Loadshedding and industrial policy

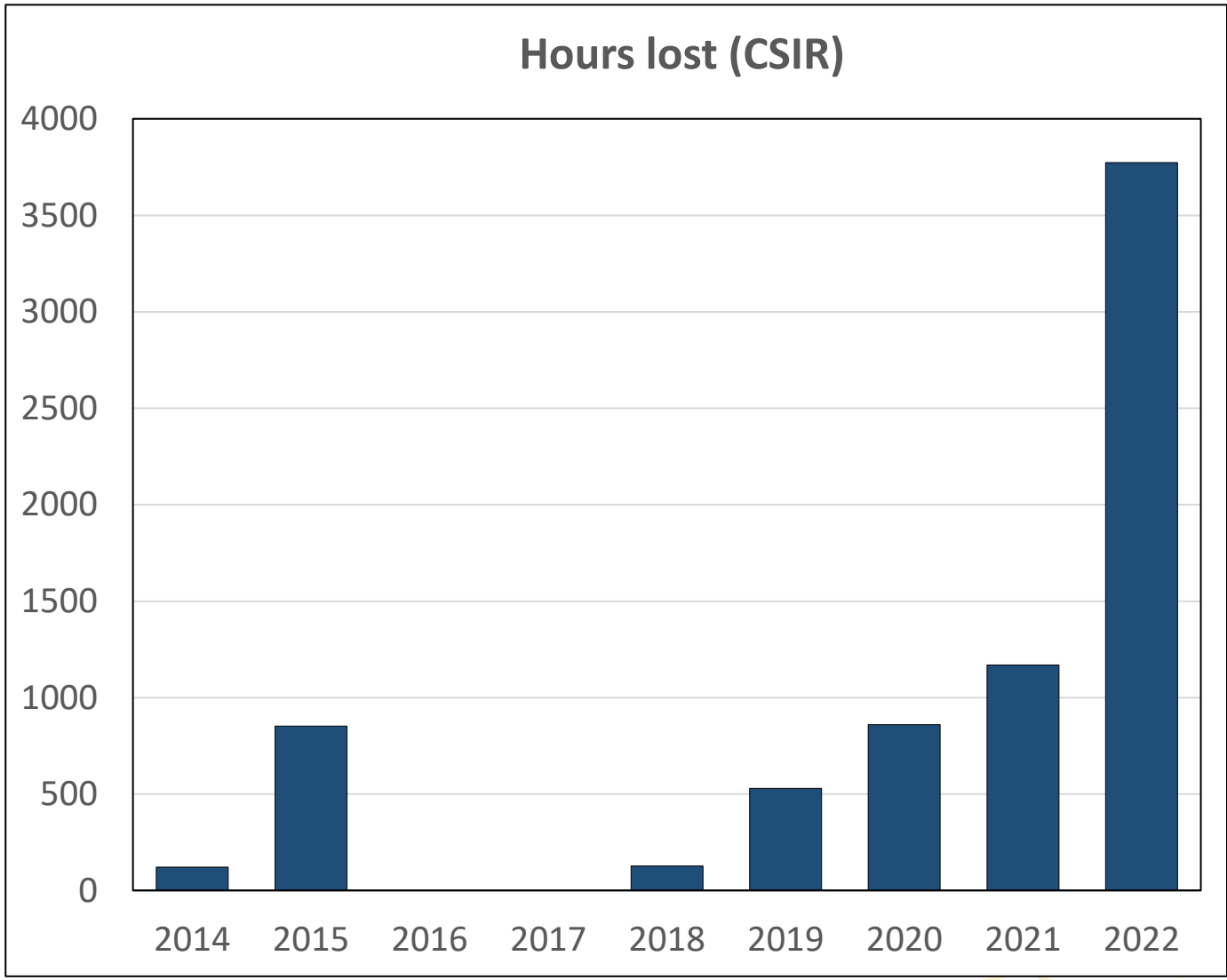
V2

Development Dialogue

24 April 2023

The problem

- Very rapid increase in loadshedding in past year
- Hard to measure costs for economy because
  - Diffuse direct costs – breakdowns, labour time issues, new energy sources (externalised from Eskom)
  - Big opportunity costs – lower sales and investment; flight of skills and investors and loss of stakeholder trust, with long-run implications



What are we trying to fix?

The national grid

- Focus on large-scale, new generation and fixing Eskom
- Timeframes: At least 2 years to substantial reduction in loadshedding

Commodity dependency and inequality

- Implications for loadshedding response: Minimise cost of loadshedding to producers, especially where support diversification and growth; assist small businesses and working people to adapt; benefit from new technological trajectory
- Timeframes: Cannot afford to wait years – what can be done in the interim? How will that affect the nature of the electricity supply?

