South African manufacturing are yet to be fully understood, especially in terms of the medium- to long-term effects on firms' productive and innovation capabilities. The firms that survived the lockdown have often been those that managed to access funding (including relief programmes), invest in technological solutions, and adapt to new regional markets. The pandemic appears to have accelerated several trends that emerged over the past decade, such as digitisation, increasing automation, and regionalism, but it also exacerbated inequalities. Supporting small and informal businesses seems essential to inclusive economic revitalisation and job creation in manufacturing.

TOBACCO[3]

South Africa has about 8 million cigarette smokers. The adult smoking prevalence is about 35,7% among males and about 8,1% among females (SALDRU, 2018). Overall smoking prevalence has been about 20% since 2010 (Vellios et al., 2020), substantially less than the estimated 32% in the early 1990s (van Walbeek, 2005). This decrease in smoking prevalence stemmed from government policy to reduce tobacco consumption, as discussed in Annex 6.5.3. The annex also reviews the state of the tobacco industry, including the sale of illicit products, before the lockdown.

[3] Kirsten van der Zee edited an early draft of this section and, with Samantha Filby, was indispensable in the three REEP surveys.

THE BAN ON THE SALE OF TOBACCO AND VAPING PRODUCTS

On 25 March 2020 government announced a ban on the sale of all tobacco and vaping products from 27 March. South Africa was one of only three countries to implement such a ban, the other being India (a 6-week ban) and Botswana (12 weeks). The decision was based on the precautionary principle – Covid-19 is a respiratory disease, and smoking damages the lungs. Smokers could therefore be more vulnerable to infection and prone to hospitalisation and could even overburden hospital resources.

On 23 April 2020 President Ramaphosa announced the move to *alert level 4* on 1 May 2020; he specifically said that cigarette sales would be allowed. On 25 April CoGTA Minister Nkosazana Dlamini-Zuma called for comments from the public on the move to alert level 4. She received about 70 000 comments, of which nearly 2000 called for an extension of the tobacco sales ban. (There might well not have been many requests for lifting the sales ban; given the president's announcement, people might have presumed it would be lifted anyway.) On the basis of these comments, plus an explanation that people who share cigarettes are at risk of infection through shared saliva (Mahlakoana, 2020), she overturned the president's earlier announcement. The Minister of Finance, Tito Mboweni, did not support the extension but said that he had 'lost the debate and had to toe the line' (Mokone, 2020a). The president afterwards explained the collective decision-making process of the cabinet and the National Coronavirus Command Council and justified the decision to maintain the ban.

Smokers were generally very unhappy with the decision. Nearly 700 000 people signed a petition on change.org, a petition site, calling on government to lift the ban (Maclean, 2020). The tobacco industry felt likewise. On 5 May 2020 the Commissioner of the South African Revenue Service (SARS), Edward Kieswetter, announced that a tobacco company had been caught producing cigarettes on three lines, ostensibly for export (Mokone, 2020b). The Fair-trade Independent Tobacco Association (FITA), a representative body of local and regional producers, announced that it was not one of their members (Vogel, 2020a). British American Tobacco South Africa (BATSA), which had earlier threatened legal action, announced on 6 May 2020 that it had 'taken the decision not to pursue legal action at this stage but, instead, to pursue further discussions with government on the formulation and application of the regulations under the Covid-19 lockdown' (BATSA, 2020).

In early May, FITA lodged a two-part case against government. Part A argued that the production of cigarettes for the export market should be allowed under alert level 4. Part B argued that the sale of cigarettes during lockdown is legal. On 11 May 2020 FITA announced that government had acceded to part A (i.e., tobacco companies could manufacture cigarettes for export), but part B was still being heard in court (Vogel, 2020b). On 10 June 2020 FITA's case against Minister Dlamini-Zuma and the President was heard in the Pretoria High Court. FITA's main argument was that cigarettes are essential products and should thus be available for sale. The defence countered that the sales ban was necessary to protect lives and prevent the health sector from being overwhelmed. The High Court ruled in favour of the defendants on 26 June 2020 and ordered FITA to pay all costs. FITA appealed the ruling, but the case became moot when the sales ban was lifted on 18 August 2020.

On 1 June 2020 the country moved to *alert level 3*, but the sales ban was maintained. BATSA duly lodged a case in the Western Cape High Court. It argued that the sales ban both infringed on smokers' constitutional right to dignity and was disproportional. On 11 May 2020 the Human Sciences Research Council (HSRC) had published data suggesting that if 1% of South Africa's 8 million smokers contracted the virus, and 5% of patients required intensive-care support, these 4000 patients would overwhelm the health sector (HSRC, 2020). BATSA argued that only about 1 million smokers had quit during the ban period, and that Covid-19 patients do not all get sick simultaneously. Based on assumptions about the time seriously ill patients spend in hospital, they suggested the sales ban had alleviated pressure on the national health sector by fewer than 20 beds at any time. However, the market had been disrupted, and the loss to the fiscus was estimated at over R1 billion per month. Judgment was reserved, but the sales ban was lifted before judgment could be passed. In December 2020 the Western Cape High Court eventually passed judgment in this case, finding that the minister was wrong in imposing the tobacco sales ban. In January 2021 Minister Dlamini-Zuma indicated that she wanted to appeal the judgment (see also Chapter 3.2 for more detail).

WAS THE SALES BAN EFFECTIVE?

Other than occasional comments by Minister Dlamini-Zuma, Health Minister Zweli Mkhize and the defendants' arguments in the court cases, government did not provide a comprehensive rationale for the sales ban. In fairness, the ban had been implemented quickly, without time to provide such a rationale; thus, the narrative grew over time. Whereas the initial argument was around protecting the health system, in the two court cases government's arguments were more generic, focusing on the well-known detrimental effect of smoking on health.

Given that government did not set clear criteria for the success of the ban, it is evaluated here using the following broad questions:

- Have people been unable to purchase cigarettes?
- Have people quit smoking, at least in the short term?
- Has the sharing of cigarettes been reduced?

Several surveys on these issues were conducted during the lockdown; these are discussed below.

The HSRC survey

The first study to investigate the effectiveness of the sales ban was published on 11 May 2020 by the HSRC (2020). Using two online behavioural surveys, it surveyed over 50 000 people between 27 March and 2 April (i.e., week 1 of lockdown) and 19 330 people between 8 April and 24 April (weeks 3–5) and benchmarked the data against the adult population. The study found that 88% of smokers were unable to buy cigarettes during the lockdown; it concluded 'that the ban was efficient in reducing cigarette access and therefore use' (HSRC, 2020). Among the 12% who did purchase cigarettes, substantial locational differences were found. Smokers in informal areas or townships were significantly more likely to obtain cigarettes than those in the city or suburbs or on farms.

Since over 70% of the observations in the study were collected in the first week of the lockdown, the results are not surprising. As the initial lockdown had been expected to last for only three weeks, many smokers, especially more affluent ones, would have stocked up and would not have needed to purchase illicit cigarettes yet. On the other hand, smokers in informal settlements and townships are more likely to purchase single sticks (rather than packs or cartons). Given that they are less likely to have had the resources to stock up before the ban, they would have needed to buy cigarettes sooner. It is thus not surprising that already in the first few weeks of the lockdown, a substantial portion of smokers living in informal settlements indicated that they had purchased cigarettes on the illicit market. (The HSRC appears not to have conducted subsequent surveys of smoking behaviour in the lockdown.)

The REEP studies

The Research Unit on the Economics of Excisable Products (REEP)[4] conducted three online surveys in the lockdown – two during the sales ban and one after it had been lifted. Only people 18 and older who had smoked cigarettes in the week before the sales ban were eligible to participate. Non-smokers and users of other tobacco and vaping products were excluded. The aim was to understand how smokers responded to the sales ban (e.g., quitting behaviour) and for continuing smokers, where they obtained cigarettes, which brands they bought, and how much they paid. The second survey also asked questions about the sharing of individual cigarettes, a concern raised by Minister Dlamini-Zuma (see above). The third survey also asked about switching from cigarettes to other tobacco products.

REEP advertised the surveys on Twitter, through the change.org website, and through Moya, a data-free instant messenger application. Because the surveys were conducted online, the samples are not representative. The first report attempted to address sample bias by weighting the data, but given concerns around the appropriateness of these measures,[5] no weighting was done in the later reports. Instead, these reports stressed that findings related only to the sample, not the population at large.

First REEP report

The first survey was conducted between 29 April and 11 May 2020 and attracted over 12 200 usable responses. The weighted data (see above) suggested that 41% of smokers had attempted to quit during the lockdown; of these, 39% reported being successful. Among continuing smokers, the average use of cigarettes increased from 10 to 11 cigarettes per day in the first two weeks but decreased to 9 cigarettes per day after the president announced the extension of the lockdown on 9 April 2020. The average price of cigarettes purchased by respondents was 90% higher than before the lockdown. In fact, during the 13 days of the survey, the reported price of cigarettes increased by an

[4] Based at the University of Cape Town, REEP (previously the Economics of Tobacco Control Project) specialises in the economics of tobacco control. It is independent from the tobacco industry and is funded mainly by donors (e.g., the Bill & Melinda Gates Foundation, through the African Capacity Building Foundation; the International Development Research Centre; and Cancer Research UK). It is not a lobby group.

[5] White, female, affluent smokers from the Western Cape or Gauteng were substantially over-represented. The report on the first survey weighted the results by race, gender and province (using the smoking prevalence in the National Income Dynamics Study wave 5). However, sampling specialists suggested this was not appropriate, because no weighting could correct for the absence of e.g., poor, rural smokers from the sample.

average of 4,4% per day. Whereas about 70% of cigarettes had been sold via formal channels before the lockdown, these all but disappeared during the ban. The main suppliers were informal outlets (e.g., spaza shops, house shops and street vendors) and previously unknown sources (e.g., friends, family, WhatsApp groups and 'essential worker acquaintances'). The distribution of brands changed sharply away from cigarettes produced by multinational companies towards cigarettes from local producers.

Respondents also provided open-ended comments at the end of the survey. The overwhelming sentiment was one of anger. They understood neither the economic nor the health rationale for the ban. While most acknowledged that smoking is bad for their health, the sudden imposition of the sales ban, without any cessation support, affected many smokers' mental health. They talked about anxiety, feelings of depression, being less focused, and experiencing physical withdrawal symptoms.

Published on 15 May 2020, the REEP report concluded that the sales ban failed to meet its objectives. Smokers were still purchasing cigarettes, but government lost excise revenue and the illicit cigarette trade was being entrenched. It suggested that extending the sales ban into alert level 4 had been in error and recommended that the ban be lifted as soon as possible (van Walbeek, Filby & van der Zee, 2020). The report attracted substantial media attention and was sent to all members of the National Coronavirus Command Council. There was no change in policy.

Second REEP report

After the move to alert level 3 in June, REEP conducted a second online survey on 4–19 June 2020. This survey attracted over 23 000 usable responses, with similar biases as the first survey. While the results can therefore not be extrapolated to any group as a whole, the survey nevertheless provides an interesting picture of the cigarette market during the sales ban. The report was published on 21 July 2020 (van Walbeek, 2020).

The survey found substantial gender and racial differences in quitting attempts and success. Substantially more African men (62%, as against 18% of white men) and women (68%, against 17% of white women) reported trying to quit. They were also more likely to succeed – over a third of African men (36%) and nearly half of African women (48%) said they had successfully quit smoking. The figures for white men and women, in contrast, are only 3,7% and 1,8%. Overall, 9% of respondents had quit successfully; this is probably skewed downward because white people, who are over-represented in the sample, had a very low rate of quitting.

The 9% quitting figure is in contrast with another survey of smokers in the lockdown. M4Jam (2020) surveyed 2013 smokers on an online, data-free platform. Almost half (49%) the respondents had quit during the lockdown. However, before the lockdown, most had smoked very few cigarettes per day. This, and the fact that the survey was run on a data-free platform, suggests that most were poor. This survey is therefore also unlikely to be representative of the smoking population. Given the contrasting

sources of sample bias between the REEP and the M4Jam surveys, the 9% and the 49% may well be seen as the lower and upper limits of quitting; the true percentage is probably somewhere in between.

The REEP report showed that successful quitters had generally smoked less, averaging 7,8 cigarettes, a day before the lockdown (as against 16,4 cigarettes by continuing smokers); this suggests they were probably less addicted. Over 70% of them quit during alert level 5, 16% quit during level 4, 4% quit in the first 19 days of level 3 (when the survey closed), and 8% could not remember when they had quit.

Among smokers who attempted to quit (not necessarily successfully), 56% said the most important motivation was the high price of cigarettes. This was followed by the unavailability of cigarettes (14%), and the sales ban (11%). Health concerns (9%), not wanting to be addicted (5%), and pressure from family and friends (1,3%) were relatively unimportant.

