STATEMENT

Budget 2023: Rebuild Eskom and state capacity.

21 February 2023

In his 2023 State of the Nation (SONA) address, President Ramaphosa set out his government's agenda for the next year. The myriad shortcomings of that agenda aside, the likely implementation and realisation of commitments made are dependent on whether the Minister of Finance, in the Treasury's 2023/2024 Budget, will mobilise resources and allocate them to where they are needed most.

In previous years, and most recently in 2022, key commitments made in SONA have been undermined by the Budget, which either falls short, shrinks year-on-year, or is capped at insufficient amounts to realise government's commitments. In 2022, this was illustrated by Treasury's failure to decisively address Eskom's debt and to consider Eskom's rising energy costs. As a direct consequence of Treasury's failure to do so, the National Energy Regulator of South Africa (NERSA) has since had to approve Eskom's application for an 18.6% electricity tariff increase which will only further worsen energy poverty and economic strain on households and businesses. Other examples of where Budget 2022 fell short of the commitments made by the President are illustrated in the table at the end of this document.

This year's SONA largely focused on resolving the energy crisis, updating the nation on progress in infrastructure projects, and efforts to create opportunities for young people, as well as extending social support through the SRD.

Our post-SONA statement outlined how the SONA fell short on the key measures that are needed to fix Eskom, address load shedding, and expand social protection to alleviate poverty and inequality. We argued that public institutions need to be capacitated to deliver public services, where the state, and not the private sector, plays an overwhelming role in the delivery of public services to ensure inclusive development.

National budgets have systematically undermined this objective, cementing a regressive macroeconomic policy framework, prioritising debt stabilisation through a rush to reach a primary budget surplus, using tax windfalls to pay down debt, and cutting back on spending on social priorities such as public services, while offering tax rebates to the wealthy. At the same time, the South African Reserve Bank (SARB) continues to hike interest rates, as part of its inflation targeting regime, choking private sector investment and eroding household incomes. Government must abandon such a policy approach in order to enable the state to meaningfully tackle unemployment, poverty, and inequality.

A budgetary regime which takes growth, employment, poverty, and inequality as seriously as debt stabilisation would ensure that resources are mobilised through: new forms of tax; new channels of concessional development finance; untapped pools of public funds; and cost and credit allocation policies to lower the cost of available debt. It would reverse budget cuts and abandon National Treasury's quest for a primary budget surplus by 2023/24, given there is no evidence supporting the notion that a threshold exists at which debt stifles economic growth. A development-focused budget would prioritise public investment in physical infrastructure, the care economy, and the green economy, all of which have been shown to have a positive impact on employment outcomes and GDP growth. For instance the International Trade Union Confederation found that an increase of 1% in Gross Capital Fixed Formation (GFCF) leads to an increase of "1.3% contemporaneously and by 2.4% in five years" while "employment of women and men increases by 6.8% and 4.1% respectively in five years". By contrast, the National Treasury continues to starve the economy with dismal levels of GFCF, which, for the public sector, has averaged around 5.8% of the GDP between 2010 and 2020.

The purview of monetary policy must be widened to prioritise financing for developmental reindustrialisation. The SARB should target real variables, such as real GDP growth, employment, and a stable and competitive exchange rate, not just nominal inflation. A range of progressive policy measures would flow from revising targets in this way. Some examples include unlocking catalytic sums of long-term real concessional developmental finance, targeted capital management techniques, lower real interest rates, and more active exchange rate management. Monetary policy should be used to reduce the cost of debt, and address the lack of competition in the banking sector and the very high spread between the repo and prime interest rates which makes the cost of credit unacceptably high. Instructing the SARB to pursue a broader range of targets is within the authority of National Treasury.

