Impact of loadshedding on economic growth and unemployment

The simplest and most used definition of energy is the ability to do work. This definition has serious and broad implications for economies, as it has for individuals. As human beings, we eat and store energy in our bodies to have the physical strength to do any work, let alone to walk. Economies, on the other hand, require energy to set the wheels of industry in motion and for factories to be productive. It is through the development and growth of industry that economies create employment for people. Thus, energy is not only the ability to do work, but is also at the centre of creation of work.

It is indeed truism that the concept of employment, let alone massive job opportunities, does not exist outside of a booming economy with growing industries and functioning factories. Meanwhile, it is common course that without a reliable supply of energy, industries cannot grow, factories cannot function, and the economy cannot boom. The shortage of energy poses a serious threat to economic growth and it threatens job creation and job preservation. This article, therefore, seeks to explore the impact of loadshedding on the economy and on jobs. It highlights how loadshedding is impacting on the public service and weakening its ability to provide quality services to the poor majority.

Economic crisis

The growth of any economy is dependent on windfalls and the rate of productivity. Whilst windfalls may be a result of a new discovery of a raw material such as gold for an example, it is the efficiency of the process to extract such a product that can propel the growth of an economy. The rate of productivity determines the rate of growth. The lower the levels of productivity the lower the rate of growth. Thus, a country may enjoy great endowments of gold deposits but experience poor growth owing to inefficiencies. Inefficiencies in electricity supply, poor transport network, labour and political instability, *etc.*, can cause low productivity rates and result in economic stagnation, let alone negative growth. Whilst political and labour instability and a poor transport network do affect the rate of production on the shop floor, it is the lack of electricity that can bring the wheels of production to a grinding halt.

Intermittent supply of electricity is a turn off for prospective investors. There is no investor whom, in their right state of mind, would like to invest their money in a country where there is no guarantee of electricity supply. Industrialists and business men alike, want to maximise profit. They want to be assured that they can run production 24 hours per day without the risk of blackouts.

Meanwhile, South Africa is fast losing its competitive edge amongst the community of nations as an investment destination. It does not matter how many times government sends a delegation to Davos to attend the World Economic Forum, there will be no enthusiasm from potential investors to come to South Africa as the energy crisis persists.

Most investors are cautious and expect government to play its part and demonstrate commitment to provide critical infrastructure such as water, electricity, road and rail. They expect government to provide off-take agreements for their products and yet, with a limping economy and a low balance sheet, the South African government struggles to give such guarantees. Eskom debt has accumulated over the years and has become unsustainable. In 2023 the debt was standing at R423 billion and government was forced to develop a debt-relief package over a three-year period[i]. This debt is not only affecting Eskom's books but also South Africa's balance sheet.

Meanwhile, the South African debt to GDP ratio has skyrocketed and is unsustainable. Statistics South Africa placed it at 70.73% for 2023 and projects it will reach 83.8% by 2027. This means that the country is currently using more than 70% of its GDP to service debt. This is unsustainable by any standards. The contribution of Eskom debt to the national debt ratio is significant. This economic outlook has not amused rating agencies. South Africa has since been downgraded to lowest levels by almost all reputable rating agencies. Fitch rating agency placed South Africa on BB- in 2021, and the country is a Ba2 according to Moody's investor services rating of 2022. Standard and Poor the country on BB- recently in 2023. These downgrades show a negative economic outlook and affect investor confidence.

The lack of adequate and reliable electricity also creates added risks such as crime, which in turn affects investor confidence. In its 2022 report, the South Chamber of Commerce and Industry lamented the fall of the business confidence index from 93.7 to 89.3 between May 2021 and May 2022.[ii] This was, at the time, the lowest record since September 2020. Low trade volumes, higher financing costs and power cuts were blamed for the low confidence index. It goes without saying that these three matters are interrelated. It is not far-fetched to suggest that low trade volumes are a result of low productivity and a shrinking manufacturing sector, whilst higher financing cost relates to the cost of doing business being greatly affected by high crime rate and the need for backup power. Loadshedding power cuts directly affect the production line.

Darkness is an enabler of criminality and thugs thrive in darkness. According to Lieutenant Patrick Jacobs of the SA Police Service's Visible Policing, "The dangerous consequences of load shedding come about when street lights and traffic lights are down at night. When lights go out, so do alarm systems, gate motors and electric fencing, making it easier for criminals to gain access to property and spend more time in it."[iii] Companies and individual citizens are experiencing a high rate of burglaries and are losing valuables. This is turning the country and cities into hubs of criminality and affects investor confidence in the country.