For respondents who continued smoking, about half reduced their consumption, 15% smoked more, and 35% smoked as much as they had before. On average, consumption among this group fell by about 20%. As in the first round, over 90% of respondents had been able to purchase cigarettes. Their main sources were friends and family (27%), spaza shops (25%), street vendors (11%), WhatsApp groups (8%), and other informal outlets. The percentage of respondents who purchased cigarettes from formal retail outlets was negligible.

An issue that received much media attention was the sharing of cigarettes (see above). The survey suggested that the percentage of respondents who had ever shared cigarettes increased from 18% to 26% during the lockdown. More worryingly, the percentage who shared cigarettes regularly (i.e., more than half the time) increased from 1,7% to 8,9%. While this suggests that people largely ignored the minister's advice to not share cigarettes, it is hardly surprising, given that cigarettes became both relatively scarce and extremely expensive.

By the second survey (4–19 June 2020), the average price of cigarettes was nearly 250% higher than before the lockdown. This was substantially more than the 90% increase observed in the May survey. On average, cigarettes cost R5,69 per stick (R114 per pack of 20), although prices of R250 or more per pack were not uncommon (Figure 6.5.7). Before the lockdown, provincial prices were similar (Figure 6.5.8). Even in the first survey, price differences were not that large. By the second survey, however, they were substantial. The Western and Northern Cape saw price hikes of 379% and 367% respectively, and the Eastern Cape 281%. Prices rose less in Limpopo (123%), Mpumalanga (141%) and Gauteng (152%). Most cigarettes consumed in South Africa are produced in Gauteng, and the shorter distribution chains in Gauteng and the surrounding provinces may help explain the muted price rises.

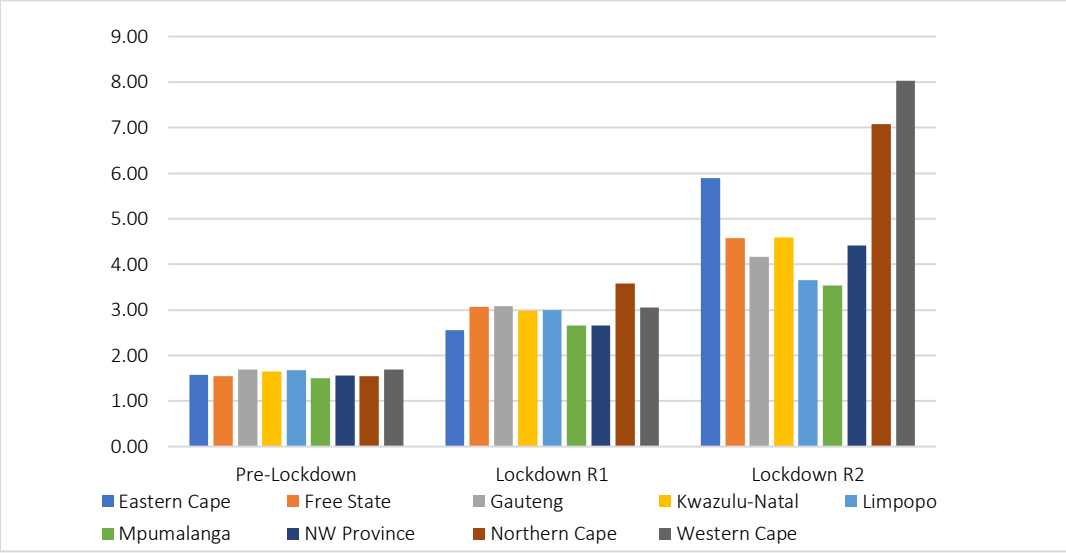
The sales ban greatly altered the competitive landscape as represented in the sample. Before the lockdown, 77% of cigarettes purchased by respondents were from multinational tobacco companies (i.e., BATSA, Philip Morris International, Japan Tobacco International and Imperial Tobacco). This fell to 38% by early May and 18% a month later. Local tobacco manufacturers, which used to operate in the shadow of the multinationals, greatly expanded their market share during the lockdown, not least

because of their well-developed distribution channels into informal markets. With formal retail outlets closed, they had a competitive advantage over their multinational rivals. The company with the largest market share among respondents in June 2020 was Gold Leaf Tobacco Corporation (26%), followed by Carnilinx (14%), Best Tobacco Company (11%), Amalgamated Tobacco Company (10%) and BATSA (9%). Several previously unknown brands were also reported by respondents.

Figure 6.5.7: Average reported price per cigarette over lockdown

Note: The horizontal line at R1,63 represents the average price per stick before lockdown
Source: Van Walbeek, 2020; Van Walbeek, Filby & van der Zee, 2020.

Figure 6.5.8: Average cigarette prices by province



Note: Lockdown R1: 29 April – 11 May 2020; Lockdown R2: 4–19 June 2020
Source: Van Walbeek, Filby & van der Zee, 2020

Cigarette brands from multinational companies used to trade at a significant premium over local brands. During the lockdown, this difference narrowed, with the former being sold at an average price of R126 per pack and the latter at R111. This reflects large hikes in the prices of local cigarettes (up 457%, as against 231% for cigarettes from multinational companies). The combination of a substantial increase in the price of their products and a much larger market share, albeit of a smaller market, suggests that local manufacturers have been the largest beneficiaries of the tobacco sales ban.

Four key issues emerged from the results:

1. FITA's court case about the legality of the sales ban is ironic, given that their members benefitted disproportionately from the ban.
2. The policy that allowed South African cigarette companies to legally produce and export cigarettes but forbade the domestic sale of cigarettes was contradictory. It was naïve not to anticipate that producers would divert 'export' cigarettes to the domestic market. The tobacco industry has long been involved in the illicit market, both directly and by abetting the illicit trade (Snyckers, 2020). SARS data on declared exports shows a spike in cigarette exports to neighbouring countries from May to July 2020, when cigarette exports to Namibia, Lesotho and Zimbabwe exceeded 60% of South Africa's usual domestic consumption. Given that these countries simply do not have a large enough market to consume all these cigarettes, the implication is that a) the intention had simply been to smuggle cigarettes back into South Africa, and b) some were 'ghost exports' that never left South Africa. Finally, it can also be argued that the policy was unethical, as it allows a harmful product, which is forbidden to South Africa's own citizens, to be exported to other countries.
3. The sample suggested that multinational companies lost substantial market share and would want to claw it back after the ban had been lifted. One way would be through a price war, which would lower the price of cigarettes and increase consumption, with negative consequences for public health. This prediction has not (yet) materialised; preliminary data suggests that BATSA raised their prices (relative to pre-lockdown prices) shortly after the ban was lifted.
4. Instead of imposing a sales ban, government could have reduced tobacco use by substantially increasing the excise duty on cigarettes. Sustained increases in the retail price have been shown to be the most effective way of reducing the use of tobacco products (IARC, 2011). As noted, most smokers who quit during lockdown did so because cigarettes became too expensive. While higher duties might have promoted illicit trade, the sales ban was arguably worse, as illicit trade became the entire market. Also, higher duties would have raised revenue during the lockdown. Smokers were willing to pay very high prices for cigarettes, all of which went to the tobacco value chain and none to government. The report recommended that after the sales ban had been lifted, excise duties should be raised substantially, and above-inflationary increases should continue in future. This would also allow the fiscus to claw back some of the revenue lost during the ban. However, an important proviso is that the illicit market should be under control; this would require great effort, because illicit operators have been able to entrench themselves during the lockdown.

The conclusion of the second report mirrored that of the first – while the sales ban had been well intentioned, its extension had been an error. The report recommended that government lift the ban immediately, substantially raise tobacco excise duties, and strengthen tax enforcement. The tobacco control community was divided about these findings, especially about whether the ban had been successful. Based on the first REEP report, which found that about 16% of smokers quit smoking (using the weighted sample), the tobacco control community estimated that about a million smokers quit during lockdown. This, an unprecedented number for such a short time, should be regarded as a victory for public health. The tobacco control community strongly supported the suggestion of substantially higher excise duties and lobbied government to double tobacco duties at the next opportunity (Hlatshaneni, 2020).

Third REEP report

The sales ban was finally lifted on 18 August 2020, when the country moved into alert level 2. Between 16 September and 5 October 2020, REEP conducted a third survey among respondents of the second survey and received almost 3800 usable responses. The survey indicated the following:

- About 17% of the respondents said they had quit during lockdown, but 51% of them had relapsed.
- Average consumption post-lockdown is 15,5 cigarettes per day (16,5 before lockdown).
- The price per stick increased from R1,60 before the lockdown to R1,80 after the ban was lifted.
- Prices increased significantly more for local (45%) than for multinational company brands (5%).
- Multinational companies recovered a large proportion of their pre-lockdown market share but remained in a substantially worse position than before the ban.

The NIDS-CRAM study

In November and December 2020, the third wave of the National Income Dynamics Study – Coronavirus Rapid Mobile Survey (NIDS-CRAM) was conducted (NIDS-CRAM, 2020; see also Chapter 5.3). The aim of NIDS-CRAM was to investigate the economic and social consequences of the Covid-19 lockdown, using a broadly representative sample of about 7000 South Africans. A few tobacco-related questions were included in the questionnaire.

Unlike the REEP surveys, which did not have a formal sampling frame, the results of the NIDS-CRAM survey can be extrapolated to the population, given that it was broadly representative at national level. Based on weighted data, the NIDS-CRAM survey indicated that nearly 85% of pre-lockdown smokers continued smoking during the sales ban; 8% quit, and 7% declined to answer the question. Therefore, between 8% and 15% of pre-ban smokers quit in the sales ban period. Between a quarter and a half of quitters had relapsed by the time the survey was conducted.

As was found in the REEP surveys, NIDS-CRAM showed that the average price of cigarettes increased dramatically during the sales ban, by as much as 250%. At its peak, the average price of cigarettes was more than R110 per pack; in some provinces, notably the Western, Eastern and Northern Cape, it was substantially higher, at about R140 per pack.

As a result of some smokers quitting and a reduction in the number of cigarettes smoked by continuing smokers, the volume of cigarettes purchased decreased by about 30% during the sales ban. After the cigarette ban had been lifted, the market recovered but settled at a lower level than before the ban. It is estimated that the total post-ban cigarette market is about 5% smaller than the total pre-ban market. Total expenditure on cigarettes increased from an estimated annualised R32 billion before the sales ban to an annualised R73 billion at the peak of the ban; it fell to R31 billion after the ban. These windfall revenues accrued to the tobacco industry and other illicit traders, whereas government lost nearly R6 billion in excise revenue.

The sales ban hurt the multinational companies but greatly benefitted the non-multinationals. Mirroring findings of the REEP surveys, the NIDS-CRAM shows that non-multinational companies substantially increased their market share during the sales ban, at the expense of the multinationals. After the sales ban had been lifted, the market share of the multinationals recovered somewhat, but it remains much smaller than before.

SUBSEQUENT DEVELOPMENTS

The February 2021 Budget highlights the impact of the sales ban on excise revenue. According to the 2021/22 Budget Review, SARS was expected to collect only R5,78 billion from cigarette excise taxes in 2020/21, nearly 60% less than the budgeted amount of R14,46 billion (National Treasury, 2021). Even accounting for the R6 billion in revenue lost during the sales ban, cigarette excise revenue would be R2,68 billion (18,5%) below budget. This suggests a substantial increase in illicit trade. For 2021/22 the National Treasury has budgeted for a 17% decrease (from 2019/20) in the number of cigarettes sold. Since the overall consumption of cigarettes is down by only about 5%, this suggests the Treasury expects illicit trade to increase even more sharply in 2021.

The Minister of Finance announced an 8% increase in the excise tax on tobacco products in the Budget, emphasising the public health rationale. This substantial increase, despite the turmoil of the previous year, suggests that the Treasury does not buy the tobacco industry's argument that higher excise taxes cause an increase in illicit trade. Illicit trade flourishes when there is poor enforcement, something that has become endemic in South Africa since 2015 when the special units at SARS were closed down by the then Commissioner of SARS.

There is considerable animosity between the multinational and non-multinational tobacco companies. The former portray themselves as law-abiding, tax-paying, responsible companies that are supportive of government, and they present the non-multinationals as a rogue group of tax evaders. For their part, the non-multinationals claim that they are tax compliant and that the multinationals complain because they cannot compete. The reality is much more nuanced, as the following examples show:

- The nefarious actions of the multinationals, and BATSA in particular, have been described in detail in the books *Rogue* (van Loggerenberg, 2016), *Tobacco Wars* (van Loggerenberg & Lackay, 2017), *Dirty Tobacco* (Snyckers, 2020), and in the inquiry into SARS by the Nugent Commission (Nugent,

2018). These publications indicate that the multinationals and their industry bodies had actively undermined SARS and other government institutions during the Zuma presidency.