Key priorities for this budget include the requirement to:

1. *Accelerate the rebuilding of state institutions and their capacity to play a leading role in development projects.* This entails urgently curbing corruption in the state and state owned enterprises (SOEs) and prosecuting those responsible for it. It requires that the National Treasury should identify and allocate sufficient resources to support SOEs. This support should come without conditionalities for their privatisation as was implied in the 2022 MTBPS. Budgets for key state institutions, especially those able to provide services, tackle corruption, protect rights, and raise revenue, such as the South Africa Social Security Agency (SASSA), National Prosecuting Authority (NPA), Commission for Conciliation, Mediation and Arbitration (CCMA), and South African Revenue Service (SARS) must also be expanded respectively.
2. *Fix Eskom's current fleet.* Priority should be given to urgent maintenance on power plants with the greatest ability to improve Eskom's energy availability factor. For as long as sufficient and stable energy is unavailable, and insufficient investment goes into diversifying energy sources, South Africa is likely to foster indifference with trading partners and new investors.
3. *Address Eskom's debt crisis* by (1) The state absorbing Eskom's debt, (2) Using larger quasi-state creditors, particularly the GEPF, 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. *Reduce Eskom's energy costs*. The three main drivers of Eskom's energy costs must be tackled, these include the rising cost of energy from independent power producers (IPP), diesel, and coal. The cost of electricity from IPP power purchase agreements, which account for a third of Eskom's primary energy costs, from bid windows 1 to 4 must be renegotiated. Eskom must procure diesel directly from wholesalers, instead of through retailers, saving Eskom just over R1 billion. The cost of coal must be reduced through regulation and Eskom should not be charged export parity prices for coal.

5. *Ensure the Just Energy Transition - Investment Plan (JET-IP) is actually just.* The JET-IP needs to be reorientated to ensure a better balance between the need for infrastructure provision and the imperatives of job creation and sustaining livelihoods. Funding for economic diversification and innovation, as well as skills development, needs to be radically increased above the dismal 0.3% and 0.1% of the financing currently allocated, particularly in more labour absorbing green sectors such as renewable energy manufacturing. A large social security fund needs to be set up for transitioning workers. The JET-IP must be processed through a fair and consultative process that takes seriously, and incorporates, stakeholder input.
6. *Raise the Social Relief of Distress (SRD) grant to at least the Food Poverty Line (R633) now and take concrete steps to transition it into a UBIG.* The budget allocation must be sufficient to ensure it is increased to this level and available to all those who need it. This would reverse the existing National Treasury approach that unduly capped the SRD budget, resulting in restrictions that saw approval numbers plummet from 10.9 million in March 2022 to 7.4 million in January 2023. Although the President has committed to raise grants in line with inflation, draft regulations indicate that the SRD grant will remain at R350. With approximately a quarter of the country in extreme poverty, this is unacceptable. The IEJ is prepared to challenge any further cuts to the SRD budget. Existing grants should also be expanded in line with inflation, and must not be pitted against the SRD.
7. *Expand the Presidential Employment Stimulus (PES) to support youth employment and development of career pathways.* At present the stimulus is insufficient to dent the youth unemployment crisis. In 2021, 15-to-24 year olds reached a record 65% unemployment level, with 25-to-34 year olds reaching a level of 43%. The PES should be scaled up, improved, and evaluated to ensure it supports more young people, in particular, to acquire skills and enhance their career pathways. The PES must continue to create and retain jobs in vulnerable sectors, providing direct support for livelihood strategies, and accelerating employment.
8. *Commit to targeted public investment in social and economic infrastructure and the care economy.* This must include more Early Childhood Development (ECD) and elder care centres, police stations and community clinics located within the communities that require these services, increased budgets for teachers and teacher training, nurses and social workers, for roads, and safe and reliable public transport. It must also target economic infrastructure and plans to diversify the economy, particularly in those sectors with approved Masterplans. There can be no inclusive economic growth without

adequate investments in social infrastructure, the care economy, and economic infrastructure. Infrastructure delivery must be designed to ensure that market power cannot be exploited, and that black and women-owned businesses can participate in infrastructure development programmes.

9. *Announce progressive new forms of tax such as a wealth tax*. While reconstructing a macroeconomic framework that can drive a truly developmental programme will require accessing multiple coordinated tax, debt, and financing instruments, the introduction of a wealth tax is a realisable means to unlock additional revenue and ensure that priority expenditures are resourced.
10. *Apply fuel tax rebates to ease fuel price pressures further in the 2023/24 Budget*. Inflation internationally and in the domestic market, is currently driven by cost-shocks and profit spirals in the wake of Covid-19 supply chain constraints, and by the war in Ukraine which shows no signs of abating. While fuel inflation eased to 13% in January 2023 from 23% in December 2022, it remains a key inflation driver along with gas, and fertiliser and grain supply and prices, which filter directly into energy, transport, and food prices. Real incomes for the poorest South Africans are under severe pressure and a fuel tax rebate to stabilise fuel prices at a lower level would be a timely and effective supply-side response to easing the dire cost of living pressure on poor households.
11. *Ensure fiscal and monetary policy work together to increase resources available for development*. This includes prioritising the capitalisation of development finance institutions in order to ensure *long-term concessional finance* is available to realise a state-led, developmental, green reindustrialisation programme that makes broad-based inclusion in the economy a reality.