But there is also a parallel economy thriving on the back of a crippling one. This is an informal economy of scrap metal and copper cables. This economy has seen rapid growth in vandalism of public infrastructure such as rail tracks, roadside signage, and theft of electricity cables. The failure of the police to combat this crime has brought the formal economy to its knees. We have witnessed the collapse of critical infrastructure such as the rail network, making transportation of goods and people to and from work impossible. As a result, the road network is under pressure from heavy loads that should have been on the rail and traffic logjams that delay the arrival and pick up of goods.

Non-functioning traffic lights have created a traffic nightmare for public servants to get to work on time. The PSA has painstakingly motivated to the employer to allow all non-service departments employees to work remotely to ease traffic congestion. This will also ease the burden on Eskom as Departments' electricity needs decrease.

There is growing evidence that loadshedding is undermining South Africa's economic growth. The economy is not only shedding jobs, but also losing billions of rands owing to a lack of productivity. A study conducted by the CSIR in 2019 estimated the cost of loadshedding to have been between R60 billion and R120 billion in that year alone. Recently in 2023, the Minister of Energy was reported to have said that loadshedding "cost the country's economy R1 billion per day."

Whilst it is true that South Africa started experiencing loadshedding around 2006, the reality is that it has become even more severe in the last three years. South Africans have become accustomed to black outs that last more than four hours and three times in a day. This has reached a point where up to 12 hours of productive time can be spent without electricity. The timing could not have been worse. These extended hours of loadshedding have come at a time when the economy is still recovering from the impact of COVID-19 related lockdowns, which crippled businesses and left many of them beyond recovery.

Impact of loadshedding on jobs

The impact of loadshedding on jobs is monumental. Not only is it impacting on the creation of new jobs, but it is also very severe on job preservation. The truth is that without attracting investors to the country, the hope of job creation will remain a chimera. Without sustainable and reliable supply of electricity, there can be no guarantees that existing jobs will last. In a 2022 study, the audit company *PriceWaterhouseCoopers* (*PWC*) projected that loadshedding was going to cost South Africa 350 000 jobs.[iv] When *PWC* made this projection, loadshedding was only up to stage 4. Its predictions were therefore conservative. The worst of loadshedding was yet to come. The situation has since escalated and stage 6 loadshedding became the order of the day. This is equivalent to six to eight hours of loadshedding in a single day, making hours spent without electricity almost the same as hours of work in South Africa. This means that the impact has doubled, if not quadrupled. It should follow suit that the loss of jobs, too, should have worsened.

South Africa has begun to witness capital flight with companies either looking abroad or moving to cities where they can be excluded from loadshedding. A good example is the recent departure of *Clover*, the milk production company, which has decided to downscale its activities in Johannesburg and setting up alternative production in Cape Town.

In a paper written for the South African Reserve Bank Bulletin on Economic Notes, Palesa Mnguni and Witness Simbanegavi put manufacturing in its rightful place. Quoting from a 2017 paper by Cantore N. *et al*, they underscored that "Manufacturing is an engine of economic growth, a source of resilience to economic shocks and an important contributor to GDP. It has high economic multipliers due to its forward and backward linkages to both downstream and upstream production sectors of the economy. Additionally, it contributes to exports and employment, and the jobs tend to be better paying, stable and less vulnerable to shocks compared to other sectors."[v] The significance of manufacturing in the economy and job security cannot be understated. However, South African manufacturing has been shrinking over the years, its base as an engine of growth has been eroded and its role as a shock absorber has been limited. Even if this was a natural process of a sector approaching its twilight, loadshedding has fast-tracked its demise and exacerbated its erosion as a pillar of economic growth. Whilst it contributed 22% to the GDP and 24% to employment nationally in the 80's its share declined to 12% respectively in 2018. The collapse of Eskom and its inability to provide reliable electricity is exacerbating the declining contribution of manufacturing towards the GDP and employment creation and preservation.

Loadshedding is stifling and killing small medium enterprises. Whilst big companies with financial muscle can find alternative energy such as diesel generators and solar systems, most small medium enterprises cannot afford such costs. They are forced to stop operations and wait for electricity to return, suffering great loss of income in the process. Some have struggled to survive the loss of income and have downscaled or completely closed shop. Many who depended on these enterprises have been left without jobs. However, the truth is that even for big business that may afford the installation of alternative sources of energy, such expense could be avoided if there was reliable electricity. Investments in alternative energy are eating away profit margins and resources for further expansion, which could have been beneficial for more jobs.

