

THE EASE OF GETTING ELECTRICITY

FASTER CONNECTION TIMES SUPPORTS AN IMPROVED BUSINESS ENVIRONMENT

Access to safe and reliable electricity supply matters for business. Supply disruptions, lengthy time to connect businesses to electricity supply, high connection costs and usage tariffs make it difficult for businesses to operate and raise the costs of doing business.

World Bank Enterprise Surveys in 137 countries show that for firms getting access to reliable electricity supply is the second biggest constraint on doing business. Self-supply is often prohibitively expensive for small firms, yet is often a daily reality or the requirement for essential back-up supply. Closer to home, the latest SME survey now ranks frequent and prolonged power failures above crime as the biggest threat to small business in South Africa given the cumulative effects of ongoing load shedding over recent years and the costs of investing in generators and other fallback options.

While electricity generation is predominantly Eskom's responsibility, cities are responsible for distributing electricity in large urban areas. This means that increasing investment in city economic infrastructure to improve efficiencies in energy distribution is seen as a key lever for cities to 'get the basics right' and make it easier for firms to do business and create jobs. These investments raise city economic activity and productivity, boosting competitiveness and long term growth and development.

South Africa's electricity crisis of 2008 was a stark lesson in this respect. At the end of January 2008 a quarter of Eskom's electricity-generating capacity was out of commission. Huge blackouts followed by a lengthy period of controlled load-shedding caused immense disruption to the economy. Cities came to a standstill as traffic gridlocked. Large and small firms were affected like, with business stalling, costs rising and jobs lost. Harmony Gold laid off 5 000 workers in February 2008; Nestle spent an extra R37 million buying generators to secure reliable supply for their production lines. Supermarkets and bakeries lost millions of rands of fresh and baked produce. Restaurants closed down. Tourists cancelled their bookings. Shopping centres were lights out. Factories cancelled shifts and production lines slowed (CDE, 2015).



HOW SOUTH AFRICA RANKS IN THE WORLD BANK'S DOING BUSINESS REPORT: GETTING ELECTRICITY

The Doing Business project, launched in 2002, looks at domestic small and medium-size companies and measures the regulations applying to them through their life cycle. Registering property was included as one of the 11 business regulatory indicators measured in 2005 and South Africa has been part of the World Bank's Doing Business reports since 2008. In 2009 rankings were introduced to facilitate comparative analysis and promote an impetus for business regulatory reform among the 190 participating countries, measured for the largest business city in each country – Johannesburg is the proxy for South Africa. Getting electricity was piloted as an indicator in 2010 and rankings included by 2012.

Overall South Africa ranked 32 for the ease of doing business in 2009, yet by 2017 South Africa's ranking has slid to 74 overall and 111 for getting electricity – not necessarily due to negative reforms within the country, but due to other economies implementing and accelerating reforms within their business environment. Poor performance in the getting electricity indicator in particular is a key reason why South Africa's overall rankings have shown steady decline.



This indicator records the number of procedures required for a local business to obtain a permanent electricity connection and supply for a standardized warehouse, as well as the time and cost to complete them. These procedures include the applications and contracts with electricity utilities, clearances from other agencies, and the external and final connection works.

Until recently each variable – number of procedures, time and cost – was weighted equally in the Doing Business assessment. From 2016 the getting electricity indicator also includes a measure of reliability of electricity supply and the transparency of tariffs as well as a measure of the price of electricity consumption.

The measure of reliability of electricity supply measures the duration and frequency of power outages, including scheduled load-shedding over a year.

VARIATIONS IN PERFORMANCE BETWEEN DIFFERENT CITIES

Recognizing that business regulatory reform is a key factor in improve local or city-level investment climate and economic

competitiveness, during 2014 South Africa's 9 largest cities participated in sub-national Doing Business survey that was commissioned by the National Treasury's Cities Support Programme in partnership with the Department of Trade and Industry (the dti) and the South African Cities Network (SACN).

Doing Business South Africa 2015 reports that at the time of the survey no city outperformed the others across the 6 Doing Business indicators measured. This means that city governments are able to improve their local and South Africa's overall investment and business climate by replicating good practices already being used successfully in other cities in South Africa.

For getting electricity, the process of getting an electricity connection is fairly standardized across all South Africa's cities, depicted in the process diagram below. There are significant differences however in the time taken for the length of the process, particularly in respect of the external connection works and the cost of connection.

| Municipality (Municipal seat) | Rank | Distance to the frontier (score) | Procedures (number) | Time (days) | Cost (% of property value) |
|--------------------------------------|------|----------------------------------|---------------------|-------------|----------------------------|
| Johannesburg Johannesburg | 1 | 83.88 | 4 | 80 | 383.2 |
| Tshwane Pretoria | 2 | 81.81 | 4 | 87 | 640.0 |
| Ekhurhuleni Germiston | 3 | 75.73 | 5 | 98 | 380.2 |
| Buffalo City East London | 4 | 75.32 | 6 | 66 | 257.2 |
| Nelson Mandela Bay Port Elizabeth | 5 | 71.83 | 6 | 90 | 258.5 |
| eThekweni Durban | 6 | 68.51 | 6 | 104 | 572.6 |
| Msunduzi Pietermaritzburg | 7 | 63.00 | 5 | 184 | 446.0 |
| Cape Town Cape Town | 8 | 55.74 | 5 | 226 | 729.5 |
| Mangaung Bloemfontein | 9 | 53.14 | 5 | 333 | 587.7 |

Note: Ranking are based on average distance to frontier (DTF) score of procedures, time and cost associated with getting a new commercial electricity connection. The DTF measure is normalised to range between 0 and 100, with 100 representing the frontier of best practices (the higher the score, the better). For more details. See the About Doing Business and About Doing Business in South Africa 2015 section. Source: Doing Business database

BASIC STEPS TOWARDS AN ELECTRICITY CONNECTION IN SOUTH AFRICA:



The report outlines 3 recommendations for improving performance in the getting electricity indicator:

- Streamline approval processes by improving internal municipal communication and workflows;
 - Alleviate the burden of security deposits; and
 - Improve the transparency of the connection process and connection costs.
- How to modernize procurement procedures;
 - Reducing the cost burden on customers by phasing out the securing deposit and improve the regulation of the connection cost; and
 - Increasing the availability of public information on the electricity connection process through city websites and other channels of information dissemination.

DRIVING REFORMS THROUGH PEER LEARNING

Cities can learn from better performers such as Mangaung and through engagements with international experts on the topic. Key points for consideration in the reform activities of cities include:





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Roland Hunter, Cities Support Programme: National Treasury

E | Roland.Hunter@Treasury.co.za • **T** | 012 -315 5613 • **W** | www.csp.treasury.gov.za

National Treasury

Private Bag X115, Pretoria, 0001 | 40 Church Square, Pretoria 0002 | South Africa

T | +27 12 315 5526 • **F** | +27 12 406 9055



Schweizerische Eidgenossenschaft
Confédération suisse
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Département fédéral de l'économie,
de la formation et de la recherche DEFR
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