



STATEMENT

SONA 2023

Restore Hope: Build state capacity to protect and advance rights

10 February 2023

In this statement:

| | |
|-----------------------------------------------------|---|
| Government's priorities | 1 |
| Immediate steps to fix Eskom | 2 |
| The Just Energy Transition Investment Plan (JET-IP) | 3 |
| Debt solution to Eskom | 3 |
| Social protection | 4 |
| Public services | 5 |
| Post-COVID recovery? | 6 |
| What should be done? | 6 |

Government's priorities

Despite claims that the government was taking steps towards restoring trust and pride in public institutions in his 2022 State of the Nation Address (SONA), in this year's SONA the President has indicated that the private sector will increasingly play a leading role in the

delivery of key infrastructure, addressing the Eskom crisis and in implementing a Just Transition. This is an admission of failure by the state in delivering its mandate, and is not a sustainable solution as it will have negative impacts on affordability of services, particularly for the poor. The proposed plan of action to address the loadshedding crisis represents a practical example of how the state has centred the private sector, and private finance and markets, as the only possible solutions to the challenges facing the country. In continuing down this path, government will further hollow-out the state's capacity to protect and advance our rights.

Immediate steps to fix Eskom

Given the impact of loadshedding and load reduction on the economy, the President predictably foregrounded the energy crisis in his speech. The IEJ welcomes the invoking of the National State of Disaster to specifically address the far-reaching impact of the energy crisis that isn't only limited to Eskom. We welcome the practical support measures mentioned that will be extended to businesses and the proposed exemption of critical infrastructure, such as hospitals and water plants, from loadshedding. The appointment of a Minister of Electricity in the Presidency may facilitate a swift and effective response to the crisis. It will be important to clarify the roles and responsibilities of the new Minister, the Minister of Public Enterprises and the Minister of Mineral Resources and Energy. In addition, it is essential that as the State deals with this crisis, the commitment to localisation of the energy value chain is protected. The State of Disaster must not attempt to resolve the energy crisis at the expense of developing the local energy industry and creating decent jobs for South Africans.

The 2023 SONA reiterates the immediate measures highlighted in the Energy Action Plan to end loadshedding. While the IEJ is committed to a just energy transition in which renewable energy plays a dominant role; we submit that fixing Eskom's current fleet is a vital life line to the country's response to the energy crisis. We are however concerned by the statement that "Eskom will procure emergency power that can be deployed within six months to close the immediate gap". Clarity is needed on whether this means that the state will procure power from Karpowership. If so, such a step will have a negative impact on our climate ambitions by increasing greenhouse gas emissions. Moreover, power procurement from Karpowership would not be a least-cost option and will increase the energy costs Eskom is already carrying.

These rising energy costs are also contributing to loadshedding given the utility's budgetary constraints. The three main drivers of Eskom's energy costs include the rising cost of energy

sourced from independent power producers (IPP), diesel and coal. However, the SONA only mentions measures to deal with one cost driver - the cost of diesel. The IPP costs account for a third of Eskom's primary energy costs. These costs can be reduced by renegotiating IPP power purchase agreements entered into in bid windows 1 to 4. Rising diesel and fuel costs can be reduced by allowing Eskom to procure diesel directly from wholesalers instead of through retailers, saving Eskom just over a billion Rands. Eskom should not be charged export parity prices for coal. A domestic price for coal would reduce Eskom's operating costs caused by the increase in the price of coal in the last 15 years. Unfortunately, none of these measures are mentioned in the President's speech.

The Just Energy Transition Investment Plan (JET-IP)

The JET-IP is presented in the SONA as a measure that will contribute to employment creation due to the multiple projects/sectors that will be developed. However, a striking feature of the JET-IP is that it does not adequately balance the need for infrastructure provision and the need for job creation. This is because 89.4% of financing is targeted towards infrastructure provision while economic diversification and innovation, as well as skills development (the justice elements of the JET-IP), have respectively only been apportioned 0.3% and 0.1% of the financing. Investments in the electricity sector must be complemented by adequate investments in economic diversification and skills development to create decent work, particularly in employment-absorbing renewable energy manufacturing. This will minimise the job and livelihood losses associated with the shift to the new energy system.

Debt solution to Eskom

The government has repeatedly promised a sustainable solution to Eskom's debt. The president's 2022 SONA and the Minister's 2022 Budget speech announced that a sustainable debt solution would be resolved in the MTBPS 2022, to no avail. Further delays will constrain Eskom from making much needed investments in new energy capacity and maintaining its ageing fleet. We have argued that the majority of Eskom's debt needs to be removed from Eskom's balance sheet in order for it to be able to finance maintenance, operations, investment, and a just transition. This requires; (1) the state, via the National Treasury absorbing Eskom's debt, (2) larger quasi-state creditors, particularly the GEPF writing off Eskom debt, or providing an interest payment holiday, and (3) channelling international climate finance into resolving Eskom's debt while protecting Eskom from privatisation.

Social protection

The indefinite extension of the Social Relief of Distress (SRD) grant is welcome given the proven impact of the grant in mitigating acute poverty and hunger. The President is aware of the need in South Africa; but his vision and commitments are not matched by the way the grant has been resourced and administered over the past year.

In practice we have seen ever more barriers being erected which prevent people from accessing the grant. Today 3.54 million fewer people are able to access the grant compared to 10.9 million in March 2022. This in spite of the rising cost of living, and the President's commitment in SONA 2022 to “expand support to poor families to ensure that no person in this country has to endure the pain and indignity of hunger.”