- In February 2021 the Organised Crime and Corruption Reporting Project published a report indicating that BATSA has been exporting large volumes of cigarettes to Mali, knowing that the product would be sold to traffickers (Don et al., 2021). Mali is South Africa's largest cigarette export market. According to the report, the profits of cigarette smuggling fuel the struggle between jihadists, armed militias and corrupt military officers that has turned northern Mali into a lawless warzone. FITA, representing the non-multinational companies, called for a further investigation into these activities.
- In March 2021 BATSA published the results of an BATSA and IPSOS (2021) survey it commissioned, conducted in February 2021, on the prevalence of very cheap (and thus probably illicit) cigarettes. The survey found that 41% of retail outlets that were visited by IPSOS's 'mystery shopper' sold cigarettes at a price that does not cover the minimum amount of tax that should be paid (R20,01 at the time). Gold Leaf Tobacco Company, followed by Carnilinx, were identified as the producers of the brands that were more often found to be priced below the minimum collectable tax amount. This finding led BATSA to call for a commission of enquiry into illicit trade in South Africa (BATSA, 2021). They also urged government to ratify the Protocol to Eliminate the Illicit Trade in Tobacco Products and for the country to implement a track-and-trace system for tobacco. FITA initially supported the idea of an investigation, but subsequently indicated that they did not support BATSA's call for a commission of enquiry (Vogel, 2021).

The bottom line is that the tobacco market in South Africa is in turmoil. There are no angels in this industry, and all companies have skeletons in the closet. Some companies are more sophisticated in their public relations strategy than others. The mudslinging between the multinational and non-multinational companies has exposed both sides as being involved in a variety of misdemeanours. Illicit trade in cigarettes is an important issue, and the sales ban has probably made the situation worse. Government would do well to follow Article 5.3 of the Framework Convention on Tobacco Control and exclude the tobacco industry from any discussions in which they have a commercial interest. Government should implement strong measures against illicit trade, based on international best practice, but should not include the tobacco industry in these discussions (WHO, 2005).

CONCLUSIONS

REEP maintains that the sales ban was an error. It had encouraged many smokers to quit, but a similar outcome could have been achieved by substantially increasing the excise duty and keeping it high. Government lost about R6 billion in excise revenue during the ban, when the fiscus was already strained. However, more significantly, the sales ban entrenched illicit distribution channels. The illicit market had already been a cause for concern, but the ban introduced many smokers to cheap brands that have historically been sold illicitly. Unpublished REEP data suggests that most smokers find these brands of inferior quality, but some may well have grown used to these products and may continue to purchase them.

South Africa's tobacco control strategy, in terms of both legislation and taxation, has stagnated after 2010. Where the country had been a leading nation in tobacco control policy since the 1990s, its tobacco control legislation now lags the rest of the world. Rapid increases in excise duty formed the mainstay of tobacco control policy between 1994 and 2010. However, since 2010, increases in nominal tobacco excise duties have generally only been in line with inflation. The illicit market has been allowed to thrive. Concurrently, smoking prevalence, which had decreased consistently in the previous 15 years, has stagnated at about 20%. To expect an unprecedented policy intervention, such as a sales ban, to suddenly convince large numbers of people to quit smoking without significant cessation support is naïve and, from a long-term perspective, probably counterproductive.

SARS had been turning the corner in the fight against illicit cigarettes before the lockdown. The establishment of the Illicit Economy Unit in 2019 had been a step in the right direction, and the substantial increase in legal (i.e., tax-paid) cigarette production in 2019/20 suggests that the unit had been having the desired effect. However, the evidence suggests that the sales ban has reversed much of this progress and the control of illicit trade has become much harder.

FINANCE, BANKING, AND INSURANCE[6]

IMPACT OF THE PANDEMIC ON THE FINANCIAL SECTOR

When the national state of disaster and lockdown were announced in March 2020, the financial sector (Box 6.5.1) was deemed an essential service provider in terms of the Disaster Management Act of 2002, as amended on 25 March 2020. Specifically, the amended Act refers to the financial services necessary to maintain the functioning of the banking and payments environment, along with insurance services, as essential services. Unlike firms in other sectors, which closed either temporarily or permanently during the national lockdown, there have been no evident cases of firms in distress in the financial sector. That said, operations in the sector have been affected by both the policy decisions of the monetary authorities and feedback effects from other sectors of the economy.

Box 6.5.1: The South African financial sector

The **financial sector** constitutes banks, investment companies, insurance companies and real estate firms (Joshi et al., 2013). The sector provides a broad array of services, such as deposit taking, provision of credit (personal, commercial and mortgage lending), insurance, and investment management. As shown in Table 6.5.8 in Annex 6.5.4, registered financial institutions in South Africa comprise 36 banks and 56 insurance companies, along with 1309 estate agents. In spite of the relatively large number of registered institutions, each of the three subsectors is highly concentrated.

The **banking sector** is dominated by four large banks (Standard Bank, Nedbank, ABSA Bank and First Rand), a medium-sized investment bank (Investec), and two smaller banks (Capitec Bank and African Bank) that target low-income households (SARB, 2019). According to the International Monetary Fund (IMF, 2014), the five largest banks account for 90,5% of total banking assets. The primary source of funding in banks is domestic deposits (87%), of which 60% are sourced from non-bank financial institutions and corporations, with maturities of less than six months. The loan-to-deposit ratio in the sector is above 120%.

[6] Comments from the reader, Andrew Donaldson of the University of Cape Town, are gratefully acknowledged.

In the **long-term insurance** sector, the top five conglomerates (Discovery Holdings Limited, Liberty Holdings Limited, Momentum Metropolitan Holdings Limited, Old Mutual Plc and Sanlam Limited) account for over 73% of total industry assets (2013 estimate). The **short-term insurance** industry, led by ABSA Insurance Company Limited, Mutual and Federal Limited, OUTsurance Holdings Limited, Santam Limited and Zurich Insurance Company South Africa Limited, is less concentrated (Alagidede & Mangenge, 2016). The insurance sector is sufficiently served by a wide range of intermediaries, with approximately 10 992 financial services providers at end-March 2014 (IMF, 2014).

The **real estate sector** has more players than the banks and insurance companies combined. As noted, for instance, 1309 estate agents are registered by the Institute of Estate Agents of South Africa. The commercial real estate market is worth an estimated R1 293 trillion (US$94,29 billion), which is about 30% of the total real estate sector (Akinsomi et al., 2018).

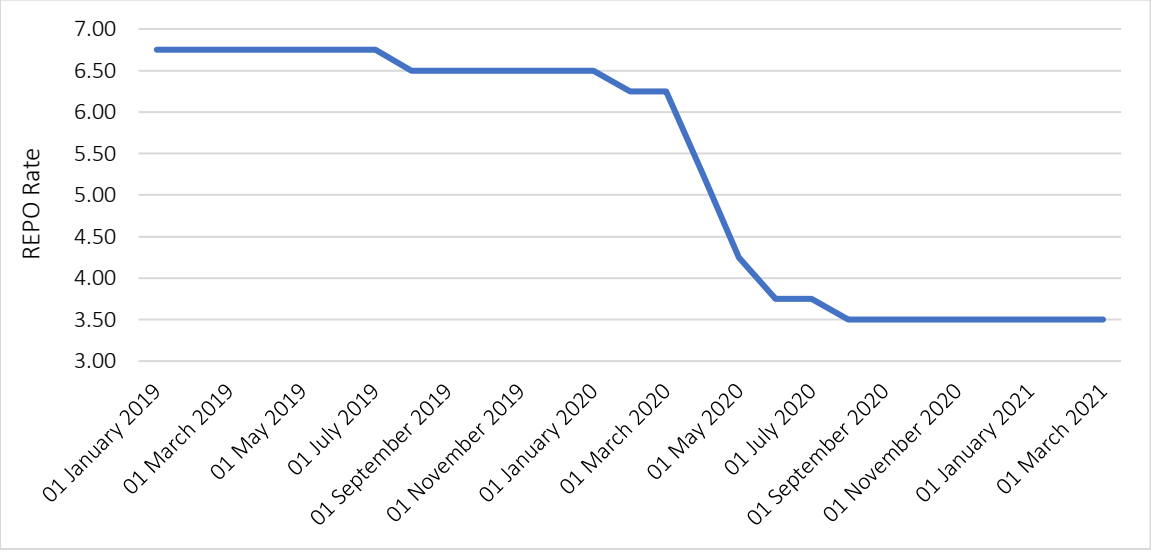
The financial sector's **total assets** are almost three times (298%) the size of the country's GDP. Banking assets alone are equivalent to 112% of GDP and pension funds to 110% (IMF, 2014). Short-term insurers account for only a small share of insurance assets (64% of GDP), whereas the long-term insurers hold the largest share (61,2%) (SARB, 2020). Lastly, unit trusts hold assets estimated at 45% of GDP. Non-bank financial institutions have seen their financial assets grow by two-thirds in recent years. These institutions support equity and bonds markets estimated at 288% and 57% of GDP respectively (SARB, 2019).

INTERVENTIONS TARGETED AT THE FINANCIAL SECTOR

Reduction in the repo rate

South Africa's fiscal and monetary authorities have implemented various initiatives to alleviate the impact of the Covid-19 pandemic on the economy in general, and the financial sector in particular (see also Chapter 6.1). For example, the South African Reserve Bank (SARB) aggressively *cut the repo* (repurchase agreement) rate by 300 basis points (bps) in 2020 alone. The repo rate was at 6,5% at the beginning of 2020. On 17 January 2020, it was cut by 25 bps to 6,25% before being reduced further by 100 bps to 5,25% on 20 March 2020. The SARB's Monetary Policy Committee announced further cuts of the repo rate on 15 April, 22 May and 24 July 2020 of 100 bps (to 4,25%), 50 bps (to 3,75%) and 25 bps (to 3,5%), respectively (Figure 6.5.9). By end-2020, the repo rate stood at 3,5%, an all-time low.

Figure 6.5.9: Repo rates, January 2019 to March 2021 (%)

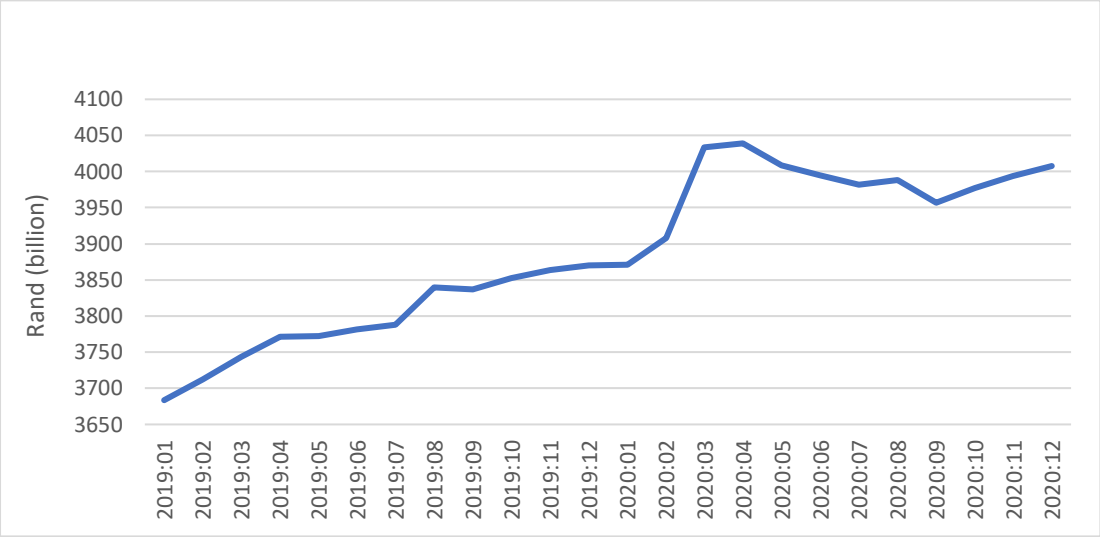


Source: SARB, 2021b

A reduction in the repo rate is expected to benefit borrowers that have variable interest rates linked to the prime lending rate. Lower repo (and hence prime) lending rates provide borrowers with savings equivalent to the difference between what would have been payable and what is actually paid on their loans. Low repo rates are also expected to accelerate the money creation capacity of commercial banks. In either case, the SARB's intervention effectively injected liquidity into the financial sector, which helped increase aggregate demand and thus benefitted the real sector.

