27 February 2023

Re: Submission to the Standing and Select Committees on Finance on the 2023 Fiscal Framework and Revenue Proposals

Dear Chairpersons and Members of the Committees,

This is a short submission regarding certain matters pertaining to the 2023 Budget with a particular focus on those relating to the fiscal framework and revenue proposals as well as the broader mandate of the Committees. It does not seek to cover all issues and concerns; the failure to mention other matter should not be taken to mean there are no concerns with those.

I would like the opportunity to present to the Committees on the 1st of March.

Yours sincerely,

Dr Seán Mfundza Muller
Johannesburg Institute for Advanced Study, University of Johannesburg

Submission to Parliament on the Fiscal Framework and Revenue Proposals

Dr Seán Mfundza Muller

27 February 2023

1. The Political Economy of the Eskom Debt Plan

The Budget proposes to effectively take R184billion of Eskom's debt on to the narrower public balance sheet through a series of transfers from the Treasury to finance Eskom's debt repayment obligations. Of this R118billion is new because it adds to prior commitments in the 2019 Budget. If promulgated, a further R70billion would be covered in 2025/26 through a somewhat different mechanism that remains unstated. In his speech the Minister said the details can be found in an annexure. Annexure W3 remains rather thin on detail but does provide one or two pieces of crucial information. It is accompanied by the Eskom Debt Relief Bill.

The current structure of the broad proposal and the Eskom Debt Relief Bill would undermine legislative oversight. Indeed it would undermine all oversight and accountability mechanisms in place to ensure that Eskom serves the public and national interest. In effect, it appears the Bill would allow the Minister of Finance to dictate terms to Eskom without any public consultation or legislature approval. Terms that will determine the trajectory of South Africa's energy system for decades. No Minister should be given this level of unaccountable power. It is inconsistent with the provisions of the Constitution relating to Executive accountability. And it is especially notable that the kinds of conditionalities involves are outside of the scope and mandate of the Ministry of Finance. That Annexure W3 states that 'the operational conditions were agreed with the Department of Public Enterprises' does not alleviate this concern much. The Annexure mentions extensive financial modelling done by the Treasury but to my knowledge none of this has been made public. If Parliamentary oversight is to be taken at all seriously, the details and results of the modelling exercise should be provided to the legislature.

The evasion of accountability mechanisms cannot be an oversight – the National Treasury and Ministry of Finance are not grossly incompetent – so it must be deliberate. A deliberate attempt to subvert democratic processes. To what end, then? One can only make an educated guess, hindered by the lack of transparency around many of these issues, the many vested interests, and the active complicity of the media – especially the two main media houses Naspers and Arena Group but also, more worryingly, the South African Broadcasting Corporation (SABC) – in distorting and misrepresenting issues around energy policy and Eskom in the public domain. So here is my informed and educated guess.

There are very powerful foreign and local interests that seek to shift the costs of the global energy transition on to less wealthy countries and, moreover, use the transition to force through changes to national energy systems driven by geopolitics, vested interests and ideology.[1] In addition, there are many local and international players who seek a slice of the proverbial pie from whatever policies are implemented. In South Africa these forces largely push in the same direction: towards an overly rapid,

[1] Two op-eds published in 2022 with my co-author attempted to describe some of these dynamics:
https://www.newframe.com/who-gets-the-dirty-profits-while-going-for-clean/
https://www.newframe.com/gas-is-a-game-changer-and-the-players-are-plotting/

overly decentralised transition that favours the wealthy (countries, corporations and individuals). The only significant resistance appears to have come from other vested interests, such as in the coal sector. It appears no-one in authority or receiving any substantial media airtime is in fact concerned with the interests of the broader public or South Africa's long-term national interest. Many of the so-called experts cited in the media are likely to have received significant amounts of money and benefits from vested interests, which they have systematically failed to declare and media houses have systematically avoided asking them about. These include individuals advising and doing economic modelling for the Presidency, which also, strangely, does not appear to care that some of its key advisors may be in the pockets of foreign and vested interests.

The COP26 agreement was essentially intended to force through the agenda of such interests by making the associated actions a condition of the supposedly favourable loans, while giving the impression that wealthy countries were supporting a global just transition. That is the fundamental 'political economy' of what is going on. There is of course a long history of wealthy countries and supposedly multilateral organisations like the World Bank and IMF using loan conditionality to interfere in harmful ways in the policies of other countries.

However, as soon as the conditions started being hammered out even the Treasury could see that what was being proposed was too unfavourable for them to be able to sell locally. So a different mechanism was needed to make the manipulation work. The new mechanism appears to be the debt relief to Eskom. In some narratives the one is hitched to the other: South Africans are told that in order to get the COP26 money Eskom's debt must be taken over in such a way that it then invests in the grid (but not its own generation capacity). Grid investment effectively serves the interests of decentralised power generators – incurring public costs to produce private profits. It is very important here to note that one way in which the absolute and relative costs of renewable energy projects are understated is by excluding the cost of extending or maintaining grid infrastructure to serve those projects.

