



Speakers:

1. Peter Attard Montalto: The employment and poverty impact of the Covid-19 crisis
2. Dr Maurice Goodman: The multidimensional health impact of the epidemic in South Africa
3. Sizwe Nxasana: Foundations' responses – managing in the face of heightened demands
4. Dr Stuart Theobald: Foundation Portfolio Management - balancing cash needs in a weak market
5. Dr Graunt Kruger: Dealing with the crisis while not losing sight of long-term strategy

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The employment and poverty impact of the Covid-19 crisis

Peter Attard Montalto

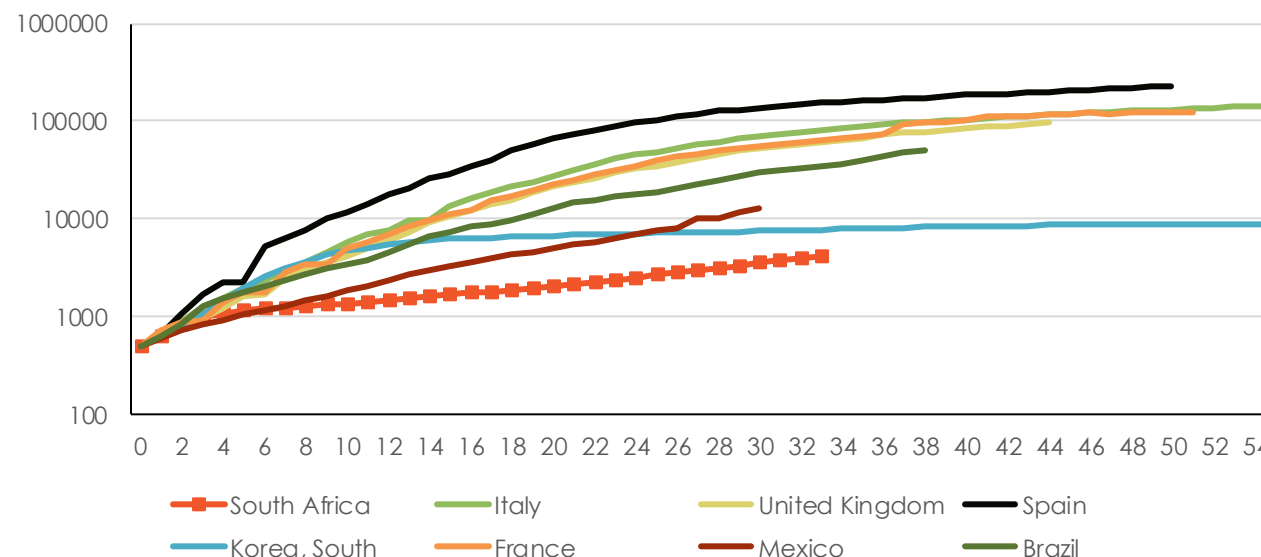
Macro and fiscal impacts

Consensus still grossly
underestimates the
length or severity of
the path ahead



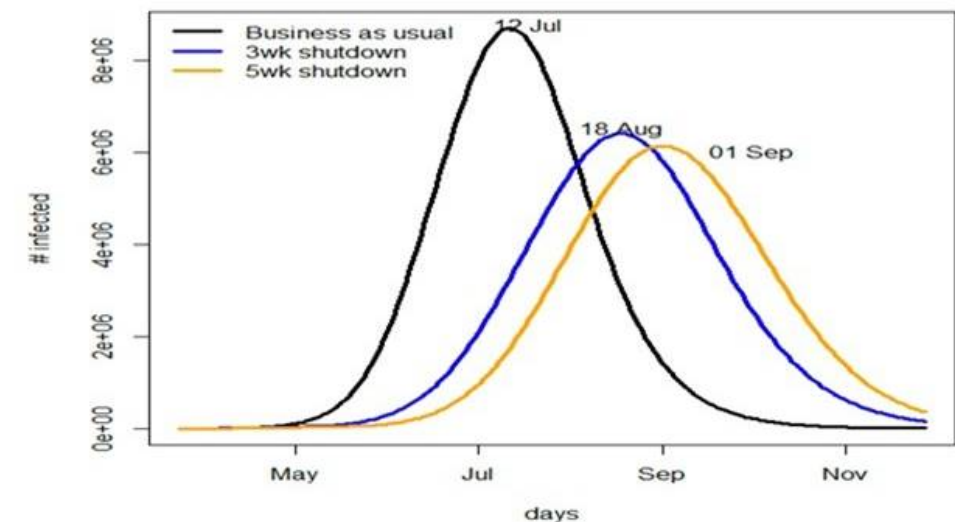
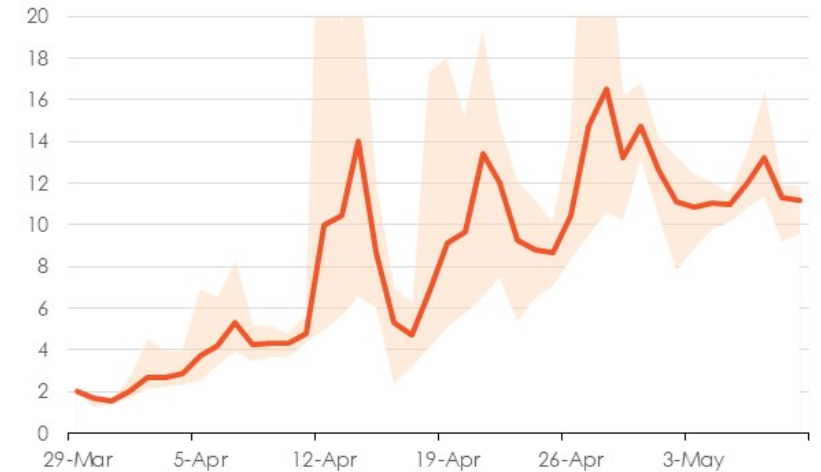
South Africa's experience