In nominal terms, total loans and advances typically show an upward trend. In January 2020, total loans in South Africa rose marginally before increasing at a faster rate in February and March 2020. Thereafter, total loans declined until July 2020 and then returned to the pre-January 2020 trend path (Figure 6.5.10). The rapid credit expansion observed in February and March 2020 preceded the national lockdown on 27 March 2020, which effectively marked the beginning of the Covid-19 pandemic in the country. It can be argued, therefore, that the credit expansion was a rational response of economic agents (households, the corporate sector, and government) as they anticipated extended periods of sluggishness in the economy. It is likely that in February and March 2020, they were building up their liquidity positions and, thereafter, they started to reduce their total financial leverage. The deleveraging may also partly explain the lack of uptake of government's loan guarantee scheme (discussed below).

Figure 6.5.10: Total loans and advances, 2019 to 2020 (R billion)



Source: SARB, 2021b

It worth pointing out that the credit expansion of early 2020 peaked a month before the significant downward adjustments of the repo rate that started in March 2020. The credit downswing that followed continued until about July 2020 for corporate credit, which coincided with the levelling-off in the repo rate. Household debt bottomed earlier in May 2020, before returning to the pre-January trend in July 2020. A simple zero-order correlation matrix shows that household debt was strongly correlated with the repo rate (-0,7204), whereas corporate debt was weakly correlated with the repo rate (-0,2484) in 2019 and 2020. This suggests that the presumed deleveraging by corporates after

March 2020 may have been a strategic initiative to pre-finance their activities and strengthen their liquidity positions. Although households responded in a similar manner immediately before and after the national lockdown, their decisions may generally have been driven by interest rate considerations.

Regulatory relief

The monetary authorities also announced regulatory relief measures and published a guide for banks to ease the impact of the Covid-19 pandemic (SARB, 2021a). As noted in Chapter 6.1, the SARB issued directives on a temporary debt service relief to firms and individuals by temporarily amending Directive 7 of 2015 to lower the minimum capital requirements for banks relating to credit risk. The measures aimed to facilitate compliance around the liquidity coverage ratio (D1/2020), providing temporary capital relief (D2/2020), and treatment of restructured credit exposures (D3/2020).

On 25 March 2020, the SARB issued guidelines for debt relief to bank customers. Subsequently, all major banks announced options for cash flow relief, such as payment holidays and debt restructuring for, among others, small enterprises, and individuals unable to meet their obligations. Between March and April 2020, banks extended an estimated R15,03 billion in cash flow relief in the form of payment breaks; this rose to R33,61 billion by the end of September 2020 (BASA, 2020). To enable them to develop common approaches to debt relief (and other measures), banks were exempted from provisions of the Competition Act from the beginning of March 2020.

Banks extended the cash flow relief only to customers in good standing, who were highly likely to meet their debt obligations after the relief period but could not meet their credit agreement payments in the short term as a direct consequence of the pandemic and the lockdown (BASA, 2020). While all customers (individuals, small enterprises, and corporates) could potentially qualify for cash flow relief, small businesses faced at least two structural barriers in accessing this finance:

- The 'existing criteria for and methods of evaluation of loans discriminate' against SMMEs (see Nieuwenhuizen & Kroon, 2003; Rogerson, 2008; Agwa-Ejon & Mbohwa, 2015; Langa & Govender, 2019). For instance, before disbursing loans, banks require enterprises to submit audited accounts for at least two years; this effectively means only enterprises that have been in business for a minimum of three years would qualify for finance.
- Banks often fail to identify potentially successful owners of SMMEs (Rogerson, 2008). Instead, they focus on potentially successful enterprises, based on the same approach they use to evaluate corporates. Rather than taking a standard approach to all clients regardless of their characteristics, banks should consider offering finance to entrepreneurs who may have little security but do comply with important criteria affecting success, such as 'leadership, the knowledge and skills of the applicant, market orientation, financial insight and management, creativity and innovation and risk orientation' (Nieuwenhuizen & Kroon 2003:141).

These structural barriers to access to finance could have contributed to the failure of many small enterprises that faced liquidity constraints. As noted in the discussion on manufacturing, Finfind (2020) shows that 42,3% of sampled SMMEs closed down in 2020. Among the main challenges they

faced during the lockdown were existing debt, a lack of cash reserves, and inadequate access to relief funding; these are the very problems that the monetary authorities and commercial banks have been attempting to address. The lesson learnt here is that providing liquidity without addressing the structural rigidities of the system may not yield the desired outcomes.

South African Future Trust

In March 2020, the Oppenheimers (Nicky and Jonathan) established the South African Future Trust with the primary objective of providing an estimated R1 billion to 'extend direct financial support to SMME employees at risk of losing their jobs or suffering a loss of income because of the Covid-19 crisis' (SAFT, 2021). Government provided seed funding of R100 million from the National Treasury and R50 million from the National Lottery. By early April 2020, the Trust had approved support to the value of R330 million. By March 2021, the sum of R1,04 billion had been disbursed on 9656 SMME loans, supporting 92 993 employees. These funds were administered by six banks – ABSA Bank, FNB, Standard Bank, Nedbank, Investec and Mercantile Bank – and were only available to SMMEs that banked with these institutions.

A major weakness of this initiative, as with other bank-administered loans, is that small and microenterprises were expected to comply with all bank requirements. This led to similar problems as with the government initiative discussed above. While medium enterprises could comply with ease, small and microenterprises struggled with requirements that had originally been tailored for large corporates. Also, the South African Future Trust project did not deal with the other structural constraints faced by SMMEs. The assumption was that with additional liquidity, SMMEs would be able to survive the slump created by the Covid-19 pandemic and the lockdown, regardless of any structural problems. However, the literature suggests that failures amid a crisis tend to be associated with the inability of enterprises to adjust because of structural rigidities (Jácome, 2004). Unless these are dealt with, a flow of money to these enterprises may not solve the problem.

Loan guarantee scheme

The SARB launched a loan guarantee scheme on 12 May 2020 (Chapter 6.1) in partnership with the Banking Association of South Africa (BASA). The aim was to incentivise banks through a risk-sharing arrangement to extend guaranteed loans for operational expenses at preferential (prime) rates to distressed businesses with an annual turnover of less than R300 million. The scheme was underwritten by an initial guarantee of R100 billion from the National Treasury, with the option of doubling the guarantee.

Results have been mixed – uptake was slow at first, and many applications (35% by end-August and 56% by end-March 2021) were rejected because applicants did not meet the eligibility criteria for the scheme as set out by the Treasury and the SARB or because they did not meet the banks' risk criteria. The average loan size under the scheme was R1,27 million and R1,24 million as at end-August 2020 and end-March 2021, respectively (BASA, 2020 & 2021). In July 2020 the scheme was reviewed, and several changes were introduced (Box 6.5.2).

Box 6.5.2: Measures to improve the loan guarantee scheme, July 2020

1. Introducing business restart loans for businesses that can begin operating as the economy opens up.
2. Allowing more discretionary and less-restrictive bank credit assessments to meet the scheme's objectives.
3. Extending the drawdown from 3 to 6 months (max.).
4. Extending the interest and capital repayment holiday from 3 to 6 months (max.) after the final drawdown.
5. Replacing the turnover cap of R300 million with a maximum loan amount of R100 million. Banks can provide syndicated loans for loans over R50 million.
6. Moving the period of the good standing test back from 29 February 2020 to 31 December 2019 to help firms that had cash flow problems in February.
7. Including sole proprietorships, allowing salary-like payments to the owners to be included in the use of proceeds. Security is not explicitly required.

Source: National Treasury, SARB & BASA, 2020

The performance of the loan guarantee scheme, however, has not improved. By end-May 2021, with the scheme extended to R200 billion, it had received 50 344 applications, of which R18,35 billion (9,18%) had been approved by the banks and taken up by firms via nearly 13 000 loan agreements (BASA, 2021). The figures also show that demand for credit from the scheme has been low. It is expected to continue declining in the foreseeable future, because qualifying business owners are hesitant to increase their borrowing under weak economic and uncertain business conditions (BASA, 2021). The implication is that real output will remain subdued for longer than would otherwise have been the case, which in turn will keep the economy relatively weak. In a weak economy, investors will remain reluctant to borrow and expand their production. The consequence of this chain of events will be an economy that takes a relatively long time to recover.

With such low levels of approvals and disbursements only two months before the end of the R200 billion scheme, the project has clearly failed. An important question with profound policy implications is, why? Some suggest that this reflects a coordination failure between the banking system, the SARB, and the National Treasury. The SARB and the Treasury prepared operating rules for the scheme, while the banks were the implementing partners. Although risk against losses is shared between the banks and the Treasury, the latter undertook to bear the largest part of the losses. It has been argued that the scheme's poor performance reflects a failure to recognise that the real need was a lower cost of credit over a longer period. Instead, the scheme was designed to provide additional credit to businesses wanting to borrow to invest or keep their businesses going. Had the scheme been properly designed, it should have focused on replacing existing debt with lower-cost debt for a longer period of time.

Fiscal and monetary policy coordination

According to Bonam and Lukkezen (2018), equilibrium requires (a) monetary policy to target inflation and (b) fiscal policy to ensure long-term debt sustainability. In the presence of sovereign risk (the probability of a government defaulting on its debt obligations), fiscal authorities are expected to respond more aggressively to changes in debt to deliver a stable equilibrium if the central bank is actively targeting inflation. Following the Covid-19 pandemic, government expenditure in South Africa

rose dramatically, from R1,85 trillion in 2019/20 to R2,05 trillion in 2020/21. The debt-to-GDP ratio rose from 64% in 2019 to 82% in 2021, for two reasons: a significant decline in GDP and a substantial increase in government expenditure on Covid-19 interventions. It is expected to stabilise at 88,9% in 2025/26 (National Treasury, 2021; see also Chapter 6.1). In the absence of efficient fiscal and monetary policy coordination, financial instability may ensue, leading to high interest rates, exchange rate pressures, rapid inflation, and an adverse impact on economic growth (see Hanif & Arby, 2003).

INSURANCE

Whitehouse (2021) argues that the Covid-19 pandemic will create difficulties for many insurance customers in honouring their premiums; this suggests that insurance firms might well bear the adverse effects of the pandemic longer than banks. Since the start of the pandemic, banks have focused on initiatives that provide cash flow relief to their clients (e.g., loan repayment holidays). In time, they expect the delayed loan repayments to be made. Insurance companies, on the other hand, are confronted with clients that are unable to pay and, hence, are cancelling their insurance policies. These people might not automatically return as insurance customers even once the economy is back on track. Insurance firms may need to attract them in the same way they deal with new clients. The process may become complicated if the insurance firms are seen as having not paid out legitimate claims (Box 6.5.3). A reluctance to settle claims suggests the industry risks compounding the damage it is already facing from the Covid-19 pandemic.

Box 6.5.3: Santam condemned for rejecting a settlement proposal

Insurance Claims Africa, a specialist firm that assists in the preparation of claims, has condemned Santam's decision to reject a settlement proposal from hundreds of tourism and hospitality businesses hit by Covid-19.

- Santam, which claims a general insurance market share of 22% in South Africa, argues that no insurer can afford to offer widespread pandemic coverage, as the premiums would be too high.
- Insurance Claims Africa says the 400 businesses it is representing bought policies that included claims arising from infectious diseases. It argues that the long court process that is likely to result will cause mass closure of tourism businesses and job losses.
- Ryan Woolley, the chief executive officer of Insurance Claims Africa, said it is 'unconscionable of insurers to penalise their clients for their own poor underwriting skills'.

Source: Whitehouse, 2021

CONCLUSIONS AND LESSONS LEARNT

While distinct 'winners' and 'losers' of the Covid-19 pandemic can be identified, the South African financial sector cannot be described as either. The sector continued to operate throughout the lockdown period as a provider of essential services. However, many clients of financial services were adversely affected by the pandemic and the lockdown, forcing them to postpone or fail to honour loan payments. Therefore, the short-term implications of Covid-19 on the financial sector can only be determined empirically. In the medium to long run, the sector is expected to recover once loan repayment breaks/holidays expire and firms in distress also recover.

The following preliminary lessons have emerged:

- Lower repo rates coupled with a government loan guarantee scheme had been seen as a good example of monetary and fiscal policy coordination that would provide liquidity to businesses in distress at low cost. However, the bulk of loan applications were rejected, largely because they did meet the monetary authorities' eligibility criteria or the banks' risk criteria (BASA, 2021). This demonstrates that an increase in the supply of loanable funds, combined with a reduction in the cost of borrowing, does not necessarily ensure that businesses with cash flow problems will get relief. Rather, *structural issues in the loanable funds market* must also be addressed.
- There is *no quick fix* to turn around the economy after a deep slump, as observed in 2020. Demand for Covid-19 loans has declined significantly in 2021 and is expected to decrease even further in the foreseeable future (BASA, 2021). While the fiscal and monetary authorities have put in place several measures to encourage investment, business owners are reluctant to invest in a weak and uncertain environment. Their wait-and-see position may in itself keep the economy weak for a longer period, which in turn may continue to slow down private investments. To some extent, this might become a self-fulfilling prophecy that lengthens the recovery period even further.
- It is *inappropriate to treat all firms in the same way*. Small and microenterprises are clearly different from medium and large ones. Many small and microenterprises, for example, prefer grants or equity funding to loans (BASA, 2021). In addition, their structure, culture, and processes tend to be different from those of medium and large businesses. Therefore, assessing the ability of firms to repay loans as well as their risk portfolio using the same tools is probably incorrect.