[ENDS]

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Note to editors: Zimbali Mncube and Cheryl-Lyn Selman will be available for interviews in Cape Town; either in the Parliamentary Precinct or outside Cape Town City Hall.

The disconnect: How National Treasury undermines the President's promises

SONA 2022	Budget 2022/2023 and MTBPS 2022
Job creation and public employment	
"We have been taking extraordinary measures to enable businesses to grow and create jobs alongside expanded public employment and social protection."	- Only R9.2 billion has been allocated per year, for the next two years, to the Presidential Employment Stimulus (PES). This is a decline from the first phase. of the PES in which R12.9 billion was allocated. - In Budget 2022/23, the Presidential Employment Stimulus was not allocated its full budget. - In the MTBPS 2022 expanded social protection is pitted as a trade off against other social priorities. - Public investment is critical for job creation, however the levels of public investment have steadily fallen since 2010.
Industrial policy	
"An important pillar of our Economic Reconstruction and Recovery Plan is to revitalise our manufacturing base and create globally competitive export industries." "If we are to make progress in cutting unnecessary bureaucratic delays for businesses, we need dedicated capacity with the	In SONA2022, the President mentioned the Masterplan process, and a focus on revitalising the manufacturing sector and removing red tape. - However, in Budget 2022 we see industrial policy being reduced to a regulatory tool rather than a strategy for interventions to build capacity and capability in the manufacturing sector. - Budget allocations in this space are both inadequate, and dependent on a private-public-partnership model that has consistently failed to deliver developmental outcomes. - Just 25% of the R227 billion allocated to economic

means to make changes."	development is assigned to industrialisation and exports. - There is no cohesive plan to shift the long-standing industrial structure towards inclusive reindustrialisation. - The MTBPS 2022 cited intent to rationalise SOEs over the next 3 years. Privatisation is not a cure-all. The impact of privatisation on the poor, and on the potential success of the industrial policy Masterplans, must be seriously considered.
The social economy	
"The social economy, including early childhood development, nursing, social work and community services, has significant potential not only to create jobs, but to provide vital services that communities need."	- Growth in the number of educators and healthcare workers has not kept track with the growth of the number of those needing their services. - The number of professional nurses and nursing assistants has decreased from 299 per 100 000 uninsured people in 2015/2016 to 294 per 100 000 uninsured people in 2021/2022.
Social support	
"As we work to grow the economy and create jobs, we will *expand* support to poor families to ensure that no person in this country has to endure the pain and indignity of hunger."	- The Child Social Grant (CSG) and the Foster Care Grant decreased by 0.6% and 2.9% in real terms in 2022. - This coincides with food inflation as reported by Statistics South Africa to have reached a nine year high at 13.4% in January 2023. Bread and cereals are up by 21.8%, fish by 13% and meat by 11.2%. This means that low-income households and CSG recipients will struggle to purchase food and hunger will be worsened.
Social Relief of Distress grant	
"Since the onset of COVID-19, the Social Relief of Distress	- In 2022/23 the SRD budget was arbitrarily capped at R44 billion - enough to only cover 10.5 million