Impact of loadshedding on the public service

The majority of South Africans rely and depend on public services. Public hospitals, water reticulation plants, public schools, traffic departments, traffic lights on public roads, courts *etc.*, cannot function effectively without electricity. Meanwhile, services rendered by some of these institutions can be a matter of life and death. Yet, despite their significance, they are not insulated from electricity cut offs during loadshedding. In addition, they either have meagre budgets for alternative energy or they have nothing at all. Most, if not all, public institutions are running at a loss and have no reserves to tap into for investment in alternative energy. Government has not prioritised the provision of additional budgets for these critical services either and communities bear the brunt of service disruptions.

The intermittent supply of electricity causes a lot of disruptions in the provision of public services. Critically ill patients in need of surgery could suffer fatal consequences resulting from electricity cut-offs. Patients in ambulances could lose the few minutes in a traffic jam that could have saved their lives. In the health sector, for example, especially in public hospitals and clinics the impact of loadshedding is a matter of life and death. From boilers to theatre, blood testing to radiology, public hospitals are unable to maintain standard practices expected of health facilities that are meant to be sanctuaries of life and not valleys of death. Patient hygiene is affected as boilers cannot keep hot water for bathing, linen cannot be washed regularly, kitchen services are affected and equipment cannot be sterilised properly. Only those hospitals that are either insulated from loadshedding or have the financial resources to provide backup can maintain appropriate standards.

When services are disrupted, public servants suffer the ignominy of being poor service providers. It is not the politicians who fail to give political oversight. Whether it is the online system of at traffic department or electricity loadshedding at a hospital, the public expect public servants to provide answers. Public servants experience the disappointment of the public first hand and, in many instances, suffer emotional abuse from aggrieved members of the public.

Loadshedding has also raised the cost of living. Food cannot last long in fridges. People are forced to find alternative sources of energy such as gas or generators to cook, buy battery lamps or install solar systems to keep the lights on in their houses. Those who can afford it are going off the grid. For an ordinary public servant this is too high a cost to bear. There is currently no special package to lift the burden of this cost on workers. As things stand, it is everyone for himself. Yet, when public servants demand a raise on their wages, they are considered to be unreasonable. The reality is that the electricity crisis has shot up the cost of living, which has become extremely expensive and unaffordable for ordinary workers.

In addition, generators are not the solution. The use of generators comes at a high cost to hospitals as funds are re-directed towards the purchase of diesel at the expense of basic health care. The longer the hours of loadshedding, the higher the cost. Generators are meant to work as backup and, in most cases, are now used for longer hours than they are meant for. This does not only push the expense on diesel but increases the burden on servicing and maintenance of the machines. To continue relying on generators is not sustainable. As it is the case in the medical profession, band-aid is a temporary measure used to assist a patient until appropriate treatment is administered. Thus, the provision of reliable electricity to public services is the long-term and sustainable solution. In the meantime, government should aim to insulate critical services such as public hospitals from loadshedding to preserve lives.

Conclusion

The inadequate supply of electricity has reached crisis proportions. Its cost to human life and livelihood is incomprehensible. Yet, its causes are well known. The Zondo Commission on state capture has laid bare the *modus operandi* and kingpins who have hollowed out Eskom of its ability to provide reliable electricity. What is left to fix Eskom is to haul the corruptors and corrupted to the coals and make them account for their sins. Restoring the economy is key to the country's future. The jobs that have been lost cannot be recovered and new jobs will not come unless investors have confidence in government's ability to provide the requisite infrastructure and protect their investment from criminality. The restoration of electricity in public institutions will assist in boosting the morale of public servants and for them to serve the public with pride. The economy and the public service require the energy for its ability to do work. The PSA, along with all South African citizens, calls for swift action to be taken to restore Eskom.

Endnotes and references

[i] National Treasury, 2023 Budget Review: Eskom Debt-Relief.
[ii] https://www.reuters.com/world/africa/safrica-business-confidence-index-hits-lowest-since-sept-2020-2022-06-14/
[iii] https://www.news24.com/news24/community-newspaper/tygerburger/load-shedding-sees-higher-instances-of-crime-being-comitted-20230201
[iv] https://businesstech.co.za/news/energy/532322/load-shedding-to-cost-south-africa-350000-jobs-pwc/
[v] Cantore N.,Clara, M., Lavop, A.,Soare, S. 2017. Manufacturing as engine of growth: which is the best fuel? *Structural Change and Economic Dynamics*, Vol. 42:56-66. See also OECD Observer No 292, 2012, in Mnguni P., and Simbanegavi W., 2020, South African Manufacturing: A situational analysis, Occasional Bulleting of Economic Notes, Pretoria: SARB.