REAL ESTATE

The Covid-19 lockdown has adversely affected activity in the real estate sector because of both the restrictions on the movement of people and the prohibition on trade in non-essential goods under alert level 5 (27 March to 30 April 2020).

In March 2020 the Property Industry Group was formed, comprising the SA REIT Association (SAREIT), the South African Property Owners Association (SAPOA) and the South African Council of Shopping Centres, to speak on behalf of and coordinate efforts to respond to the impact of the pandemic on the commercial real estate sector in South-Africa (BusinessTech, 2020). The Property Industry Group initiated various levels of rent relief for SMMEs:

- *Level 1:* Badly affected retailers, such as restaurants, hairdressers, travel agents, take-aways, and the like, were given 35–100% rent relief.
- *Level 2:* Retailers that were moderately affected were given rent relief of 35–50% (SAREIT, 2021).

REAL ESTATE INVESTMENT TRUSTS

Real estate investment trusts (REITs) are companies that own, operate and finance income-producing real estate. To qualify as a REIT in terms of the listing requirements of the Johannesburg Stock Exchange (JSE), 75% of a trust's income must be generated from income-related real estate activities

and indirect property investments, its debt level cannot exceed 60% of gross asset value, and it must own property worth at least R300 million. As of December 2019, the market capitalisation of South African REITs was valued at R193 billion (Akinsomi, 2021); hence, this real estate asset class represents a significant element of the commercial real estate landscape in South-Africa.

SAREIT, an umbrella organisation of 28 REITS, released a report in March 2021 on the impact of the Covid-19 pandemic on its members (SAREIT, 2021). Because of the strict lockdown restrictions under alert level 5, tenants of commercial real estate – specifically retail tenants who sold non-essential goods – were unable to pay rent. REITs therefore had to provide rental relief of over R2,5 billion up until December 2020, in the form of both deferrals and discounts. Discounts, which are not refundable, are estimated to account for 80% of the rent relief. The SAREIT report does not quantify rental relief since December but estimates that REITs have provided total rental relief of close to R3 billion so far. Table 6.5.2 shows that almost half of the reported relief (R1,2 billion) was granted in the hard lockdown period, between April and June 2020.

Table 6.5.2: Rental relief provided by SAREIT members, April to December 2020

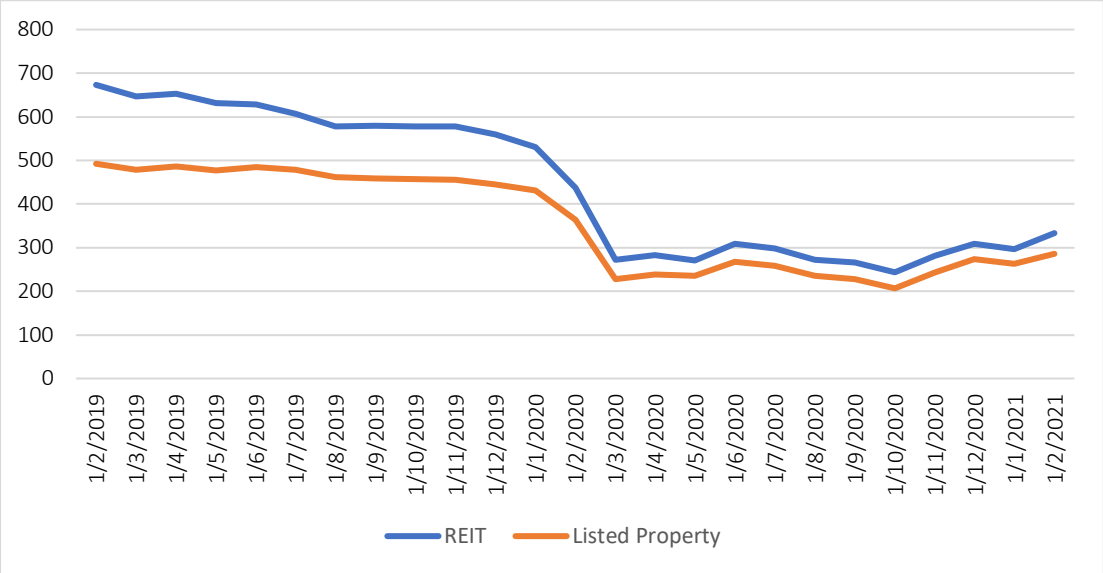
Time period	Value (R million)	Share of total rental relief (%)
April to June 2020	1 150	44,7
April to July 2020	11	0,4
April to August 2020	627	24,3
April to September 2020	537	20,9
April to December 2020	250	9,7
Total	*2 575*	*100*

Note: Time periods reflect different company reporting periods.
Source: SAREIT, 2021

The rental relief has affected the fundamentals of REITs, particularly the mandated distribution requirement – 75% of a REIT's generated income is expected to be distributed to shareholders. Because of liquidity constraints, in March 2020 SAREIT asked the National Treasury to suspend the mandatory payment of dividends for two years. Several REITs have announced that they would not be paying the mandated dividend because of Covid-19-related liquidity constraints; these include Redefine Properties and Rebosis.

Figure 6.5.11 shows two real estate indexes on the JSE: the JSE REITs index (JS3512) and the JSE listed property index (J253). The impact of the pandemic on REITS and listed property is clear: since March 2020, the JSE REITs index has lost 32% in index value, while the JSE listed property index has lost 27%.

Figure 6.5.11: JSE property index, February 2019 to February 2021

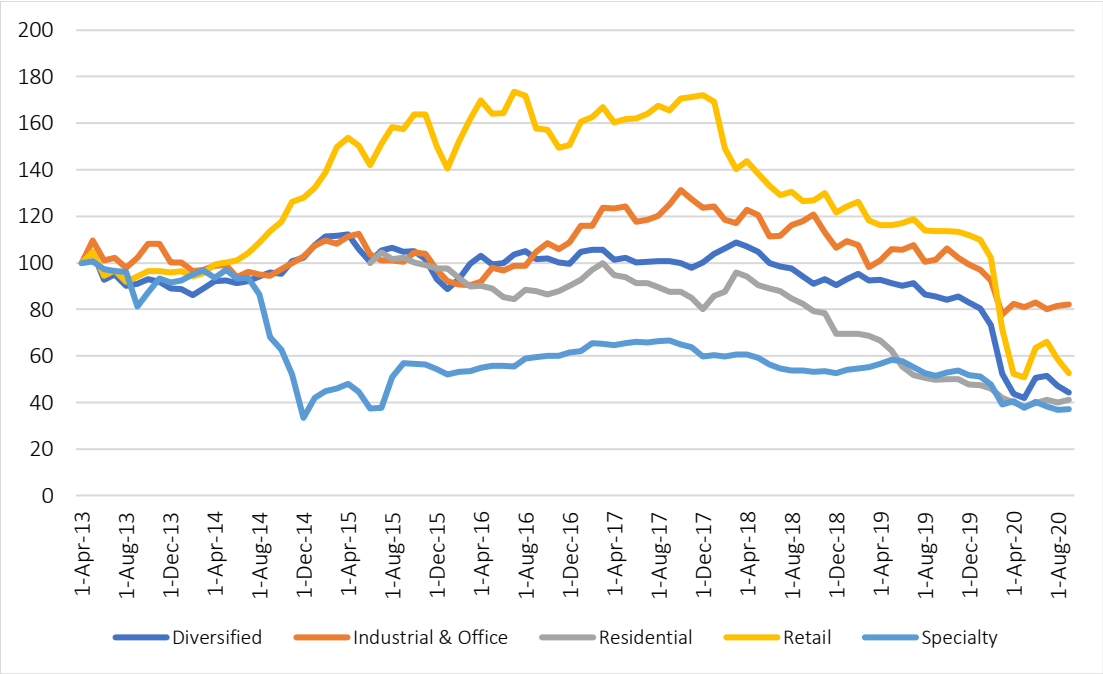


Source: Based on data from Iress

COMMERCIAL REAL ESTATE

The impact of Covid-19 on the commercial real estate in South-Africa has not been uniform (Figure 6.5.12). Based on the performance of REITs in each sector, Akinsomi (2021) suggests that the retail sector suffered significantly, with almost half of the index value of retail REITs wiped out. Diversified REITs did not fare quite as badly, and industrial and residential REITs were least affected. Because the performance of the commercial real estate tends to lag that of indirect commercial real estate (e.g., REITs), the impact of the pandemic on the sector may not become clear until 2021 or even 2022.

Figure 6.5.12: REITs market capitalisation, April 2013 to September 2020 (base: April 2013=100)



Source: Akinsomi, 2021

Office sector

The office sector in South-Africa has been significantly affected by the Covid-19 pandemic, especially by the dramatic increase in remote working. This has contributed to an increase in rent deferrals and rent freezes in the office space. First National Bank's commercial property survey estimated that commercial property values would decline by 7% in 2020 and by a further 9% in 2021 (FNB, 2021). According to Rode and Associates, market rentals for grade A office space decreased by 2% year-on-year in the third quarter of 2020, although it increased by 1% in the second quarter of 2020 (Rode & Lamprecht, 2020). The percentage of office tenants in good standing fell from 75% in March 2020 to a low of 59% in May 2020 and then rallied to 67% in July (Mathe, 2020). SAPOA (2020a) put vacancies in office space at 13,3% in December 2020 – the highest rate since 2004. Although an oversupply of office space contributed to this phenomenon, it was exacerbated by the Covid-19 pandemic.

Retail sector

As noted, the retail sector has been one of the worst-affected by the pandemic. SAREIT (2021) members provided rental relief to retailers, especially to sellers of non-essential items whose stores were closed during the lockdown. These included both discounts and deferments, as per Table 6.5.3.

Table 6.5.3: Rental relief to SMME retailers, April to June 2020 (%)

Level	Examples of SMMEs	April 2020	May 2020	June 2020
Highly affected	Restaurant, hairdresser, nail salon, theatre, take-away, travel agent	60–100% discounted	Up to 55% discounted	Up to 45% deferred
Moderately affected	Franchise holder	50–75% discounted	Up to 50% discounted	Up to 40% deferment

Source: SAREIT, 2021

The annualised trading density measures sales per square metre on a rolling 12-month basis. According to the SAPOA (2020b) report on retail trends, the annualised trading density fell by 13,4% year-on-year in September 2020. April 2020 saw the highest overall decline in trading density (-64,1% year-on-year). This was due to the lockdown restrictions, as stores and shops considered non-essential were closed from 27 March to 30 April 2020. The average vacancy rate of retail space was 6,9% in the third quarter of 2020.

Industrial sector

The industrial sector remained fairly healthy during the pandemic, and the appetite for industrial space was relatively better than for office or retail space. According to Rode and Associates (Rode & Lamprecht, 2020) vacancies for industrial space were only about 5%, much lower than for office (13,3%) and retail space (6,9%); this underscores the resilience of industrial space in the pandemic.

Residential real estate

The ABSA (2020) homeowner sentiment index is a good measure of how residential real estate fared during the pandemic. In the second quarter of 2020, ABSA interviewed 1000 consumers to measure

their confidence in the residential property sector. The general indication is that it is still a good time to buy rather than sell property. The favourable sentiment is highest among respondents who have never owned a property. Several variables contributed to the favourable sentiment in the residential sector, key among which was the interest rate. The SARB gradually reduced interest rates during the pandemic (see Figure 6.5.9 above), with prime rates falling from 9,75% just before the lockdown to 7% by September 2020 (Table 6.5.4). The reduction of the cost of financing a home has increased the interest in home ownership, especially among first-time buyers.

