# Key Eskom and Economic Intervention Proposals

22 January 2020

## 1. Executive Summary

COSATU's Key Eskom and Economic Intervention Proposals seek to help stabilise and save Eskom and its workers' jobs. It seeks to ensure the economy has access to affordable and reliable electricity.

Equally important are urgent interventions needed in the economy and the state as a whole to stabilise them and ensure economic growth that can begin to reduce our dangerously high and rising levels of unemployment.

COSATU's approach is based upon a social compact, where all parties from government to labour, business and society make a contribution and where necessary, a sacrifice for the sake of the national interest.

COSATU is guided at all times by the need to save each workers' job and to ensure that we create an economy where all workers have access to jobs.

It is also critical that the state itself is saved so that it can play the progressive developmental role that workers and voters expect from it.

COSATU's Key Eskom and Economic Intervention Proposals were presented by COSATU to the November and December 2019 Alliance Political Council as well as the January 2020 ANC NEC Lekgotla where they received broad support.

Further engagement between COSATU, the ANC, Alliance and Government at a senior level will take place shortly to seek to find agreements on saving Eskom and growing the economy. It is hopes that these can be in place before the February 2020 budget speech.

Below is a summary of COSATU's key proposals:

**1.1 Way Forward**

- Agreement on areas needing intervention.
- Agreement on smaller working groups to process interventions through the Alliance Political Council and Nedlac Presidential Working Committee

**1.2 Economic Interventions**

- Rapid Jobs and Investment Summits implementation plans for government and private sector.
- Additional funding for Industrial Strategy.
- Localisation and public procurement plans.
- Macro-economic reform.
- Stimulus package.
- Removal of anti-worker elements in Economic Strategy.

**1.3 Eskom and SOEs**

- Urgent social compact and turnaround plan for Eskom.
- Similar social compacts and turnaround plans for Transnet, TNPA, RAF, PRASA and Metro Rail, SAA and SA Express, SABC and DENEL.
- Social compact to be based upon Edcon social compact and no retrenchments or privatisation.

**1.4 Expenditure**

- Reprioritisation of funds to economic and infrastructure investments.
- Crackdown on wasteful expenditure and holding managers to account.
- Crackdown on corruption and arresting guilty parties.
- Debt management plan.

**1.5 Taxation**

- Increased taxes on the wealthy.
- Tax relief measures for the poor.
- Reinforcement of SARS.
- Massive investment in SARS Customs capacity and crack down on illicit goods.

**1.6 Wage Bill**

- Correct diagnosis of public service and sector head count and wage bill.
- Engagement with labour at PSCBC.
- Placement of SOEs and entities under PSCBC.
- Reduction in bloated executive and management structures and packages.

## 2. Introduction

The economy is facing its worse crises since 2008. Unemployment is 40% and rising. GDP growth barely reaches 1%. There are 600 000 new job seekers annually.

The state is fast running out of options. Eskom with a debt of R450 billion and rising is the ticking time bomb threatening to implode the state and economy.

Other SOEs in varying stages of collapse include PRASA, RAF, SAA, SA Express, SABC, DENEL and Transnet.

Whilst some progress has been made to tackle corruption, very few have actually been arrested. 10% of the budget is still lost on average to corruption and wasteful expenditure. Tax revenues are declining.

The MTBPS presented no plans to deal with these crises. Moodys will downgrade South Africa in February if no plans to deal with Eskom and grow the economy are presented.

In short we have 1 month to find a plan.

Workers are and will bear the brunt of the consequences of a collapse of Eskom, the SOEs, the state and economy.

Workers need decisive intervention by the Alliance and government to save their jobs and public services. Workers cannot depend upon individual departments, SOEs or business to act in their interest.

Not only must the Alliance and government defend the right of both the private and public sector workers to a living wage and labour protections but equally it is critical for the Alliance and government to defend the role of the state to deliver critical public services and goods, to participate in and to ensure competition in the economy.