It may be worth remembering that the previous Minister of Finance, whatever his failures, appeared to be quite sceptical about some of the problematic proposals on the table. After he left, the DDG responsible for assets and liabilities left and was replaced by a colleague with no technical expertise in that area. Shortly after the new minister was appointed he gave an interview effectively committing himself to pushing through the some of the dubious proposals on energy financing even though it seemed highly unlikely he could have adequately applied his mind to the issues at hand. One may speculate that those with legitimate concerns in the Ministry and Treasury needed to be removed before some of these processes could be set in motion.

To be clear: in principle financial support from wealthy countries and debt relief to Eskom are both desirable in order for South Africa to achieve something like a 'just transition'. But as the saying goes, 'the devil is in the detail'. In essence, these necessary initiatives are being co-opted to serve pre-existing agendas and vested interests. This also casts a rather different light on recent claims by the now-departed Eskom CEO about corruption to facilitate the passing of the COP26 agreement. The claim by Mr De Ruyter in his eNCA 'interview' of February 2023, and the narrative adopted by many media outlets, is that the COP26 agreement is in the national interest, it should be used to force through an agenda of rapid transition, and opposition is only from corrupt elements in the ANC. Hence being asked to 'pay off' a senior politician to make the scheme work is further evidence that it is being blocked only because of corrupt interests. I suggest a different interpretation. The COP26 agreement, desired conditionalities and associated agenda, are harmful to South Africa's national interest and so it is necessary to buy off opposition, whether it is motivated by corruption or by the national interest.

Thus it is in fact those seeking to advance the agenda of an overly rapid, overly decentralised, inequitably financed transition that favours the wealthy who are the ones driving this additional source of corruption (over-and-above what has already been taking place in a less coordinated way within Eskom).

It is hard to know what to recommend to Parliament, or indeed anyone else, in a context where those with authority appear intent on acting against the national interest. For a time one could speculate that the President was perhaps being poorly advised, including by those with conflicts of interest. But the careful clearing of obstacles to these agendas suggests otherwise. When the Presidency, the Ministry of Finance, the Ministry of Public Enterprises and the Ministry of the Environment seek to push through an agenda harmful to the country, which furthermore seems to have the support of many opposition parties, there seems little scope for resistance. One wonders also what the logic is behind appointing a 'super minister' for electricity, given that the responsibility for these decisions is allocated under the Bill to the Minister of Finance.

But perhaps the committees could at least do something to ensure a more credible performance of democracy and adherence to the Constitution, such as insisting that the relevant conditions must be the subject of public comment and receive the explicit approval of the relevant committee(s).

2. Renewable energy tax incentives

The power utility 'death spiral' is characterised by wealthier customers defecting from the grid by generating their own power, requiring increases in tariffs for less wealthy customers who are also less able to pay. In South Africa the National Treasury has been fuelling Eskom's death spiral for some time with tax incentives that reward defection from the grid. To my knowledge the National Treasury has not produced any detailed modelling to support these policies or provided any clear measures that could be used to determine whether the policies are having a positive effect in the public interest. Without such detail and measures of effectiveness there is no real accountability for these funds.

In the absence of evidence or substantive reasoning, it is quite possible that these incentives are merely another rent-seeking scheme (see section 3 below on the ETI) administered by the Treasury. As things stand, those who can afford large domestic solar systems already save money over the medium-term relative to those of equivalent usage rates who cannot afford to install such systems. (Members in doubt need only consult one of the many businesses that install solar systems which regularly provide such calculations for their customers). The incentive and its expansion Are rhetorically justified on the basis that they notionally make installation marginally more affordable, but in practice these seem likely to benefit the relatively wealthy and not make a difference to the vast majority. I am obliged to use 'seems' here because of the absence of evidence or modelling.

The FAQs provided with the Budget documents claim that "There will, however, be a claw-back of the rebate if [individuals] sell the panels themselves within one year after they were first brought into use to counter potential abuse". It seems highly unlikely that this measure will be enforceable. That in turn means the incentive will open up a second rent-seeking opportunity: to purchase solar panels at effectively reduced rates and resell them at a later stage.

These incentives have the potential to channel R9bn to wealthier individuals and better-resourced businesses for little public benefit, thereby increasing inequality and further hastening Eskom's death spiral. That is consistent with the concerns expressed in Section 1 of this submission.