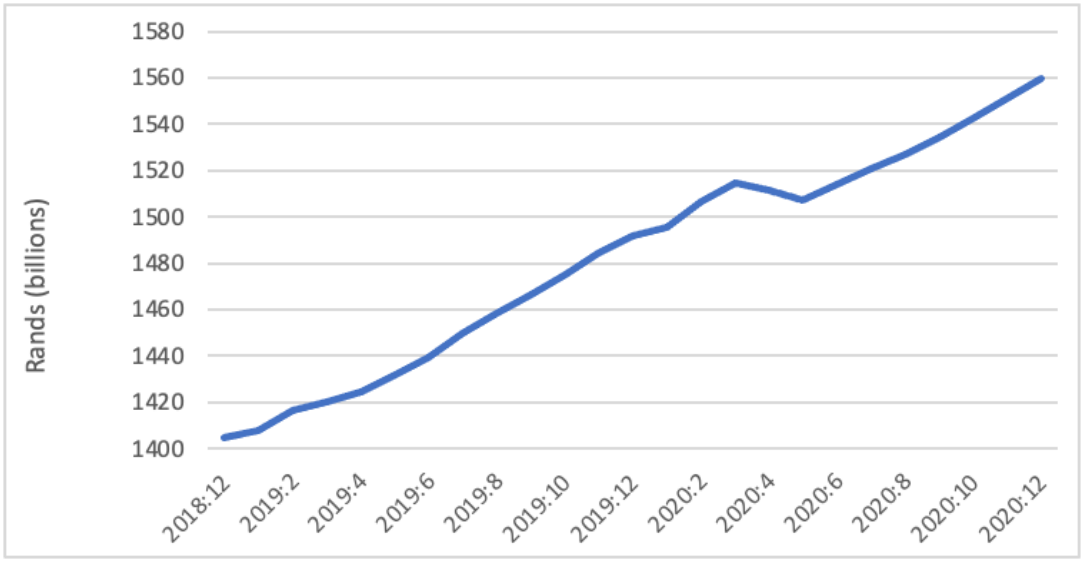
Table 6.5.4: Prime interest rates, September 2019 to April 2021

Date	Interest rates
1 September 2019 – 29 February 2020	10,00%
1 March 2020 – 30 April 2020	9,75%
1 May 2020 – 31 May 2020	8,75%
1 June 2020 –30 June 2020	7,75%
1 July 2020 – 31 August 2020	7,25%
1 September 2020 – April 2021	7,00%

Source: Based on data from SARB

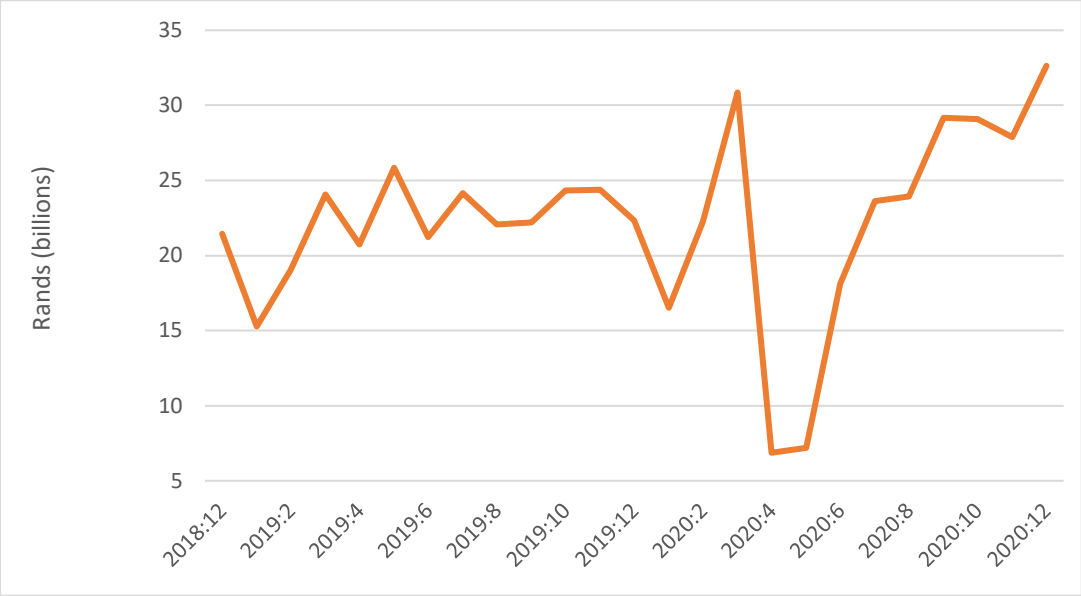
The favourable sentiment is also clear from the trend in mortgages. Figure 6.5.13 shows that outstanding mortgage loans issued by commercial banks were on an upward trend throughout 2019. This largely continued in 2020, except for April and May 2020 when aggregate outstanding loans dropped. This was probably due to a sharp fall in mortgage loans paid out in the same period (Figure 6.5.14). Mortgage lending fell by nearly 76% in April 2020, the month after the hard lockdown started. Mortgage loans paid out declined by a further 6% in May 2020 before recovering to pre-lockdown levels in June 2020 and the subsequent months.

Figure 6.5.13: Outstanding mortgage loans issued by banks, 2019 to 2020



Source: SARB, 2021b

Figure 6.5.14: Mortgage loans paid out by banks, 2019 to 2020



Source: SARB, 2021b

One aspect of the residential property market that was badly affected during the Covid-19 pandemic was the transfer of property ownership. The deeds office was shut during alert level 5 and only reopened after six weeks of inactivity on 1 May 2020. This caused severe backlogs: an article by Property24 (2020) shows that between 24 March and 21 July 2020, only 32 910 deeds were registered, as against 122 302 in 2019.

CONCLUSIONS AND LESSONS LEARNT

The Covid-19 pandemic has adversely affected real estate in South-Africa. Landlords of commercial real estate have had to provide billions in rental relief to tenants unable to afford their rent because of social distancing and lockdown restrictions. South African REITs have been particularly badly affected, which could affect the mandated 75% distribution requirements to shareholders. Policy geared to suspending mandatory requirements to distribute profits to shareholders would help REITs in the long run and assist in their sustainability.

The SARB has reduced the interest rate significantly from 9,75% before the pandemic to 7% currently; this has stimulated real estate markets. In the residential market specifically, respondents to the ABSA survey discussed above report increased confidence to buy property. This monetary policy stance should ideally be maintained; should conditions allow, interest rates could be further reduced to stimulate the real estate markets.

Confidence and growth in the real estate markets could be supported by a faster roll-out of the vaccination programme. As of 8 May 2021, according to Our World in Data (2021) only 382 480 South Africans have been vaccinated; this number is low relative to countries such as the United States (151,32 million), India (133,37 million), and the United Kingdom (35,19 million).

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ANNEX 6.5.1: MINING

COMPOSITION OF THE MINING SECTOR

In the South African mining industry, the eight most important commodities (by value of sales) represent 91% of mineral and metal sales and 92% of the workforce (Table 6.5.5). The largest commodities are coal and platinum group metals, followed by gold. The contribution of gold to the mining industry remains significant, even though production has declined in recent decades as ore reserves have been depleted.

Metals and minerals are beneficiated, concentrated, smelted, and refined and are inputs for the manufacturing sector. The bulk of production is exported, although exports of gold and coal are proportionally low. Some 70% of the coal produced is sold to domestic consumers, such as Eskom (45%), Sasol (30%), and for other industrial and domestic use (25%) (Minerals Council, 2020e).

Table 6.5.5: Mining commodities, 2019 and 2020

Commodity	Direct employment		Value of sales (R billion)		% of sales exported	
Year	2019	2020	2019	2020	2019	2020
Coal	92 916	91 459	139,3	132,9	39	36
Platinum group metal	168 102	163 358	136,0	171,3	92	91
Gold	95 130	93 682	76,6	78,2	37	72
Iron	19 769	20 607	70,7	83,1	92	96
Manganese	11 143	12 036	45,1	35,7	96	92
Chrome	20 901	19 587	22,2	17,4	47	46
Industrial minerals	12 195	11 787	17,9	16,1	44	28
Diamonds	15 252	13 983	13,2	11,4	58	62

Source: Minerals Council, 2020e & 2021a

INSTITUTIONAL ARRANGEMENTS

The mining sector is governed by the *DMRE,* led by Minister Gwede Mantashe, in terms of the Mine Health and Safety Act 29 of 1996[7] and the Mineral and Petroleum Resources Development Act 28 of 2002 (RSA, 2002). The DMRE administers prospecting rights, mining rights, mining permits, and compliance with the Mineral and Petroleum Resources Development Act, including environmental management. The Mine Health and Safety Act places the primary responsibility for health and safety on the 'employer' (i.e., the entity that holds the right to prospect or mine).

Implementing agencies of the department include the Mine Health and Safety Inspectorate and the Council for Geoscience. The Mine Health and Safety Council is a tripartite body established in terms

[7] See MHSC, 2018

of the Act. Other government departments with roles in governing mining projects include Water Affairs and Sanitation, and Environment, Forestry and Fisheries. The former issues water use licences to mining companies and houses the *Water Research Commission*. The Commission conducts research into water-related issues, including the use of water by mines and the impact of mining activities on water availability and quality. The Department of Environment, Forestry and Fisheries issues permits for exploration and mining.

The *Minerals Council South Africa* is an employers' organisation that supports and promotes the mining industry by providing strategic support and advisory input. In 2019 its 76 members produced 90% of South Africa's mineral output by value.

Many employees are members of *trade unions,* such as AMCU, the National Union of Mineworkers (NUM), Solidarity, and the United Association of South Africa (UASA).

South Africa has a vibrant non-governmental sector, which also considers the negative aspects of mining. Important non-governmental organisations include the *Bench Marks Foundation*, the *Centre for Environmental Rights*, *Earthlife Africa*, and *GroundWork* .

The *South African Commission on Human Rights* has convened hearings on the socio-economic challenges faced by communities affected by both mining and unregulated mining activities. The Commission's reports include recommendations on governance and research (SAHCR, 2015 & 2016).

Safety statistics are reported weekly by the DMRE. In 2019, 51 mineworkers lost their lives in in workplace incidents. In 2020 the toll increased to 58. Falls of ground are the greatest safety risk, contributing to 40% of the fatalities. Furthermore, many mineworkers suffer from diseases such as HIV/AIDS, tuberculosis, and silicosis. Consequently, the larger mining companies are experienced in screening and treating workers. However, small-scale mines do not have the same resources, and the informal mining sector is completely unregulated and un-resourced.

Mining depends on government-supplied energy, water and transport *infrastructure and services*. In 2019 mines paid R8 billion for water, R22 billion for electricity and R72 billion for transport and storage, including rail, road, and harbours (Minerals Council, 2020e). Bulk products are transported by road, rail (e.g., iron and manganese ore on the Sishen–Saldanha line and coal on the Mpumalanga–Richards Bay line), stockpiled and loaded at ports. Mines are also significant producers of pollution and waste, such as acid mine drainage, greenhouse gases and tailings.

Experts at universities, science councils and industry practitioners provided advice to companies and unions and commentary on the DMRE guidelines. For example, on 27 March, Wits University public health specialists Professor Derk Brouwer and Dr Vanessa Govender published an opinion piece urging companies to apply valuable lessons learnt from other epidemics (e.g., HIV/AIDS and tuberculosis) to keep the workforce healthy and safe (Brouwer & Govender, 2020). Professors Rodney Ehrlich (UCT), Jill Murray and Nancy Coulson (Wits), Rajen Naidoo (UKZN) and David Rees (NIOH/Wits) supported AMCU's court application on 29 April; on 12 May Professors Brouwer and Coulson commented on the

draft Code of Practice of the DMRE. Professor Brouwer, Dr Govender and Adjunct Professor May Hermanus published an article titled 'South Africa's industry preparedness to control Covid-19 transmission' (based on information available to 10 April 2020) in the March/April issue of *Occupational Health Southern Africa*.

COVID-19 AND THE MINING SECTOR

Table 6.5.6: Chronology of Covid-19 events in the mining sector

PRE-LOCKDOWN	
January	The WHO declares Covid-19 a Public Health Emergency of International Concern.
Early February	The Minerals Council issues a set of measures to mitigate the impact of the virus, based on materials provided by the National Institute for Communicable Diseases and the WHO. They are targeted at employees and translated into Afrikaans, isiZulu and Sesotho.
06/03	The Minerals Council announces a 9-point (later expanded to 10 points) action plan and states that it 'stands ready to work with all relevant parts of government to manage the spread of the virus' and that 'the potential impact on the industry is difficult to quantify'.
09–13/03	Engagement between the DMRE and the Minerals Council.
11/03	The WHO declares Covid-19 a pandemic after it reaches more than 100 countries.
11/03	The Minerals Council issues a second set of mitigation measures.
17/03	Minister Mantashe, the DMRE and the Minerals Council engage on industry preparedness.
17/03	The Department of Employment and Labour publishes Covid-19 planning guidance for employers (DEL, 2020b).
18/03	Government issues regulations in terms of the Disaster Management Act 57 of 2002 (CoGTA, 2020). Mines supplying coal to Eskom and liquid fuel manufacturers are deemed to provide an essential service and allowed to continue production. Smelters and refineries that cannot be easily switched off and on are allowed to operate at reduced levels, while drawing from stockpiles. All other mines are placed on 'care and maintenance'. Some 20 000 foreign workers are scheduled for repatriation.
18/03	The Minerals Council publishes a 10-point action plan and states that 'it is fully supportive of the measures that [the president] announced' and that 'it sees labour as a partner'.
18/03	NUM issues a statement expressing its concern and provides advice to the South African mining industry.
20/03	The Department of Employment and Labour publishes regulations on the compensation for occupationally acquired Covid-19, covering cases resulting from exposure to confirmed cases of Covid-19 in the workplace or after official trips to high-risk countries (DEL, 2020a).
23/03	President Ramaphosa announces a national lockdown of 21 days, along with various other measures to contain the pandemic and mitigate its effect on society and the economy.
23/03	AMCU issues a statement 'welcoming the radical interventions announced by the President' and indicates its intention to 'engage with the captains of industry and its members to comply and support the measures and interventions'.
24/03	NUM issues a statement calling on all companies to adhere to the Minerals Council's 10-point action plan and cancels all union-related gatherings of over 100 people with immediate effect.
25/03	The Minerals Council issues a statement detailing measures to prevent infection and minimise the economic impact of the pandemic.
26/03	The DMRE (2020) issues guiding principles for the prevention and management of Covid-19 in the South African mining industry.

