



**CMEFS WEEKLY INVESTMENT NEWS**

**16-10-2020**

Hello and welcome to this week's edition of Investment News.

Before we go into this week's discussion, let's see how the CMEFS Flexible fund has done for the year thus far as compared to the All Share Index (ALSI)

Fund	Last week Thursday	This week Thursday
ALSI	-4.51%	-2.96%
CMEFS Flexible Fund	+0.78%	+0.89%

In this week's edition, let's talk about the president's economic stimulus and recovery plan officially launched by the president during his speech to a joint sitting of the National Council of Provinces and Parliament last night.

Before commencing, however, I would like to make the point that it is not my intention to "talk it to death" but rather to "do it to life".

An ounce of action is worth an infinite number of words, and that is what we as South Africans need to focus on right now. Doing. Not talking.

That is to say, doing our part in bringing the plan to life rather than talk it to death through continuing analysis, criticism, condemnation, cynicism, and the like.

Is the plan perfect? I don't know and I don't care. But we have a plan, rather than none.

Is there such a thing as a perfect plan? Well other than those put together by the A-Team's Hannibal Smith, I have yet to see one.

What I have seen though are imperfect plans set into motion (this probably defines every business start-up in the world!) but once set into motion are seen through to the end, with adjustments being made along the way to ensure eventual success.

The plan has been very nicely summarized in an article published by the Daily Maverick, which I have reproduced below, but with a few modifications and edits of my own. *My own comments are shown in italics as always.*

President Cyril Ramaphosa told last night's joint sitting of Parliament that what was needed was a selection of specific priority interventions that would swiftly kickstart change and a rapid economic rebound.

"Our recovery will be propelled by swift reforms to unleash the potential of the economy, and supported by an efficient state that is committed to clean governance.

"It will be transformative. It will be inclusive. It will be digital, green, and sustainable, and it will invest in our human capital to lay the foundations for the future."

Infrastructure and mass employment programmes emerged as central to the president's address to the joint sitting.

And if what's now called South Africa's Economic Reconstruction and Recovery Plan looks and feels a bit like a bag of all sorts, that's because it is. In many ways, it wants to build on existing plans, but accelerate implementation and delivery by tighter coordination within government – backed up by political will.

Described as an "employment stimulus", Ramaphosa announced R100-billion over the next three years for mass employment programmes. The aim is to create 800,000 job opportunities before the end of the 2020/21 financial year. *(That is to say, by the end of February of next year. Wow!)*

It is understood that R13.8-billion is immediately available for this.

Traditional works programmes, like the Expanded Public Works Programme (EPWP), would be scaled up, but 300,000 matriculants would be hired as education and school assistants to help teachers with routine admin. Community health workers and road maintenance programmes would also be expanded.

And while this works out at about R16,000 per work opportunity, it's understood to be cheaper than the government's usual job creation costs.

But this leg of the economic reconstruction and recovery plan would also include grants to 75,000 small scale farmers and to thousands of early childhood development workers and cultural workers like actors and musicians.

The government is looking at ensuring these work opportunities are up and running within three months, or by the end of January 2021. That's because the R350 monthly Covid-19 relief grant, which was meant to end in October, can only be extended for another three months.

Ramaphosa said the grant could not be continued for longer because of the difficult financial situation South Africa is in. But he called for discussions on a basic income grant to continue.

That R350 grant extension – six million South Africans continue to benefit from it – is possibly one reason why Finance Minister Tito Mboweni had asked for the Medium-Term Budget Policy Statement (MTBPS) to be postponed to 28 October.

Concerning infrastructure development to drive economic growth, R340-billion is available to push this.

"Our infrastructure build programme will focus on social infrastructure such as schools, water, sanitation, and housing for the benefit of our people. We will focus on critical network infrastructure such as ports, roads, and rail that are key to our economy's competitiveness."

An ambitious school build programme is planned to replace, once and for all, the remaining 143 mud schools and improve the 3,103 schools without adequate sanitation over a 24 to 36 month period.

