CRA
Centre For Risk Analysis

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SONA 2020: Disrupted Nation

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- Cyril Ramaphosa's 2020 State of the Nation Address (SONA) was big on social compacts and consensus, but small on substantive policy reforms.

- Persistent energy shortfalls have forced the government into procuring additional electricity from independent power producers (IPPs).

- The disruption by the Economic Freedom Fighters (EFF) was a sideshow which doesn't warrant much attention.

Overview

Although President Ramaphosa acknowledged the slow pace of economic growth and the dire condition of many state owned enterprises, he proposed few fundamental changes to the existing policy framework. The partial liberalisation of energy generation was a notable exception.

Platitudinous talk of "smart cities", a sovereign wealth fund and a state-owned bank were preferred to substantive reforms to labour, empowerment, and industrial policy.

Partial energy liberalisation

To address persistent energy supply shortfalls, Mr Ramaphosa committed to "fundamentally change the trajectory of energy generation" by **expanding the renewable energy programme** and providing license exemptions for own-use generators under 1MW – good news for miners and manufacturers. Another welcome development was the concession to allow **municipalities** in good financial standing to procure electricity directly from IPPs.

However, **these measures fall short** of the fundamental liberalization of electricity generation that is required. We would also question whether the pursuit of low-carbon energy will be sufficient to meet SA's current energy security needs, especially given the **relative abundance and availability of coal**.

Notwithstanding some additional sources of capacity coming on stream, our projections of a persistent **generating shortfall over the medium term** remain unchanged.

SOE financing

The President failed to outline a meaningful plan to reduce Eskom's **R454 billion debt**. The assertion that workers' pensions should not be put at risk, or that the integrity of the financial system should not be compromised, suggests that the recent proposal by COSATU to finance Eskom is no longer seen as viable. Do not mistake this for a push-back by the President against COSATU – several affiliate unions had already raised concerns long before the SONA.

The President also noted that **SAA** – currently under business rescue – should look to become financially sustainable and independent of government funding. PRASA will receive R1.4 bn for rail upgrades.

Economic policy

Industrial policy continues to be statist and interventionist. Various industrial master plans for steel, poultry, clothing and textiles, and sugar are likely to result in additional tariffs and protectionist measures, which will invariably lead to higher prices for consumers. **Competition policy is being tightened**. The long-promised expansion of **broadband** through licensing of high-demand spectrum by the end of 2020, while welcome, will not move the needle significantly.

State capture

Widespread SOE failures and government incapacity were attributed to the lasting effects of state capture. A national Anti-Corruption Strategy and Implementation Plan is unlikely to have much effect, while the Zondo Commission stretches into its eighteenth month. As we have warned previously, even if prosecutions of state capture suspects are forthcoming, this will not equate to **structural reform in the economy in any meaningful sense**. Those pushing for prosecutions lie on the ideological left of the ANC which remains hostile to structural reform.

Youth unemployment

Government training programmes supporting youth entrepreneurship, the expansion of the Youth Employment Service and further budgetary allocations will do little to ameliorate the youth unemployment crisis. The six "priority actions" of the Presidential Youth Employment Intervention to provide work readiness training and market matching services to young people will not be sufficient to address the underlying causes of joblessness: an **inadequate skills base** and **inflexible labour rules**.

Key risks:

- President Ramaphosa reaffirmed the government's commitment to amend section 25 of the Constitution to allow for **Expropriation Without Compensation (EWC)** and to pass the Expropriation Bill.
- The President committed to the implementation of **National Health Insurance (NHI)** following the conclusion of the public consultation process. He did not acknowledge the heavy burden this would place on the fiscus and other potential governance risks.

Although initially putting "inclusive growth" at the centre of his address, the President failed to challenge the core pillars of the existing policy framework which currently inhibit economic growth. Despite his assertions to the contrary, the President's preference for "social compacts" and consensus-seeking are a sign of weakness and equivocation in the face of major structural problems.

Talk to us

Please be in touch with us directly if you wish to discuss these or any other points.

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