This marked drop in the number of people accessing the grant should not be understood as a lack of need of the grant, but as a direct result of National Treasury arbitrarily capping the budget for the SRD grant in the 2022/2023 Budget. This budget cap forced DSD and SASSA to implement stricter criteria and more red tape for applicants. The result has been to deprive millions of people who are unable to gain any other income, of their only lifeline.

Millions applied for the grant and were declined, applied again under a new set of eligibility criteria and were declined again. Many have given up applying because they've lost faith that government support is really available and that the spirit of the President's commitments will be met. Given the President's remarks that “targeted” basic income support” is being developed, millions will continue to be excluded. A large body of international [evidence](#) shows that attempting to target income support to the ‘poorest of the poor’ in almost every case results in the exclusion of people who should qualify - usually the most vulnerable. This is one of the key reasons why the IEJ and many others continue to call for the progressive realisation of universal basic income in South Africa.

Given the overwhelming evidence on the dangers of means tested or targeted basic income support, we need to urgently know more about the government's plans for targeting the grant, and how they will ensure, as a matter of justice and a constitutional obligation, that nobody is wrongfully excluded—let alone millions of rightful beneficiaries.

In addition to making basic income support permanent, the IEJ continues to call for an expansion of the Presidential Employment Stimulus (PES). In 2022 the IEJ [stated](#) that the PES should be improved to enable more young people in particular to acquire skills and enhance their career pathways. At present the stimulus is insufficient to dent the youth unemployment crisis. The Treasury's attempts to block the expansion of this programme and pit it against the SRD extension is concerning. The IEJ looks forward to more details on the PES in the upcoming budget.

Public services

The focus on Eskom as a key priority is important. However, it overshadows plans by government to improve other public services to alleviate poverty and inequality. Health and education in particular were glanced over despite their deteriorating state and decreased funding due to austerity measures. Targeted spending on public services is essential for alleviating poverty, inequality, and attaining inclusive economic growth. Thus, while the energy crisis is key to resolve, it should not be used to crowd out spending for key priorities in the budget.

The President described a "... silent revolution ..." taking place in our schools on the basis of the Matric results of 2022. This is within days of the [Reading Panel Report](#) revealing that 82% of Grade 4 learners cannot read for meaning in any language, including their mother tongue. Education receives a substantial, yet insufficient and eroding budget each year, and fails to deliver value on those budget allocations. Governance must go well beyond fiscal allocations. It is essential that ministries are occupied by capable professionals at every level who are able to deliver quality services. Matriculants from no-fee-paying schools could achieve better results if there was no overcrowding or lack of teaching staff in their schools. As part of efforts to improve the quality of education, sufficient resources must be raised for long term human capital development.

The IEJ welcomes the concern shown by the President, for the violence and abuse faced by women and children in South Africa. However, any concerted response to this crisis also requires a capacitated public service. It is important to acknowledge that gender-based violence and gender inequity in the economy are two devastating and related ills that differ in important ways. Empowering women economically increases their bargaining power within the

household and allows them to exercise greater agency in society, but gender equity in the economy is not a proxy for physical safety in our homes or on our streets. Gender-based violence and crime remain profoundly debilitating and must be dealt with like the state of disaster they are, with a professional and capable police force and justice system that are not themselves perpetrators of violence.

Post-COVID recovery?

The President announced that the economy has now grown to precede pre-COVID levels, and declared that we have recovered. If we look a little deeper, we must acknowledge that inflation driven by cost shocks and profit spirals is built into GDP figures for the last two years. Even though the economy is said to have created about 1.5 million jobs between the third quarters of 2021 and 2022, it is important to keep in mind that in the second quarter of 2020, 2.2 million jobs were lost according to [Stats SA](#). Employment at the extensive and intensive margin for many sectors and occupations has not recovered to pre-COVID levels, and for many workers nominal income has not recovered either, which means real incomes are even smaller. What appears to be an economic recovery is a fallacy in many parts of the economy. The SARB's commitment to hiking interest rates is a costly and inappropriate policy stance, serving only to deepen cost of living pressures and push the economy further into recession.

What should be done?

The SONA needs to be premised on a new development agenda that breaks away from the current macroeconomic framework. This entails a radical shift by the state, from prioritising business interests to centering our rights, and human and environmental wellbeing. This can be done by adopting the following measures:

1. Accelerating the rebuilding of state institutions and capacity to play a leading role in development projects.
2. Fixing Eskom's current fleet: priority should be given to fleets with the highest ability to improve Eskom's energy availability factor.
3. Addressing the debt crisis at Eskom by 1. The state absorbing Eskom's debt, 2. Using larger quasi-state creditors, particularly the GEPPF, to write-off Eskom debt or to provide an interest payment holiday, and 3. Channelling international climate finance into resolving Eskom's debt while protecting Eskom from privatisation.

4. Welcome the declaration of State of Disaster on the Energy Crisis, but this should not be used to undermine the prospects for decent work creation through the localisation of the renewable energy system
5. Improving the SRD grant to at least the Food Poverty Line and taking clear steps toward the implementation of a UBIG in the short-term.
6. Expanding the PES stimulus to support youth employment and development of career pathways.
7. Committing to targeted public investment in social and economic infrastructure and the care economy, and progressive new forms of tax such as a wealth tax in the 2023/24 Budget.

[ENDS]

For further comment:

Zimbali Mncube | zimbali.mncube@iej.org.za | 072 440 5112

Cheryl-Lyn Selman | cheryl-lyn.selman@iej.org.za | 082 227 2490

Jezri Krinsky | jezri.krinsky@iej.org.za | 074 317 6000

James Musonda | james.musonda@iej.org.za

Basani Baloyi | Basani.baloyi@iej.org.za