If not we face the real risk of the state being forced to retreat on all these fronts given the extent of the state and economic crises. This would leave workers exposed and unprotected.

Given the potential collapse of Eskom, SOEs and the state as well as the weakness of the economy, COSATU is willing to support key interventions to ensure the survival of their SOEs and the state. COSATU in particular is willing to help reduce Eskom's dangerously high debt to a sustainable level.

These interventions and support from COSATU are conditional upon government and the SOEs not retrench workers or privatise, that a stimulus plan be implemented, funds be shifted towards industrialisation and that those who stole be arrested and mismanaged be fired etc.

Labour's key tool are workers' funds, namely the PIC and UIF. If used strategically, they can play a decisive role in workers' favour.

COSATU seeks two objectives:

First an agreement on areas needing interventions. Second a process to find agreements on those interventions. These should yield a social compact involving government, business and labour in time for the February Budget speech.

The process should include a mixture of small working groups under the Alliance Political Council and under Nedlac's Presidential Working and Joint Technical Committees' processes.

# 3 Eskom and the SOCs

## 3.1 Eskom

The most pressing problem that needs to be address is Eskom. It threatens not only to implode the state but also the economy. Not only are the jobs of workers at Eskom at risk but in fact all workers in the event of Eskom collapsing.

Failure to have a credible plan to save Eskom by the budget speech will result in South Africa being downgraded.

Failure to implement COSATU's key demands are in place for an Eskom turnaround risks exposing Eskom workers to retrenchment and Eskom's possible hollowing out in future in favour of the private sector.

A social compact between government, labour and industry is needed to stabilise and save Eskom. It must be premised upon the following fundamental principles:

- A commitment by government that it will not be privatised.
- That no worker will be retrenched.

A pro-worker Eskom turnaround plan must include:

- A debt package to reduce Eskom's debt from R450 billion to R200 billion through a special purpose finance vehicle involving a social compact between government, the PIC and DFIs.

It is critical to understand that this is not a blank cheque or a donation. It is tied to the following conditions:

- A comprehensive public audit of all Eskom contracts and expenditure, this must include coal supply contracts.

- Those who have looted must be arrested and their assets seized.

- Those who mismanaged be dismissed and held personally financially liable.

- Coal suppliers and IPP generation contractors must be forced to reduce their prices or their contracts cancelled and assets expropriated.

- Eskom's generation mandate must be expanded by the Minister to allow it to expand its own renewable energy generation capacity.

- The relevant investment in battery storage for renewable energy must begin.

- A comprehensive debt recovery plan be implemented to recover the billions owed by departments, SOEs, municipalities, communities (including Soweto) and consumers at large.

There must be no exceptions. Treasury must simply deduct monies owed to Eskom by Departments, SOEs and Municipalities from their budget allocations and directly transfer it to Eskom.

- A single payment account be established for all consumers to pay Eskom directly.

This will require reviewing the funding model for municipalities who use Eskom collections as a revenue generating opportunity, irrespective of whether the municipality added value to the electricity distribution or even paid Eskom itself.

- Electricity tariffs must be affordable for consumers, industry and for exports to neighbouring states.

Eskom must be reined in. The 400% increase in tariffs in the past decade is not only strangling any economic growth but in fact threatening to collapse entire sections of the mining industry and a risk to hundreds of thousands of mining, manufacturing, service and agricultural jobs.

Government and Nersa must play a far more active role in ensuring that Eskom's tariff increases are affordable and supportive of economic growth. They cannot serve as means to bail out mismanagement and corruption.

- The free electricity allocation to indigent households should be increased as per the ANC Elections Manifesto as part of cushioning the poor in a difficult economic climate.

- Electricity payments for all consumers must move to a pre-paid basis, in particular for large consumers e.g. government, SOCs, municipalities, industry etc.

- A discussion must begin between government, the PIC, labour, the retirement industry on a sustainable, correct and progressive balance to be agreed to on prescribed assets in support of key public goods and infrastructure.