LEVEL 5 'HARD' LOCKDOWN (27 March – 30 April) (Initial 21-day period extended twice)	
29/03	AMCU calls on mining houses to convene a coronavirus summit to gauge and bolster the state of preparedness for Covid-19 in the mining sector. It notes that 'mineworkers are forced to earn their livings in cramped areas with compressed air and high heat' and the 'working spaces like lifts known as 'cages' are the ideal breeding ground for this disease'.
31/03	NUM President Joseph Montisetse expresses concern that several mining operations continue to operate with reduced staff during lockdown.
06/04	AMCU issues a statement that 'accuses the DMRE of deviating from the national lockdown measures announced by the State President, as well as of lacking consultation with trade unions and other stakeholders'. AMCU President Joseph Mathunjwa says that the department had failed to honour its undertaking to provide a list of mining operations that will continue to be operational during the lockdown.
08/04	AMCU demands the minister of mineral resources and energy establish a task team to develop a national code of practice for managing Covid-19 in the sector (which may be customised at company level); this is to be gazetted as a regulation and a safety standard for the sector.
14/04	The Minerals Council publishes Standard Operating Procedures that provide guidelines for the management of healthcare workers and employees returning to work after the lockdown.
15/04	NUM issues a statement indicating an agreement with Harmony Gold that all workers will return to work on 2 May, all workers will be intensively screened, and the company will roll out a massive education campaign.
16/04	Disaster Management Act regulations are amended to allow mining operations to phase-up to 50% capacity.
16/04	AMCU issues a statement expressing its deep disappointment in the amended regulations, saying that the 'conditions for the health and safety measures to be put in place are inadequate' and reiterates its 8 April call for the development of a national code of practice.
21/04	The Minerals Council publishes recommendations for the proper use of PPE for specific situations to protect employees against exposure to the coronavirus and airborne pollutants in the workplace.
21/04	AMCU brings applications against the DMRE in the Gauteng High Court and the Labour Court to force the department to set national standards to manage the Covid-19 risk. AMCU's application is supported by an expert opinion from some of South Africa's foremost experts in public health and occupational medicine (see below).
21/04	NUM North East Region expresses concern that mines in the region are not adhering to new regulations and calls upon the DMRE to develop a joint programme to visit all listed mines.
24/04	NUM Kimberley Region issues a statement rejecting the attitude of employers who have cut salaries or refused to pay salaries and claimed relief from the UIF because of financial difficulties. NUM calls on the departments of Mineral Resources and Energy and of Labour to ensure compliance.
28/04	The Minerals Council reports that as of 27 April, the mining industry had experienced nine Covid-19 cases, none of which are because on-mine transmission.
29/04	The Labour Court hears arguments (using Zoom) regarding the AMCU applications.
LEVEL 4 LOCKDOWN (1–31 May)	
01/05	Mines are given permission to operate at 50% capacity after the 5-week hard lockdown.
01/05	The Labour Court issues judgment requiring the DMRE to publish a mandatory code of practice to mitigate and manage the Covid-19 outbreak. AMCU President Joseph Mathunjwa says, 'As AMCU we are truly elated by this victory of workers'.
11/05	NUM issues a statement expressing concern that some employers had decided to issue section 189 notices (intention to retrench workers) and had to be stopped by the department, and that

	some rich companies had decided to cut pay. It expresses appreciation for the 'proactiveness and decisiveness of the government' in handling the situation.
12/05	The Chief Inspector of Mines, David Msiza, requests commentary on the Guideline for the Compilation of a Mandatory Code of Practice for the Management of Covid-19 in the South African Mining Industry. Members of the Integrated Mine Health and Safety Research Group (Wits University) provide feedback.
15/05	The Minerals Council reports the first Covid-19 death of a mining industry employee; 165 000 employees have been screened, 87 tested, and 23 positive cases identified. It notes that 'while the initial cases reported in the industry were largely at corporate offices or professionals that had travelled internationally and locally for work or studies, there has been an increasing trend of regional transmission. Many of these have been cases of individuals contracting the illness at home under lockdown with no operational contact before or during their illness.'
18/05	Impala Platinum announces that a cluster of 19 asymptomatic cases has been detected at Marula Mine in Limpopo Province.
18/05	AMCU calls for universal Covid-19 testing at mines.
20/05	NUM North East Region calls for the closure of all mines in the Limpopo, following reports that Marula and Dwarsrivier mines have identified 19 and 30 Covid-19 cases, respectively.
22/05	The Minerals Council publishes a guide to assist members in taking informed decisions on the management of employees that are vulnerable to Covid-19.
24/05	AngloGold Ashanti reports that 164 cases, mostly asymptomatic, have been detected at its Mponeng mine.
26/05	NUM expresses deep concern about reports that the Mponeng and Moab Khutsong mines have identified 196 and 10 cases, respectively. It calls on the DMRE to temporarily stop all mining operations with a high number of infections until the situation has been remedied, with all workers paid in full. NUM commends the Limpopo government, in particular the MEC for Health, Phophi Ramathuba, for 'doing a fantastic job'.
LEVEL 3 LOCKDOWN (1 June – 17 August)	
09/06	The Minerals Council announces that 230 000 employees are back at work, 679 cases have been detected, and one death has been reported.
11/06	*Mining Weekly* reports that contract labour consultant TEBA has been contracted to transport some 14 000 foreign workers (from Lesotho, Eswatini, Mozambique and Botswana). Buses are to carry half their normal capacity to ensure social distancing. On arrival the employees are to be quarantined for 14 days in hostels and hotels.
19/06	The Portfolio Committee on Mineral Resources and Energy is briefed by the Minerals Council and organised labour, including the NUM, AMCU, Solidarity, and UASA on Covid-19-related work in the mining industry. The briefing covers health interventions and statistics, labour issues, community support, and the impact on production, mineral sales and exports.
01/07	Mineral exports in June have bounced back in value and earnings from first-quarter levels, although volumes still have to increase (Arnoldi, 2020).
02/07	The Minerals Council provides an update on mining sector interventions, reporting that 287 297 employees are screened every day, 2573 cases have been detected (74% asymptomatic), and 13 people have died. Initiatives by individual companies are described, e.g., an anti-stigmatisation campaign by Exxaro and Seriti, quarantine procedures by Harmony, and measures to encourage safe behaviour by Gold Fields.
03/07	*Mining Weekly* reports that industrial metal prices have risen from first-quarter lows, after the worldwide easing of lockdowns and monetary stimulus measures by banks and governments.
12/07	The first tranche of foreign mineworkers enters South Africa (Creamer, 2020).
17/07	The Minerals Council launches its *Behaviour Change Field Guide*.

LEVEL 2 LOCKDOWN (18 August – 20 September)	
20/08	*Mining Weekly* reports that the pandemic notwithstanding, Gold Fields saw its profit soar in the six months to 30 June; the half-year dividend equalled last year's full-year dividend.
27/08	*Mining Weekly* reports that Sibanye-Stillwater produced 'sensational half-year results on Covid-defying increased production from all operating segments' and invested R1,6 billion in Covid-19 social relief efforts, committing over R1,5 billion in financial support to employees not at work during the period and over R100 million to community and government support. Safe production milestones included the group's first fatality-free quarter since Q4 2018.
03/09	The Minerals Council reports that 338 624 employees are back at work and screened every day, 47 121 tests have been performed, 15 149 cases have been detected, and 161 people have died. It describes initiatives by individual companies to upscale testing.
16/09	The Minerals Council launches the *Beyond the Mine Gate Field Guide*.
LEVEL 1 (21 September 2020 – 23 April 2021)	
05/10	The Minerals Council dashboard for 5 October 2020 reports on 454 595 employees on 385 mines: 352 935 (78%) have been screened and 52 775 (12%) tested. A total of 17 155 cases have been detected, 421 cases (2,5%) are still active, and 184 (1%) people have died.
04/01/21	The Minerals Council dashboard for 4 January 2021 reports on 473 782 employees on 385 mines: 377 431 (80%) have been screened and 66 405 (14%) tested. A total of 19 905 cases have been detected, 367 cases (1,8%) are still active, and 206 (1%) people have died.
23/04/21	The Minerals Council dashboard for 23 April 2021 reports on 474 248 employees on 385 mines: 395 259 (83%) have been screened and 136 009 (28%) tested. A total of 33 468 cases have been detected, 181 cases (0,5%) are still active, and 386 (1,2%) people have died.
14/05/21	The Minerals Council dashboard for 14 May 2021 reports on 490 427 employees on 385 mines: 408 920 (83%) have been screened and 144 363 (29%) tested. A total of 35 089 cases have been detected, 362 cases (1%) are still active, and 396 (1,1%) people have died. 946 healthcare workers have been vaccinated.

Note: Minerals Council data sourced from Minerals Council (2021c) Dashboard

ANNEX 6.5.2: MANUFACTURING

MANUFACTURING BEFORE THE PANDEMIC

Manufacturing plays an important role in economic development. Several distinct features differentiate it from other economic sectors. These include:

1. It is a source of high-wage jobs.
2. Expanding the manufacturing sector raises the productivity of the overall economy (both manufacturing and non-manufacturing activities).
3. It has a higher concentration of technology and generates most commercial innovation, which diffuses from manufacturing to other economic sectors such as services.
4. Manufacturing is tightly linked to other sectors of the economy, both 'backwards' (e.g., with mining or construction) and 'forwards' (e.g., with transportation, wholesale and retail trade and business services); these linkages generate a large multiplier effect in an economy.
5. Given its export intensity, manufacturing can make a significant contribution to reducing a nation's trade deficit.

These features of manufacturing have put it at the centre of South Africa's economic development agenda since 1994. Manufacturing is also part of the move towards a 'knowledge-based economy'. In this respect, the 2012 National Development Plan recognises the importance of transforming the South African economy through innovation-driven industrial development. The National Development Plan is premised on a recognition that science and technology 'continue to revolutionise the way goods and services are produced and traded'. It further asserts that 'as a middle-income country, South Africa needs to use its knowledge and innovative products to compete'. It sees innovation as necessary for a middle-income country to develop, because 'on its own, a more competitive cost of production will not be sufficient to expand the global presence of South African industry. This applies to both new industries and traditional sectors' (NPC, 2012).

Despite this recognition of the importance of manufacturing, South Africa has undergone a gradual process of 'deindustrialisation' over several decades, with the annual growth rate of manufacturing declining over time (Andreoni & Tregenna, 2020). The sector had comprised about 20% of the economy in 1994, but by 2019 it contributed only 13% of GDP. The Covid-19 pandemic has massively accelerated the deindustrialisation process, heavily shaking a manufacturing landscape that had already been fragile.

LOCKDOWN REGULATIONS

Table 6.5.7 overleaf sets out the lockdown regulations affecting the different manufacturing subsectors for each alert level.