- Exponential curve started through March – imported cases
- Sharp adjustment around start of lockdown on 26th March likely due to Disaster declaration on 15th March
 - Social distancing and sharp drop in tourism arrivals and restaurant and bars open before lockdown
- Lockdown on 26th March occurred without adequate economic package
 - Only approximately 1.5%GDP of which maybe only 0.5% GDP actually deployed on time.



South Africa's experience

- Significant ramp up in community testing – now 10k tests per day conducted
- Significant lumpiness in data – however death rate doubling time (days) increasing.
- Problem is winter is coming, reduction in respiratory health, seasonal flu.
 - DoH planning for early September peak – very different profile to Europe given seasons.
 - Coastal, higher humidity areas likely more affected
 - But also risks to population dense areas.
 - Long way to go – key ramp up time July and August
 - ASSA forecast 1,600 deaths per day in run up to peak



Stimulus problems

- Initial Pretoria response was to treat this as 'large but normal shock'
- SARB 'got it' first – rate cuts and then under pressure banking regulatory easing
 - Bank capital and liquidity changes are **not** ZAR300bn stimulus being marketed
 - Accommodation for 90% of losses expected, not stimulus
 - Expect SARB to cut another 50bp in May, risk of more.
- NT found itself institutionally ill at ease within wider government in stimulus discussions
- Securocrats and microeconomic fiddlers clearly in majority
- Some institutional missteps made around timing of stimulus inputs into cabinet and decision making
- Believe cabinet worked backwards, chose 10%GDP stimulus = ZAR500bn
- Stimulus now being placed into growing hole with next stages of lockdown through to peak
- Fiscal hole – required IFI (IMF/NDB) plus SAGB issuance step up

Stimulus problems

- Questions over implementability of ZAR500bn stimulus
- No firm ideas on jobs support
- Will final design of bank lending support target right segments?
- Unemployment insurance lite to take significant time to implement on any scale
- Offset by ZAR130bn of reprioritisation – likely from infrastructure
- Revenue measures uncertain (holiday vs relief)
- Overall impact is 6pp on to GDP but possibly spread over time.

Item	Amount ZARbn	Share of GDP %	Multiplier x	Impact ppGDP
Loans	200.0	3.9	1.3	5.1
Health	20.0	0.4	1.2	0.5
Grants	50.0	1.0	0.5	0.5
Unemployment benefit	10.2	0.2	0.5	0.1
Food parcels	0.1	0.0	1.0	0.0
SMME	2.0	0.0	0.7	0.0
Revenue measures	70.0	1.4	0.6	0.8
Jobs	100.0	1.9	0.5	1.0
Municipalities	20.0	0.4	0.8	0.3
Other	27.7	0.5	1.0	0.5
Reprioritisation	-130.0	-2.5	1.1	-2.8
Average/Total			0.8	6.0