- A proper staff audit must be conducted to determine if and where Eskom is bloated.

Reskilling and redeployment programmes must then be engaged upon with labour at Eskom and the PSCBC where excess staff can be redeployed from units of surplus to units of shortage within Eskom as well as to Municipal Electricity departments and the broader public service and sector. But no worker must be retrenched.

- Bloated management and management perks must be slashed.

- There must be worker representation on the Eskom Board. Workers need to know that if they invest their hard earned monies in Eskom that it is safe. They need to have a voice in how Eskom and their money is being spent. Worker representation will help to build trust and enable workers to highlight problems at the highest level for intervention.

- Worker and community owned generation capacity must be increased, in particular targeting coal workers and communities.

- A Just Transition plan be developed and implemented for workers at power stations and coal mines reaching the end of their life spans and their host communities, in particular Mpumalanga, Limpopo and the Eastern Cape.

- The extension of the life span of existing coal power stations reaching their end should be extended by converting them to gas where possible.

- Targeted public and private investments must be made to produce renewable energy technology locally and in particular in those 4 provinces and targeting workers whose jobs are at risk.

- As part of reducing pressure on Eskom, carbon footprints, consumer and industry electricity bills and boosting locally produced solar panels; all buildings should be required to install locally produced solar panels over a 5 year period. Indigent households and SMMEs should qualify for subsidies or rebates for the installation of solar panels.

- Development and implementation of electric vehicle production to protect the auto-manufacturing sector, create new jobs, exceed climate change targets but also to provide a mass sustainable demand base for Eskom.

### 3.2 Other SOEs

Similar turn around plans, jobs and no privatisation commitments are needed for:

- RAF;
- Transnet and TNPA;
- PRASA and Metro Rail;
- SAA and SA Express;
- SABC; and
- DENEL.

## 4. Economic Interventions

The heart of the crises is the stagnant economy and high unemployment. Urgent interventions are needed to unlock major blockages and inject new stimulus. These should include the following key interventions.

### 4.1 Jobs and Investments Summits

- A stimulus plan to inject new capital into the economy and stimulate demand.
- All departments, entities and SOEs be instructed to produce 6 month implementation plans for the Jobs Summit Agreements.
- Business be forced to produce 6 month implementation plans for their Jobs and Investment Summits Agreements.
    - It may be necessary for the PWC to meet fortnightly and for the entire Monday to cover a wider scope of interventions for the next 6 months.

### 4.2 Industrial Strategy

- Reprioritisation of funding for DTI's 14 sectoral master plans and other additional resourcing to ensure they can deliver rapid interventions.
- UIF, SETAs and PIC investment funding to be massively shifted to directly support industrial strategy.
- Tight coordination of investment strategies by DFIs, including DBSA.
- Development with the PIC and private sector an agreed approach to prescribed assets to support industrial strategy and key public goods.
- Fast tracking of the Scrap Metal Export Tax.
- Fast tracking the Public Procurement Bill.
    - It must include the SOEs and municipalities and not be limited to departments.
- A detailed action plan to up localisation by industry and key sectors.
- Review of measures to fast track and make SEZs more effective.

### 4.3 Treasury Economic Strategy

- The anti-worker attacks e.g. to exempt SMMEs from the National Minimum Wage, collective bargaining and labour legislation must be deleted from Treasury's Economic Strategy;
- The strategy must be based upon government's industrial strategy; and
- It must be properly processed through Cabinet, the Alliance and Nedlac and not imposed by Treasury.

### 4.4 South African Reserve Bank

- Expansion of SARB mandate to include:
  - Job protection and creation;
  - Economic growth;
  - Tackle illicit outflows;
  - Ease inflation targeting to 6% and not the current de facto 4.5%;
  - Ease interest rates to stimulate credit and investments; and
  - Fill two vacancies on SARB Monetary Policy Committee with progressive economists from labour.