3. Employment Tax Incentive

The Budget documents provide the most recent information on the amount of tax revenue foregone due to the Employment Tax Incentive (ETI). In 2020/21 the amount increased to R7.1bn from R4.7bn the year before. The total amount foregone under this incentive is now R32billion from 2013/14 to 2020/21, and likely over R40bn to date.

I have previously drawn the finance committees' attention to my extensive research and writing on the ETI which concludes that there is no credible evidence of net job creation, that this implies the money is going to company profits rather than poor South Africans, and that the ETI is in effect a massive rent-seeking scheme.[2] The continuation and expansion of the ETI therefore discredits any claims by the Presidency, Ministry of Finance and National Treasury to be committed to 'evidence-based policy' or a 'developmental state'. It also reveals the role of the business press in advocating rent-seeking, which is not dissimilar to legalised corruption. Parliament has always had the power to block or repeal the ETI and so the continuation of the ETI also reflects poorly on the legislature.

I should note that it was very unfortunate that the Financial and Fiscal Commission (FFC) in its last submission to Parliament (2022/23) endorsed the ETI and welcomed its expansion. The analysis on which the FFC based that recommendation excluded all references to critical scholarship on the policy, which does not reflect well on the FFC's competence, credibility or impartiality.

4. Recent developments in civil society

In the past some Members of the finance and appropriations committees have noted the importance of the composition of submissions to the committees, the composition of civil society, the actual credibility of civil society organisations, and so forth. All these are legitimate and important matters even if sometimes the way in which they arise or are communicated is regrettable.

In that context, I would like to draw Members' attention to one recent development. Needless to say what follows is entirely my own analysis and interpretation of events based on the information available to me.

The committees should be aware of the Budget Justice Coalition which brought together a range of civil society organisations to build capacity and make consolidated submissions to Parliament. I have not always agreed with the content of those submissions, sometimes disagreed with the approaches, and have had persistent concerns about one or two of the organisations involved, but overall it has been a good and important initiative. It is therefore very unfortunate that one of the, in my view, most credible organisations involved, which was also leading the 'ParlyWatch' initiative, has apparently had to close down due to a lack of funding. The organisation in question was the Women and Democracy Initiative (WDI) at the Dullah Omar Institute at UWC.[3]

---

[2] See:
https://onlinelibrary.wiley.com/doi/abs/10.1111/dech.12676
https://theconversation.com/south-africas-employment-tax-incentive-is-not-a-success-story-168124

[3] For links to the projects and submissions see: .
https://dullahomarinstitute.org.za/women-and-democracy/overview

The WDI had recently led a four year project on parliamentary oversight that worked with grassroots organisations to try and increase the linkages between the concerns of the majority of South Africans and legislatures – especially at provincial but also national level. (I should declare that I led the participation of one of the co-applicants in that project). I would like to go a little beyond the fact of the negative news of the WDI's closure and say something about what it implies for civil society in public finance oversight processes and indeed in South Africa more broadly. The WDI was a very credible feminist organisation that led many initiatives on public finance and legislature oversight. CSOs in SA are heavily reliant on foreign funders and I would like to suggest that their disinclination to fund the WDI while supplying large amounts of money to new CSOs with questionable leadership, like the Institute for Economic Justice (IEJ), reveals a lot about such funders, what really determines the composition of civil society in South Africa, and the corresponding implications for parliamentary oversight and public debate in the country.

I do not believe it is a coincidence that with the WDI out of the way others will be able to take over the space they previously led in relation to legislature oversight. It is also unlikely to be a coincidence that the same media houses that promote foreign and local vested interests have also been very keen to promote the IEJ in general and its individual founders in particular, despite being remarkably uninterested in covering more credible organisations with greater experience on the same issues. The fact that certain CSOs and self-appointed CSO leaders shout very loudly to make themselves seem radical, and are extremely successful in self-promotion, merely conceals such dynamics. Nevertheless, once the proverbial 'chips are down' I would argue that these organisations come down on the side of vested interests, where those exist, and not the public interest. CSOs that fail to do that, on the other hand, are given little coverage or are quietly eliminated.

The implications for the composition of South African civil society and representations to Parliament should be of serious concern to anyone who cares about the public interest and national sovereignty.

5. General remarks

It is unfortunate that the Budget signals an intention to get rid of the social security grant introduced during Covid-19 (the 'COVID-19 social relief of distress grant'). There had already been a great deal of evidence and scholarship before Covid-19 suggesting that the social safety net needed to be expanded beyond existing schemes. It is disturbing that the Ministry of Finance and Treasury prefer to continue and expand rent-seeking schemes, like those mentioned above, for big business and wealthy individuals rather than using those resources to continue much-needed social support for the poorest South Africans. It is additionally interesting to note that timing the end of a major grant of this sort immediately (weeks) before a national election appears calculated to cause electoral harm to whichever political party is responsible for that decision.