Growth impact

Start year 2020 GDP growth

1.2%

Post Q4 data and loadshedding

0.1%

Disaster declared, border closure

-2.3%

Lockdown (3weeks), w/ stimulus and rates

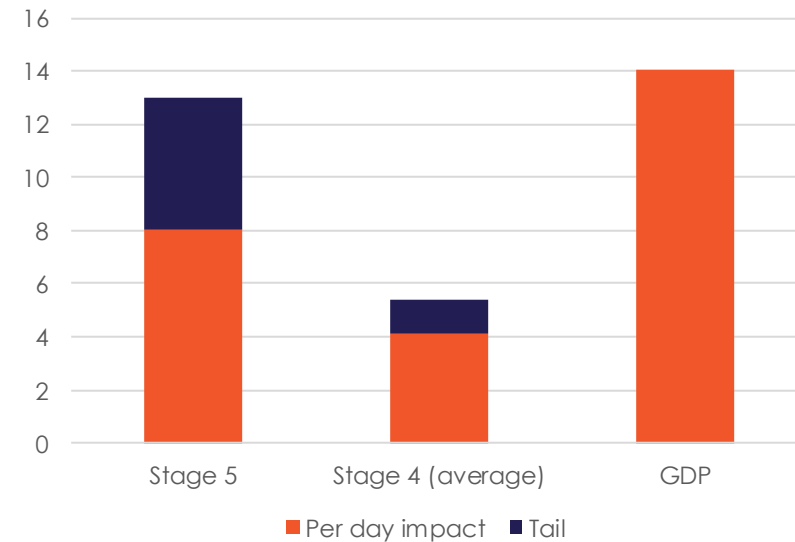
-6.8%

Lockdown extension

-9.7%

Flexible lockdown till September

-16.4%



Estimate 1.7mn jobs will be lost

Add in ZAR500bn stimulus

-10.6%

The long term problem

- SA fiscal in medium run can only be saved with nominal growth
- Investors and markets will give no benefit of the doubt on structural reforms occurring.
 - Doesn't mean no reforms will happen, but they will occur too slowly to reach lift-off velocity from a lower base.
 - Two-steps-forwards three-steps-back problem.
 - Can show some precommitment now?
- If no nominal growth in future years then only three options:
 - IMF SBA with conditionality – SA strapped to the mast.
 - USD 50bn+
 - Deeply challenging to see politically – time consuming process of social compacting to death
 - IMF SBA required for another NDB CRA USD7bn.
 - Or, SARB 'real-QE' to absorb approximately ZAR250bn of debt per year
 - Hard to see current SARB leadership accepting without an SBA
 - Or, China bilateral loan
 - Non-economic conditionality likely deeply challenging

Deep societal impacts

- How can grant step ups and new unemployment benefit be temporary if permanent loss of output? – cliff edge risk around October/November
- SMME support from banks guaranteed lending scheme – partial? Risk averse? Cliff edge risk in 6m when interest payments kick in.
 - Around 2/3 of SMMEs can't last beyond July
- Politicisation/corruption of humanitarian support entrenches localised control of political economy.
- Inequality impact from social distancing – restaurants, air travel etc. Distributional impacts important.
- Lower income deciles less likely to be able to work at home – health risk, also more impacted by supply chain disruption (both for work and for goods/services inc medicines).

Problems for the future

Is nominal GDP growth
>8.0% possible?

- (real growth per capita >2.0%?)
- How do we avoid permanent losses of output

Will the SARB step up to
'Real-QE' before or after an
IMF SBA?

How much long term
control does the President
have? Especially over
structural reforms.

- Do the securocrats and microeconomic fiddlers maintain control?

How are cliff edge situations
dealt with?

- Benefits/Unemployment grant
- Tax holidays
- 6m interest free on lending scheme

Are mistakes on next steps
of lockdown (complexity)
addressed or not?

How does the economy
adapt in the long term to
rising inequality and very
unequal outcomes?

- What happens if there isn't a vaccine or anti-body test?
- Economic nationalism

Any questions?

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Foundations' responses – managing in the face of heightened demands

Sizwe Nxasana



Intellidex foundationsXchange

Sizwe Nxasana

12 May 2020

Great leadership from government allowed NGO's to participate meaningfully



The government response

- Leadership and direction helped
- Partnership with social partners welcome



- Quick action by SARS for review of Foundation and trusts MOI
- Allowed foundations to get involved



- South Africa has great collaboration platforms



Foundations acting with speed

Foundations response



- Strategic discussion about the future and new normal
- Stress testing the financials whether endowments or annual transfers
- Think of 'NOW-NEXT and FUTURE'
- Great opportunity for foundations to be part of reducing inequality meaningfully
- Great opportunity for partnerships and collaboration

Implication for business, CSI and NGO's

■ ■ ■
Business, CSI and NGO's to work more closely
with education institutions and government to
improve innovation



Business and social
partners to take
responsibility for skills
development to build
resilience and innovation



By working closely with education
institutions business/NGOs can be
nimble in developing new ways of
learning and teaching as well as new
platforms for content delivery

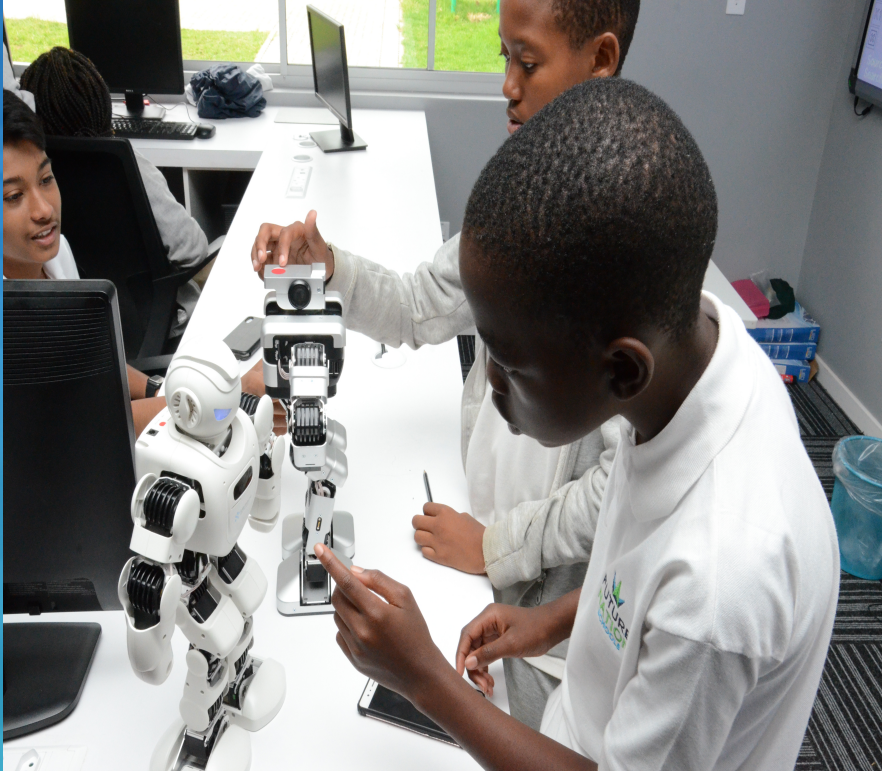


In the face of increasing nationalism,
business, government and education
institutions must work create
continental and local solutions