### 4.5 Additional Measures

- Fast tracking of Post Bank as a state bank for the poor.
- Lowering of capital entry requirements for establishment of small banks.
- Review of accountability measures for job creation by private sector for the Employment Tax Incentive and other state incentives, subsidies and rebates.
- Assessment of the Youth Empowerment Scheme.
- Fast track roll out of spectrum, digital migration and lowering of data costs.

## 5. Expenditure

Debt levels are not sustainable. However drastic austerity will exacerbate the economic and service delivery crises. What is needed is to tackle corruption and wasteful expenditure, to shift expenditure to productive economic investment, to increase tax revenues from the wealthy and to unlock additional economic funding from the UIF, PIC, SETAs and prescribed asset investments.

Detailed plans are needed for:

### 5.1 Reprioritisation

- Unlock funding for economic and infrastructure expenditure from the UIF, SETAs, PIC, DFIs, DBSA and prescribed assets.
- The R50 billion infrastructure under-expenditure must be tackled.
- Expenditure needs to be reprioritised to economic and infrastructure stimulus.

### 5.2 Corruption and Wasteful Expenditure

- Clear plans are needed to tackle the 10% in budgets lost to corruption and wasteful expenditure.
- High profile cases of those who looted be arrested and their assets seized.
- High profiled cases of SOE and DPSA managers who mismanaged Eskom, SOEs and Departments must be dismissed and held personally liable for state funds as per the AG Amendment Act's new powers.
  - Particular attention must be given to SOEs, provinces, entities and municipalities.
- There must be drastic reductions in wasteful expenditure e.g. the R13 billion spent on 4 departmental, SANRAL and Tshwane Municipality Head Offices and the New York Consulate. Similar drastic cuts must be made to the executive nationally, provincially and locally. E.g. ministerial staff complements, ministerial cars and perks etc.

## 6. Taxation

The tax regime must be made more progressive and additional sources of revenue generated. This must include ensuring the rich pay their fair share, the burden be shifted away from the increasing levels of taxation upon workers and the redistribution of wealth through the following tax reforms:

### 6.1 Wealth Taxes

- Clamping down on high profile tax evasion cases;
- Reducing tax loopholes;
- Increasing taxes on the wealthy through increases in the following taxes:
  - Inheritance;
  - Estate;
  - Land,
  - Personal income;
  - Company;
  - Customs duties;
  - Dividends; and
  - VAT on luxury goods.
- Provide tax relief for the poor by increasing the allocation of free electricity and water for indigent households.
- Introducing progressive sliding water and electricity tariffs based upon property value and excessive consumption.

### 6.2 SARS Capacitation

Additional interventions needed in SARS include:

- Massive investment in additional resources and personnel for SARS Customs enforcement to raise the current 5% inspection rate to 100% for all imports entering ports and borders.
- Recapacitating specialised units and filling critical vacancies;
- Specialised units and plans to tackle illicit goods, especially tobacco and clothing;

## 7. Public Service and Sector Wage Bill

- The unwarranted attacks upon public servants and their right to earn a living wage must cease.
- Any engagements on the wage bill must be done through organised labour at the PSCBC.
- An audit of the public service, sector and SOEs must be conducted to determine where actual personnel surpluses and shortages exist. These can then be addressed through reskilling and redeploying.
- Excess SANDF personnel can be redeployed to SARS and Customs, SAPS, Home Affairs, Correctional Services etc.
- An investigation of alleged ghost posts in provinces, SOEs and municipalities must be conducted.
- Critical service delivery vacancies in health, education, SAPS, Home Affairs, SARS and Correctional Services must be filled.
- Wage gap in the public service, entities and SOEs reduced.
- Bloated executive and management posts and packages must be drastically reduced, including the Ministerial Hand Book.
- All public sector entities and SOEs must be placed under the PSCBC.
- Wage caps for management in public sector entities and SOEs introduced with drastic reductions for them so that they are in line with DPSA provisions.