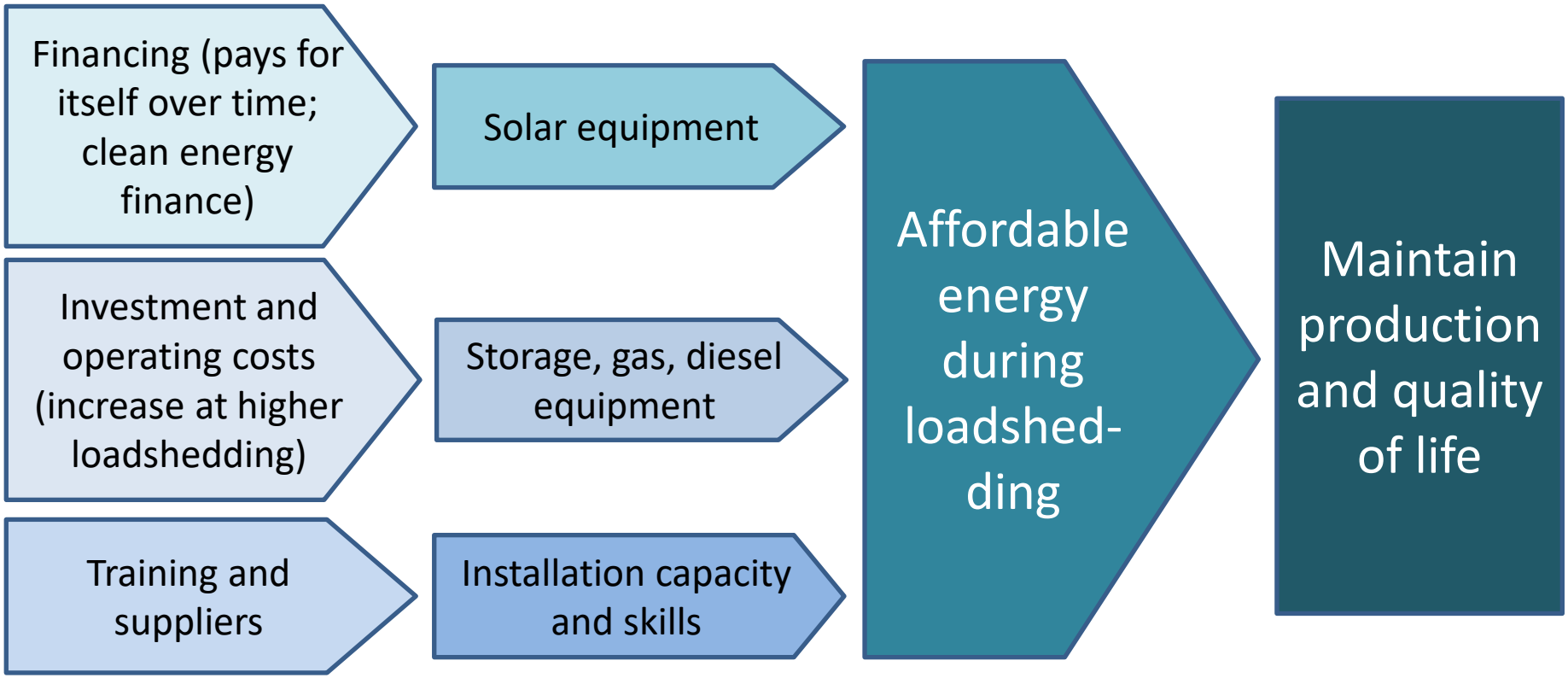
NB Contrast to strategy in response to COVID-19

2 paradigm shifts

1. Technological leaps necessarily involve creative destruction
   - Loss of investments and jobs in earlier technologies
   - Disruption of systems in public and private sector
- Current technological transition is particularly challenging for SA given unusual dependency on coal and how shaped the economy and the electricity system historically
- Strategic responses:
   - Maximise benefits from new, more competitive technologies and systems
   - Ensure a just transition
   - Accept closure of obsolete assets
- Means have to deal with lobbying by stakeholders that depend on old system (coal companies, Eskom, municipalities)

2. In a deeply unequal democracy, industrial policy will fail if it focuses narrowly on
   - Growth and competitiveness
   - Diversification away from mining
- By extension, responses to loadshedding have to ensure more equitable outcomes as well as reducing the costs to established business
- Critical issues for inclusive industrialisation in SA:
   - Small business and self employment (as users and suppliers of new technologies)
   - Support for working communities that cannot afford up-front costs of new technologies
   - Education and skills
- How can responses to loadshedding support the systemic changes needed for inclusive industrialisation?

Options for mitigating loadshedding



Some policy options

What is being done

- Treasury:
  - Tax incentives (R9 bn total) and credit guarantees (R8 bn)
  - Not a big bang
    - Incentives don't help much with up-front financing, and don't get to businesses or households that earn too little to pay tax
    - Credit guarantees only work if fast and more relaxed criteria
- The dtic: IDC funding (R1,3 bn); fast track regulatory changes; localisation of inputs

Challenges and possibilities

- Critical = easy, accessible and affordable packages especially for small and medium business, directly or through sites
- Better understanding of costs and benefits of solar, generators and storage for small businesses and households
  - Big differences in timing of costs
  - Solar is cheaper in the long run, especially at high levels of loadshedding, but often unaffordable up front unless can get financing
- Ensuring adequate and rapid supply of inputs
  - Trade offs for localisation: timing and costs vs local production, employment and design to meet local needs
  - It is possible to speed up supply chains for imports, given that competing with the rest of the world?
  - NB also need micro technologies for households and informal sector (inverters, cellphone batteries, lights)
- For finance, issue is intermediation systems as well as sources
  - How to fast track given crisis?
  - Collective options (industrial and commercial sites; municipal generation)
  - Green financing (carbon credits, JETP)
- What are the implications for the end state of the national electricity supply? How to minimise the costs to users and taxpayers, and maximise the benefits to producers and users?

Conclusions

- We need a paradigm shift so that address loadshedding as part of broader structural change
  - Irreversible trajectory of energy technology nationally and globally
  - Toward inclusive industrialisation
- Necessitates above all much larger and faster measures to support business, including emerging and small enterprises, as well as working-class communities
- May have to accept second-best solutions and will disrupt energy systems in the long run

Re a leboha!