Post COVID-19 Goals of Education to be questioned

Education must produce skills and competencies



Modern disciplines

- Coding and Robotics
- Artificial Intelligence
- Data analytics
- Blockchain technology



Functional skills

- Leadership
- Entrepreneurship



Modern themes

- Global Literacy
- Information Literacy
- Environmental Literacy
- Systems and design Thinking

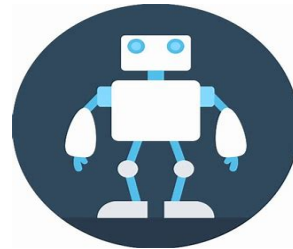
What does the future look like?
...we must question everything



Business &
Economy



Politics & law



Technology &
innovation



Resources &
Environment



Society &
you



Foundation Portfolio Management - balancing cash needs in a weak market

Dr Stuart Theobald

Financial markets and foundations in the crisis

Dr Stuart Theobald, CFA



Market dislocation in the crisis

- Simultaneous sharp weakening of both equities and bonds
- Recover since has been remarkable
 - Bonds now back at levels before crisis, despite Moody's downgrade and clearly sharply deteriorating government finances
 - Equities mostly recovered – now c. 9% down from start of the year.
- Considerable uncertainty remains. Is it time to protect portfolios against further shocks?



Foundation portfolios in crisis periods

- Fundamental objective in most investment strategies for foundations is asset/liability matching:
 - Ensure that the obligations of the foundation are met with cash flows when needed. Practically: hold instruments that mature at the same point that cash is needed, **and** that have same interest rate and capital sensitivities (and other risk factors).
- But a crisis steps outside of the normal ALM framework if spending is to be stepped up for urgent short-term interventions
 - Challenge is liquidating instruments outside of the normal expected liability schedule. Can mean selling into market weakness, or incurring penalties (e.g. bank fixed deposits).
 - Can lead to permanent diminution of capital if residual portfolio (that outside of liability matched portfolio) is sold off to meet urgent needs
 - If asset allocation includes tranche held for emergency needs, this might be time to access it.
- Is concessionary finance available?
 - Several international DFI's are providing concessionary finance. Low interest rate loans are a potential option to avoid liquidating portfolios at the wrong time. Foundations can provide security.

Thinking out of the box

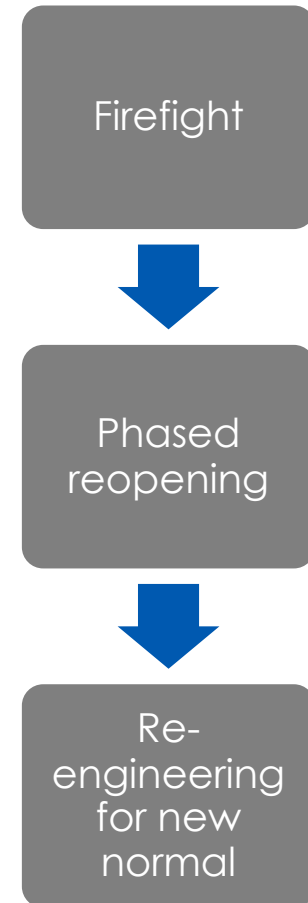
- There's never been a more important moment for outcomes-based funding
 - Is now the time for more social impact bonds that achieve Covid-19 harm reduction?
- Should we be creating a new Covid-19 crisis fund specifically for NGOs?
 - This has been done internationally. Can access global aid agency money (e.g. Start Network).
- Is blended finance a useful strategy?
 - A lot of the harm is being inflicted on informal businesses. Bridging financing loans can be made on a non-profit basis which can use traditional forms of debt financing combined with grants.
- Can we work with the corporate sector to deliver interventions for suppliers and customers?
 - Corporates have an interest in protecting vulnerable suppliers and customers. Do they have resources that can be aligned with NGO activities to deliver better outcomes?