Alternative building technology is earmarked to speed up construction, while sanitation that does not rely on municipalities is being used.

And while providing adequate sanitation to stop learners from dying in pit toilets is a positive development, bypassing municipalities to achieve this is an indication of the lack of capacity, or will, at local government level.

Given Eskom's debt and the looming threat of rolling power outages, Ramaphosa could not talk about energy security. *(But he did say, which is not mentioned anywhere here, that the debt problem is being very specifically addressed and should not present the problem it currently presents in the very near future. He did not however give any detail on how this was going to be done.)*

A little word-shy on self-generation projects – it's understood ministers will provide details – Ramaphosa last night outlined how accelerating renewable energy sources, battery storage, and gas technology should bring some 11,800 MW online by 2022. *(Amen to this as nothing can happen without a reliable and affordable energy source)*

"The current regulatory framework will be adapted to facilitate new generation projects while protecting the integrity of the national grid. Applications for own-use generation projects are being urgently fast-tracked." *(Both the mining and big industry will raise a glass to that and as and when they are able to generate their own electricity this will not only be a big boost in so far as their productive capacity is concerned, but it will also take massive pressure off of the grid.)*

This will be closely watched, while the restructuring of Eskom must proceed.

Ramaphosa also outlined a Buy Local campaign, targeted at supporting small businesses in the run-up to the festive season. And as the holidays approach, the president called on people to explore their country to help reboot tourism in South Africa. *(Now this is something we can do to help re-ignite this industry)*

Other measures to restart the Covid-19 lockdown-battered economy ranged from sectoral master plans to chart the way for industries like clothing, sugar, automotive, and others and focused support to the 2.4 million to 3.5 million small businesses in South Africa.

Outlining the Covid-19 blow to lives and livelihoods, Ramaphosa defended his administration's hard lockdown and continuing lockdown – now in Day 203, as it has been extended for yet another month to 15 November.

"While the national lockdown in April had a significant impact on economic activity, the economic consequences of an uncontrolled surge would have been far worse. Due to the dedication and sacrifices of millions of South Africans, we were able to limit the impact of the pandemic on lives and livelihoods."

But Ramaphosa acknowledged it would take "an extraordinary effort to recover", as he called on cooperation in line with the social compacting that's been a hallmark of his administration.

But somehow that economic growth must also gel with the appalling state of public finances and flailing economy that was pushed into recession by the Covid-19 hard lockdown.

Nothing shows more clearly how much this economic recovery plan wants to achieve, than the president's comments on debt reduction and fiscal discipline.

*"This framework will provide a path of fiscal consolidation, debt reduction and reprioritisation that is supportive of growth and recovery. We cannot sustain the current levels of debt, particularly as increasing borrowing costs are diverting resources that should be going to economic and social development." (As I have so often said, the first step to solving any problem is to acknowledge that there is one, and clearly that acknowledgment is there, so kudos for this. However, doing what is necessary to get our public finances in order once again will demand further sacrifice of us one way or the other, and we need to acknowledge this too.)*

It's now up to Mboweni to find the Rands and cents, and allocate them, when he announces the MTBPS on 28 October.

Stressing the government's commitment to fight corruption, and to ensure there was no political interference in the work of law enforcement agencies, Ramaphosa put his presidency front and center.

The presidency and National Treasury, reporting directly to Ramaphosa, are fast-tracking delivery of economic reforms under Operation Vulindlela, while the planning, monitoring, and evaluation that's located in the presidency continue to play a key role. (Vulindlela, as I understand it, means to "open the (flood) gates" But I defer to others who will know better than I what this actually means should I be incorrect)

The new National Economic Recovery Council, representing ministers required for this effort, is to provide political oversight and rapid decision making. It's not clear if this council will replace the National Coronavirus Command Council, or, if it doesn't, how those two councils will coordinate.

That's all for now. I hope you enjoyed the read. Until next time then, be safe and take good care of yourself and your family. Kind regards, Nine, Charles, and all of us at CMEFS.