(SRD) grant has provided support to more than 10 million unemployed people who were most vulnerable to the impact of the pandemic...*Mindful of the proven benefits* of the grant, we will *extend* the R350 SRD Grant for one further year, to the end of March 2023."	potential recipients and not all of those in need. - During the course of 2022 the SRD allocation was underspent, despite ever increasing need, as a result of new stringent criteria introduced by the Department of Social Development to limit the number of recipients to within the limited budget cap imposed by National Treasury.
Addressing poverty and inequality	
"The expert panel said that if the violence has exposed anything it was the poverty and inequality that is the root cause of the desperation of the people of South Africa. The expert panel found that the Cabinet must take overall responsibility for the events of July 2021. This is a responsibility that we acknowledge and accept."	- The "proven benefits" of the SRD grant were undermined and even fewer people benefited from it than in the previous financial year despite worsening socioeconomic conditions. - The Presidential Employment Stimulus was limited in the number of people it could support. The programme created about 1 million work opportunities. Youth unemployment is about 65% for those aged 15 - 24 years and 34.5% for the whole population, however the PES has seen a limited allocation of R9 billion for the third phase of its implementation. - The in-real-term decreases in the Child Support and Foster Care grants undermined the ability of these grants to further reduce poverty. - The electrification programme component of the local government equitable share has decreased by 0.7% in real terms. - This has negative implications on the availability of basic services, including electricity as municipalities hike up electricity tariffs to raise revenues for basic services that have been negatively impacted by austerity. Austerity, means that municipalities are less willing to register indigent households who are eligible to receive free basic electricity. Consequently, out of the 10 million eligible households less than 3 million, to which the national government allocates resources to actually receive free basic electricity.

The fight against Gender-Based Violence and Femicide	
“This year, we are intensifying the fight against gender-based violence and femicide through implementation of the National Strategic Plan on GBVF and other measures to promote the *empowerment of women*.”	- The words “woman”, “women”, “mother”, “girl” or “gender” do not appear at all in the 2022 Budget speech. “Child” appears twice in relation to grants, and “children” appears once in relation to education. - The word “gender” appears once in the MTBPS in reference to crime and gender-based violence and with no commitment beyond an awareness campaign.
Access to healthcare	
“As the COVID-19 pandemic has starkly demonstrated, a nation’s health is inextricably linked with its economic progress and social development. We will therefore continue with the work underway to ensure universal health coverage for everyone in South Africa, regardless of their ability to pay.”	- Real consolidated healthcare expenditure declined from R246.3bn to R242.2bn in 2022/23, and by an average of -2% over the medium term. - When increases in healthcare users are factored in, healthcare expenditure will decline by -5.8% by 2024/25. - 39 000 posts in the public healthcare system remain vacant. - These cuts further increase unequal access to healthcare in South Africa and the burden of unpaid care work undertaken mainly by Black women.
Access to Education	
“As we return to normal educational activity, we will work harder to ensure that all learners and students get the quality education they need and deserve.”	- The shortfalls in compensation budgets in education will result in fewer teachers and increased class sizes in some provinces. This is acknowledged in the 2022 budget. - Government spending on basic education has fallen. In real terms, the average annual growth remains almost stagnant, at 0.3% over the medium-term period . - When growth in the number of learners is taken into account, expenditure falls each year from R20 156 per learner in 2021/22 to R19 478 in 2025/26.

	- 73 000 posts in the public basic education system remain vacant. - There is no financed plan to address the reality that half of South Africa's current teaching staff will retire by 2030. - The inability of 82% of Grade 4 learners to read for meaning in any language also bears no budget or plan for resolution.
Building a developmental state	
"Government must work for the people. That is why our foremost priority is to build a *capable*, ethical and *developmental state*."	- Fixed capital investment is R84.6 billion below pre-pandemic levels. - Levels of investment are only 13.7% of GDP. This is far below the 2030 target of 30% set out in the National Development Plan.
Resolving the Eskom crisis	
"The electricity crisis is one of the greatest threats to economic and social progress. ... Due to our ageing power stations, poor maintenance, policy missteps, and the ruinous effects of state capture, our country has a shortfall of around 4,000 MW of electricity."	- Fixing Eskom requires government to deal with Eskom's R400 billion debt. - The Budget speech promised that the MTBPS 2022 will announce a sustainable debt solution, however to no avail, delaying Eskom from making much needed investments in new energy capacity and maintaining its ageing fleet. - No plans have been announced to reduce Eskom's energy costs (e.g. IPPs, coal, diesel), instead National Treasury has forced Eskom to borrow further to finance diesel purchase. - The MTBPS 2022 points out that the delays in the implementation of Bid Window 5 have contributed to loadshedding. The cause of these delays is not identified by MTBPS 2022.