Dealing with the crisis while not losing sight of long-term strategy

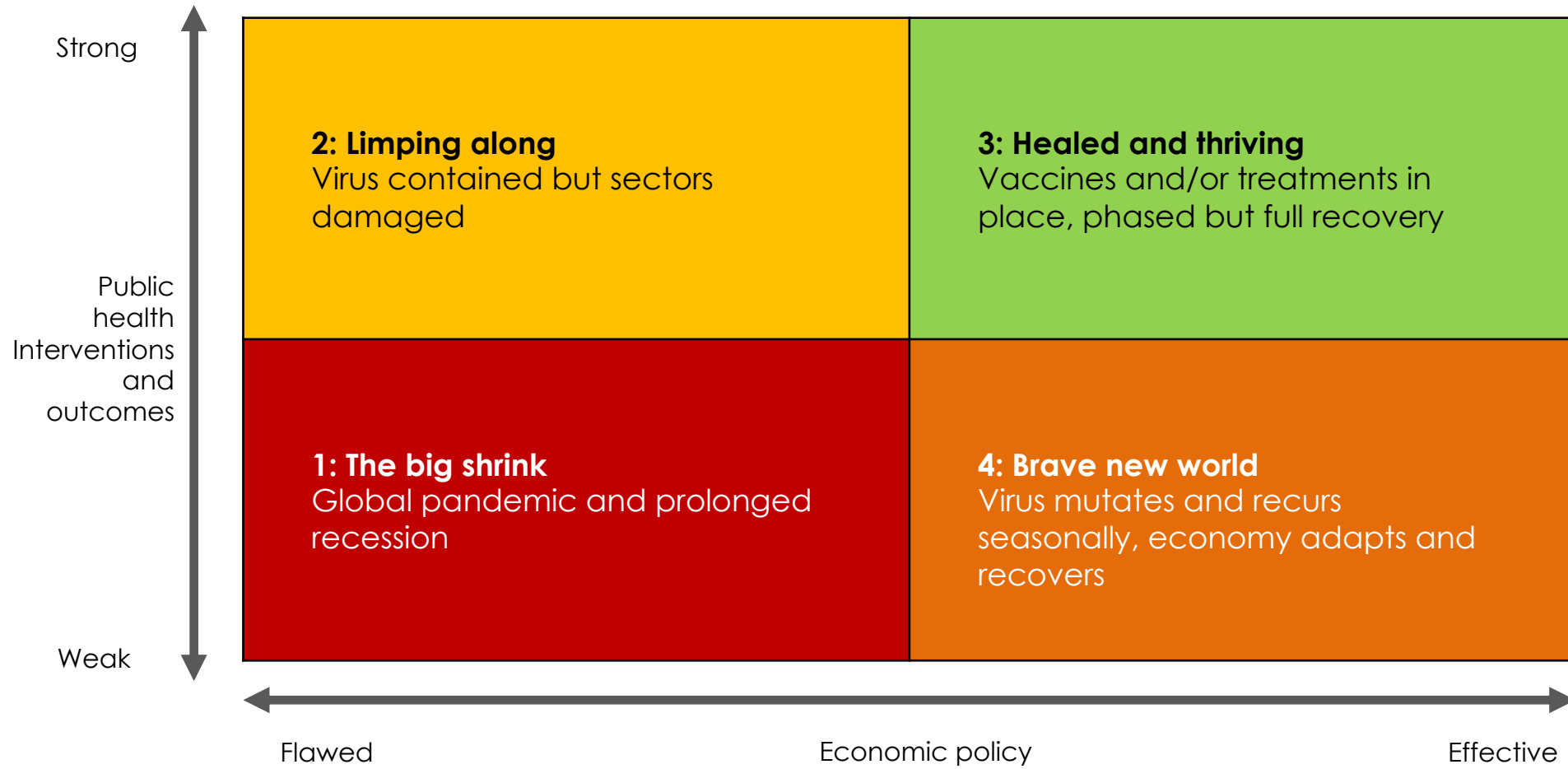
Dr Graunt Kruger

Scenario planning for this crisis

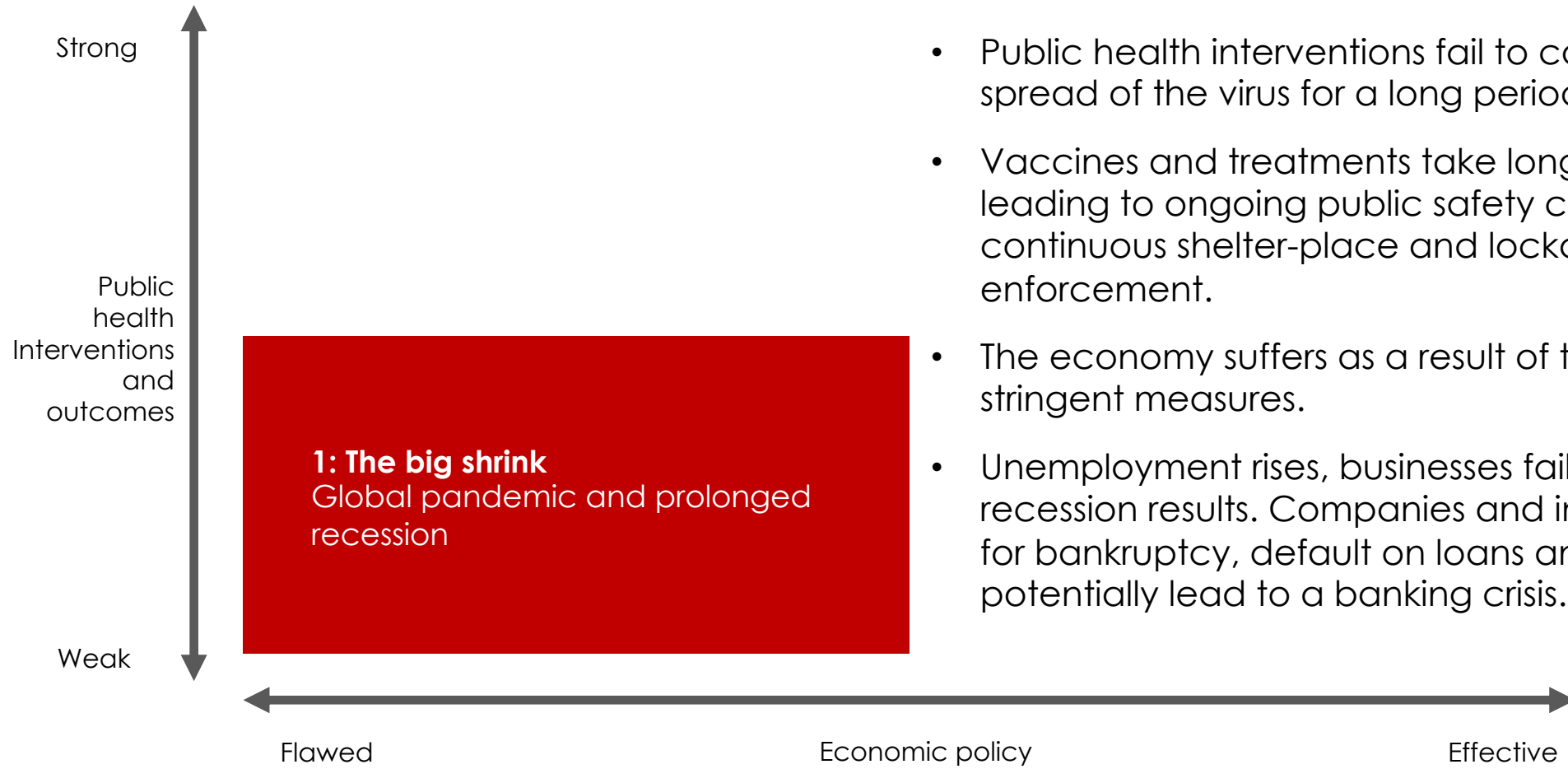
- Scenario planning turns uncertainty into manageable futures
- We anticipate three stages for a crisis response:
 1. Confronting the crisis (firefighting)
 2. Responding to the phased re-opening of the economy
 3. Re-engineering the bank's strategy for long-term survival
- This linear path has inherent risks: biases, over/under-confidence, over/under-prediction
- Scenario planning divides our knowledge into two areas:
 - Things we believe we know something about (so can put probabilities to)
 - elements we consider highly uncertain or unknowable (so cannot put probabilities to)
- There are two primary uncertainties:
 - **Health outlook:** When/if a vaccine or treatment for Coronavirus will be available?
 - **Economic outlook:** When will the economy recover?