Table 6.5.7: Manufacturing activities under various lockdown levels

Alert level 5
1. Manufacture of all retail products permitted to be sold under Level 5, and all input products, permitted scaling up to full employment, except where otherwise indicated.
2. Manufacture of paper and paper products, excluding stationery, permitted scaling up to full employment.
3. Manufacture of packaging, including glass, plastic bottles and containers, permitted scaling up to full employment.
4. Manufacture of winter clothing, bedding and heaters, and all inputs required, permitted, commencing at 25% and scaling up to 50% employment.
5. Petroleum smelters, refineries and furnaces, permitted scaling up to full employment.
Alert level 4
1. Manufacture of retail products permitted to be sold under Level 4, and all input products, permitted scaling up to full employment, except where otherwise indicated.
2. Manufacture of paper and paper products, excluding stationery, permitted scaling up to full employment.
3. Manufacture of packaging, including glass, plastic bottles and containers, permitted scaling up to full employment.
4. Petroleum smelters, refineries and furnaces, permitted scaling up to full employment.
5. Manufacture of winter clothing, bedding and heaters (and all inputs required) permitted, commencing at 25% and scaling up to 50% employment.
6. Automotive manufacturing, including components, scaling up in phases to 50% employment.
7. Stationery production, scaling up in phases to 50% employment
8. Cement, other construction material, and hardware, scaling up in phases to 50% employment
9. All other manufacturing, scaling up to 20% employment
Alert level 3
1. Manufacture of all retail products permitted to be sold under Level 3, and all input products, permitted scaling up to full employment, except where otherwise indicated
2. Manufacture of paper and paper products, excluding stationery, permitted scaling up to full employment.
3. Manufacture of packaging, including glass, plastic bottles and containers, permitted scaling up to full employment.
4. Petroleum smelters, refineries and furnaces, permitted scaling up to full employment.
5. Manufacture of winter clothing, bedding and heaters, and all inputs required, permitted scaling up to full employment.
6. Automotive manufacturing, including components, scaling up in phases to 100% employment.
7. Stationery production, scaling up to 100% employment.
8. Cement and other construction material, scaling up to 100% employment
9. Steel and other metal manufacturing, scaling up in phases to 100% employment.
10. Clothing, textiles and footwear, scaling up in phases to 100% employment.
11. Other chemicals manufacturing, scaling up in phases to 100% employment.
12. All other manufacturing, scaling up in phases to 50% employment.
Alert level 2
All manufacturing scaling up towards 100% employment
Alert level 1
All manufacturing at 100% employment

ANNEX 6.5.3: THE TOBACCO LANDSCAPE BEFORE THE PANDEMIC

REDUCTION IN SMOKING PREVALENCE TILL 2010

Overall smoking prevalence in South Africa has stabilised at about 20% since 2010 (Vellios, et al., 2020), substantially less than the estimated 32% in the early 1990s (van Walbeek, 2005). This significant decrease in smoking prevalence stemmed from government policy to reduce tobacco, which rested on two pillars: taxation and legislation.

In 1994 government announced its intention to raise the *total tax burden* on cigarettes from 32% to 50% of retail prices; it then raised the excise duty substantially. The tobacco industry, dominated by Rembrandt/Rothmans, also substantially increased its net-of-tax prices, fuelling further increases in excise duty. This cycle of above-inflation increases in excise duty followed by above-inflation increases in retail prices continued until 2010. Even though nicotine is highly addictive, research shows that smokers do change their behaviour in response to price changes (IARC, 2011). The sharp price increases between 1994 and 2005 were responsible for most of the 33% decline in cigarette consumption in this period (Chelwa et al., 2017). Rapid economic growth resulted in a modest increase in cigarette consumption between 2004 and 2007, even though cigarette prices were still rising.

The second pillar of the tobacco control policy was *legislation*. The Tobacco Products Control Act of 1993 introduced health warnings on both cigarette packaging and advertising material and banned smoking on public transport. Even then, this legislation was relatively weak. The 1999 amendment, driven by Dr Nkosazana Dlamini-Zuma, the minister of health at the time, banned all tobacco advertising, promotion, and sponsorship, and made enclosed public places smoke-free (with minor exceptions). In an international context, this legislation, together with the well-publicised excise duty increases, made South Africa one of the leading developing countries in tobacco control policy. In 2000, the National Department of Health received the American Cancer Society's Luther Terry Award for leadership in tobacco control. Relatively small amendments in 2007 and 2008 banned smoking in cars when minors are present and increased penalties for breaking the regulations.

GROWTH OF THE ILLICIT MARKET SINCE 2010

Since 2010 there have been no further amendments to South Africa's tobacco control policy, and illicit trade has become a significant problem. The very high profits earned by the multinational companies, led by BATSA (formed in 1999 with the merger of Rembrandt/Rothmans and United Tobacco Company, a subsidiary of British American Tobacco plc), attracted new entrants to the markets. Philip Morris, with its iconic Marlboro brand, entered South Africa in 2003, but did not pose much of a competitive problem for BATSA, as it simply followed BATSA's lead in pricing. More concerning for BATSA was the entry of nimble local producers who undermined its pricing strategy. Because formal advertising and marketing were illegal, these small producers, located in South Africa and some neighbouring countries, had to compete on price. Also, they were largely excluded from the formal retail outlets, and sold much of their product through informal channels.

Seeing their market under threat, BATSA and the other multinationals actively undermined the activities of the smaller players. Their methods are comprehensively documented in *The President's Keepers* (Pauw, 2017), the Nugent Commission (Nugent, 2018), *Tobacco Wars* (van Loggerenberg, 2019) and *Dirty Tobacco* (Snyckers, 2020). Through the Tobacco Institute of Southern Africa, their industry body, they created a narrative about the new entrants not paying excise duties. Through campaigns like #TakeBackTheTax, they presented themselves as the victims of illicit trade and as 'partners' to government in the latter's fight against the scourge.

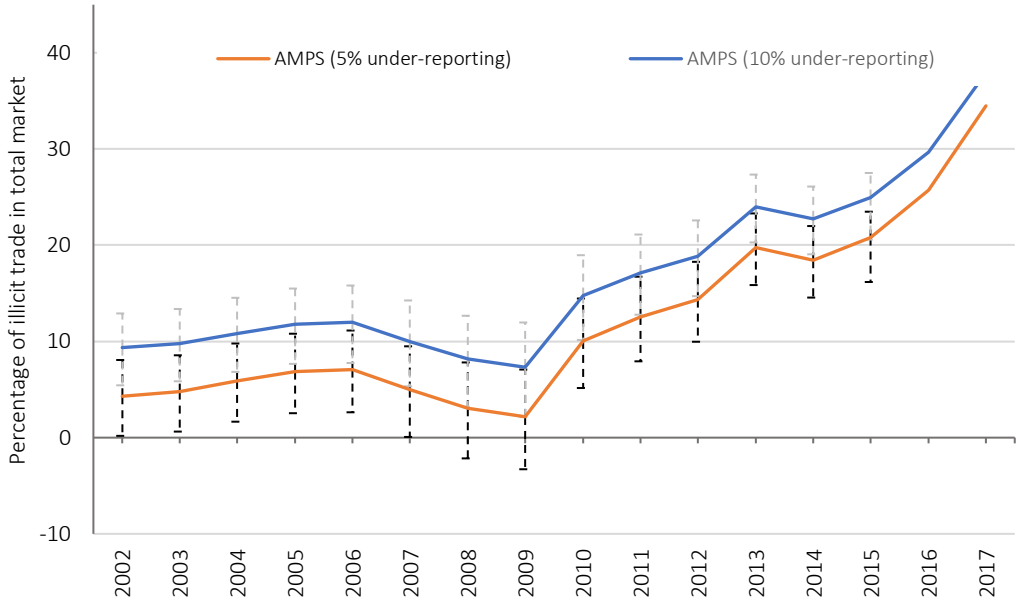
Internationally, multinational tobacco companies have a long record of aiding and abetting the illicit trade, as is evident from the billions of dollars they have paid in fines for such activities (Snyckers, 2020). For them to claim that they are blameless in South Africa seems curious; they have been accused of highly questionable activities (van Loggerenberg, 2019; Snyckers, 2020). For example, the Tobacco Task Team was created ostensibly to fight the illicit trade in cigarettes. It consisted of the Tobacco Institute, the Hawks, and other national intelligence and law enforcement agencies, but not SARS. Its aim, it seems, was less to curb illicit trade and more to spy on other industry players and undermine SARS. The Nugent Commission found that 'the one thing the Tobacco Task Team did not investigate was the illicit trade in cigarettes, but it investigated instead the investigators who once investigated that trade' (Nugent, 2018).

This does not suggest that illicit trade was not a problem or that local producers were not involved in such trade. Illicit trade in South Africa has become a significant problem, and the local producers of cigarettes are disproportionately involved in it (REEP, 2019, unpublished research paper). In the absence of tax stamps, it is practically impossible to determine whether excise duty has been paid on cigarettes. One proxy for illicit trade is to determine how many cigarettes are sold at a price where it is implausible for the full tax to have been paid. REEP's surveys of smoking behaviour and cigarette pricing have found that extremely cheap (i.e., probably illicit) cigarettes are more likely to originate from local producers. For example, two studies of smoking behaviour in six townships (2017 and 2018) found that nearly all cigarettes that were sold for R20 per pack (R1 per stick) or less were brands owned by local manufacturers (REEP, 2019, unpublished research paper). With a minimum tax amount of R17,85 (excise duty plus value-added tax on the excise duty) in 2018, it is a near certainty that the full amount of tax had not been paid on these cigarettes.

Although the magnitude of the illicit cigarette market is not entirely clear, the trends are not in dispute. As per Figure 6.5.15, the illicit market was largely under control until 2009, after which it grew substantially. It was restrained somewhat in 2014, as SARS investigators were closing the net on the industry (both multinationals and local producers). The appointment of Tom Moyane as SARS Commissioner in September 2014 and the subsequent shutting down of the specialised units that investigated the illicit tobacco trade meant that the industry could act with impunity, which it duly did. The illicit market increased to roughly 35% of the total market by 2017. National Treasury revenue data suggests that the illicit market stabilised in 2018. In January 2019 the acting SARS Commissioner, Mark Kingon, created the Illicit Economy Unit, which also investigated the illicit trade in tobacco

products. Provisional results in the February 2020 *Budget Review* suggest the volume of legal cigarettes had increased by 11% in 2019/20. In a mature market, where total sales volumes do not grow much, this implies the illicit market had been reduced by 8–10 percentage points of the total market in 2019 (van Walbeek, van der Zee & Vellios, 2020). Still, although the tide had turned, the battle against illicit trade was far from over.

Figure 6.5.15: Estimate of illicit trade in cigarettes, 2002 to 2017 (%)



Source: Vellios et al., 2020

ANNEX 6.5.4: FINANCIAL INSTITUTIONS

Table 6.5.8: Registered commercial banks and insurance firms

Commercial banks[1]	Insurance firms[2]
ABSA	Abacus Insurance Limited
African Bank	ABSA Insurance Company Limited
Al Baraka	African Reinsurance Corporation (South Africa) Limited
Bank of China	AIG South Africa Limited
Bank of Taiwan	Allianz Global Corporate & Specialty South Africa Limited
Bidvest Bank	Auto and General Insurance Company Limited
BNP Paribas	Bidvest Insurance Company Limited
BofA Securities	Bryte Insurance Company Limited
Capitec Bank	Budget Insurance Company
China Construction Bank	Centriq Insurance Company Limited
Citibank	Chubb Insurance
Deutsche Bank	COFACE South Africa Insurance Company Limited
Discovery Bank	Compass Insurance Company Limited
FinBond Mutual Bank	Constantia Insurance Company Limited
FirstRand	Credit Guarantee Insurance Corporation of Africa Limited
GBS Mutual Bank	Dial Direct Insurance Limited
Goldman Sachs	Discovery Insure Limited
Grindrod Bank	Federated Employer's Mutual Assurance Company (RF) Proprietary Limited
Grobank	First for Women Insurance Company Limited
Habib Overseas Bank	FirstRand Short Term Insurance Limited
HBZ Bank	Genre Company Limited
HSBC Bank	GIC RE South Africa Limited
ICICI Bank	Guardrisk Insurance Company Limited
Investec	Hannover Insurance Africa Limited
Ithala	HDI Global South Africa Limited
JP Morgan Chase	Hollard Insurance Company Limited
Mercantile Bank	Infiniti Insurance Limited
Nedbank	Intermediaries Guarantee Facility Limited
Postbank	King Price Insurance Company Limited
Sasfin Bank	Land Bank Insurance Company Limited
Société Générale	Legal Expenses Insurance South Africa Limited
Standard Bank	Lloyd's South Africa (Pty) Limited
Standard Chartered	Lombard Insurance Company Limited
State Bank of India	Miway Insurance Limited
TymeBank	Momentum Short Term Insurance Company Limited
UBank Limited	Monarch Insurance Company Limited
	Munich Reinsurance Company of Africa Limited

	Nedgroup Insurance Company Limited
	New National Assurance Company Limited
	Oakhurst Insurance Company Limited
	Old Mutual Insure
	Outsurance Insurance Company Limited
	Professional Provident Society (PPS) Short-Term Insurance Company Limited
	RENASA Insurance Company Limited
	SAFIRE Insurance Company Limited
	Santam Limited
	Santam Structured Insurance Limited
	SASRIA SOC Limited
	SCOR Africa Limited
	Shoprite Insurance Company Limited
	Standard Insurance Limited
	Swiss Africa Limited
	Unitrans Insurance Limited
	Western Insurance Company Limited
	Workers Life Insurance Limited
	Yardrisk Insurance Limited

Sources: 1. BASA, 2018; 2. SAIA, 2021