Learning scenarios

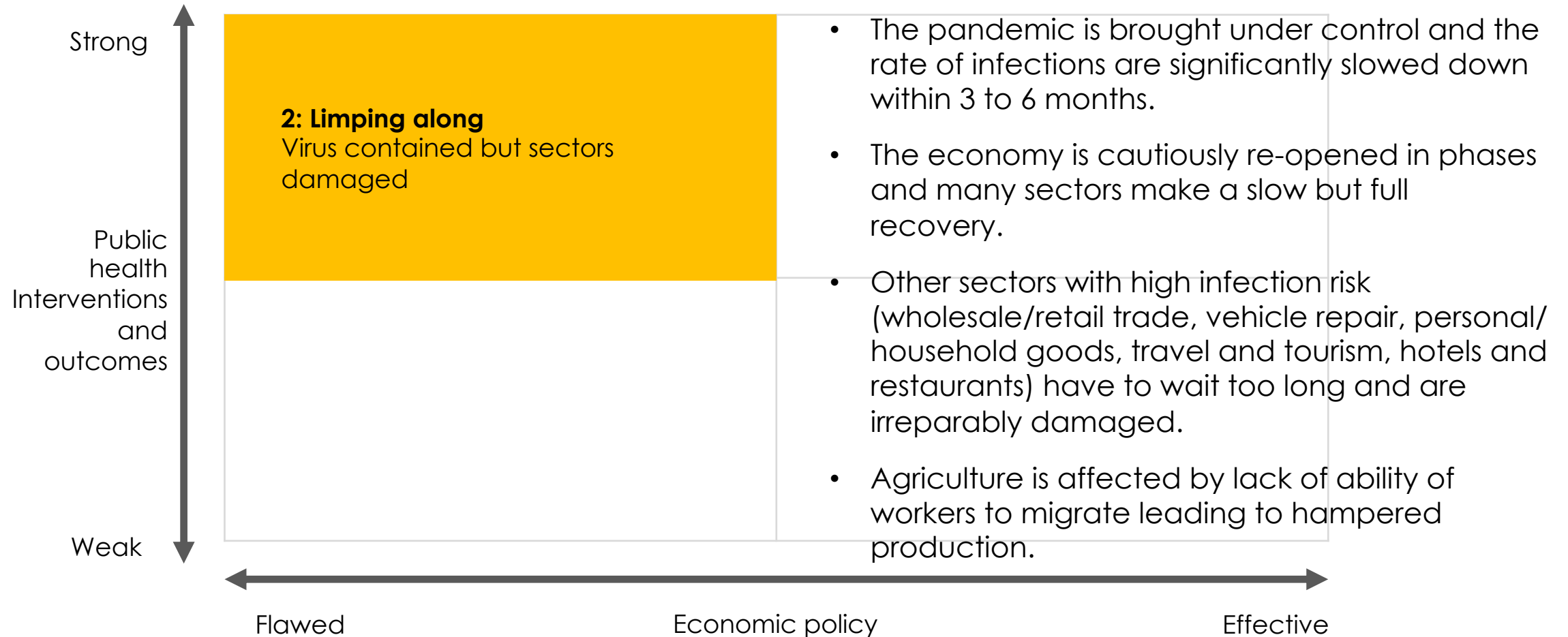


Learning scenarios

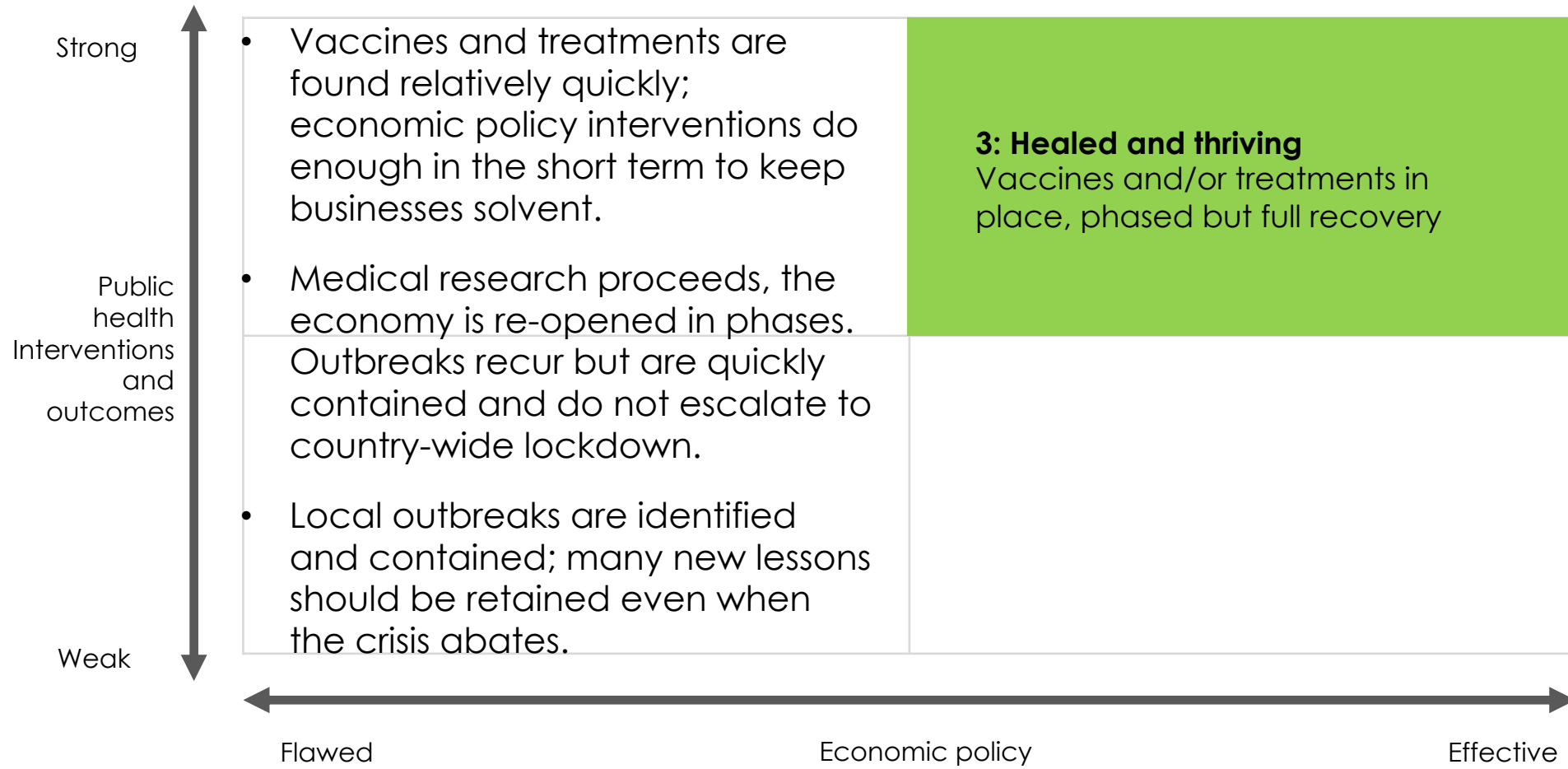


- Public health interventions fail to contain the spread of the virus for a long period of time.
- Vaccines and treatments take long to develop leading to ongoing public safety concerns and continuous shelter-place and lockdown enforcement.
- The economy suffers as a result of the need for stringent measures.
- Unemployment rises, businesses fail and recession results. Companies and individuals file for bankruptcy, default on loans and this could potentially lead to a banking crisis.

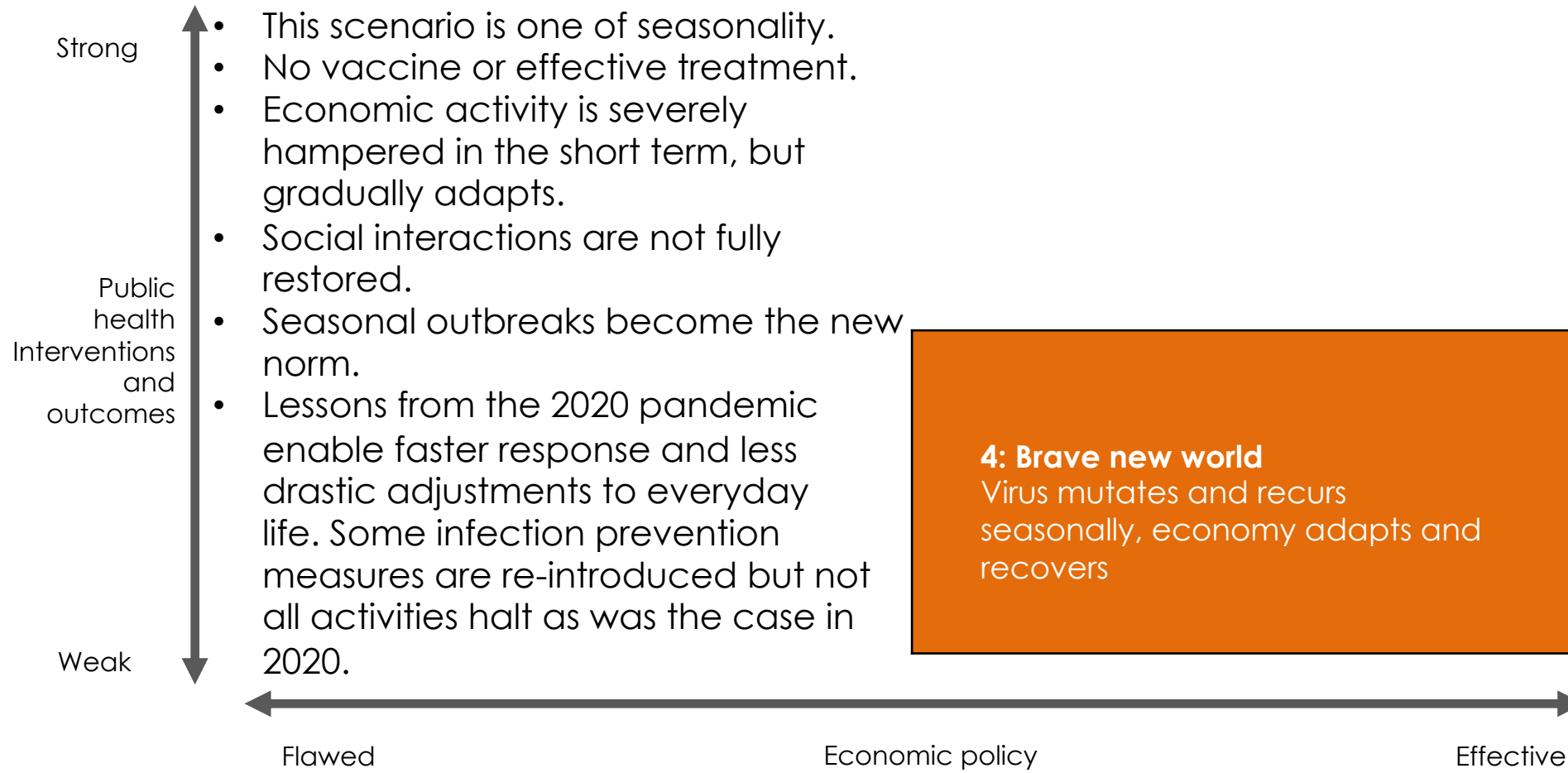
Learning scenarios



Learning scenarios



Learning scenarios

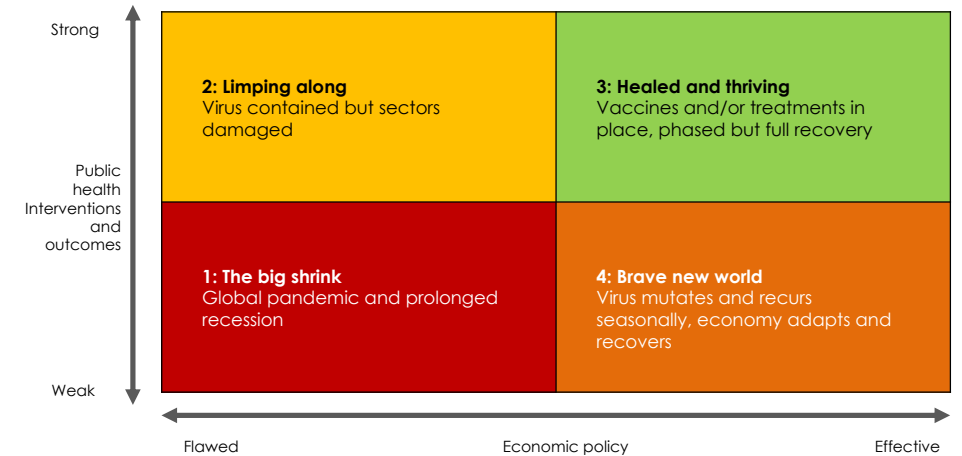


Implications

1. Strategy, objectives, impact and outcomes
2. Governance
3. Beneficiaries
4. Operations
5. Fund disbursement and cash flow
6. Asset management

What next?

1. Appoint a Forward Planning Team
2. Convene a planning workshop to validate the learning scenarios
3. Update the learning scenarios to decision scenarios
4. Identify further research needs
5. Develop quantitative models
6. Define response strategies



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