



S A K E L I G A

S E L F S T A N D I G E S A K E G E M E E N S K A P

**COMMERCIAL PERSPECTIVES ON
ESKOM'S ROLLING BLACKOUTS:**

**WHAT DOES LOADSHEDDING
COST BUSINESSES?**

SAKELIGA MEMBER SURVEY

**AUGUST 2022
SAKELIGA**

Commercial perspectives on Eskom's rolling blackouts:

What does loadshedding cost businesses?

Sakeliga member survey

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Executive summary

As is expected, loadshedding presents a substantial challenge for member businesses. Our findings are summarised below:

- Power cuts are leading to considerable estimated losses in revenue.
- Substantial additional spending is being incurred to mitigate the impact of power cuts.
- The impact of power cuts is, as can be expected, highly disruptive for businesses, suppliers, and clients.
- Generators and small UPS systems are the most prominent backup power sources among those surveyed. Only 22% of businesses reported using solar power systems and just 12% large battery systems as backup.
- Thirty-five percent of the respondents remain entirely dependent on Eskom power, down sharply from 60% three years ago. Around 62% remain mostly dependent on Eskom, but this is down from 75% three years ago. Encouragingly, nearly one fifth of businesses surveyed say they are completely independent of Eskom power supply, but this number was unchanged from three years ago.
- The relatively low uptake of solar PV systems (compared to generators, for instance), even at this stage of the power crisis, suggests to us that cost and energy density are unsurprisingly playing a role in the switch to 'off-grid' solutions. It is evident that the ability to use electricity produced at scale remains relevant.
- The power crisis is regarded as very serious, compared to other problems. Nearly 96% of the respondents regarded the Eskom crisis as much more serious (69,1%) and somewhat more serious (26,7%) than other pressing problems in South Africa.
- While this high prioritisation of electricity supply would likely be biased by acute stage 4 and 6 loadshedding during the survey period, the point is just how vital electricity supply is and what a grave concern it is when it is insufficient.
- Ninety-two percent of respondents agreed with a statement that South Africa's energy market must be completely opened for private generation and distribution.

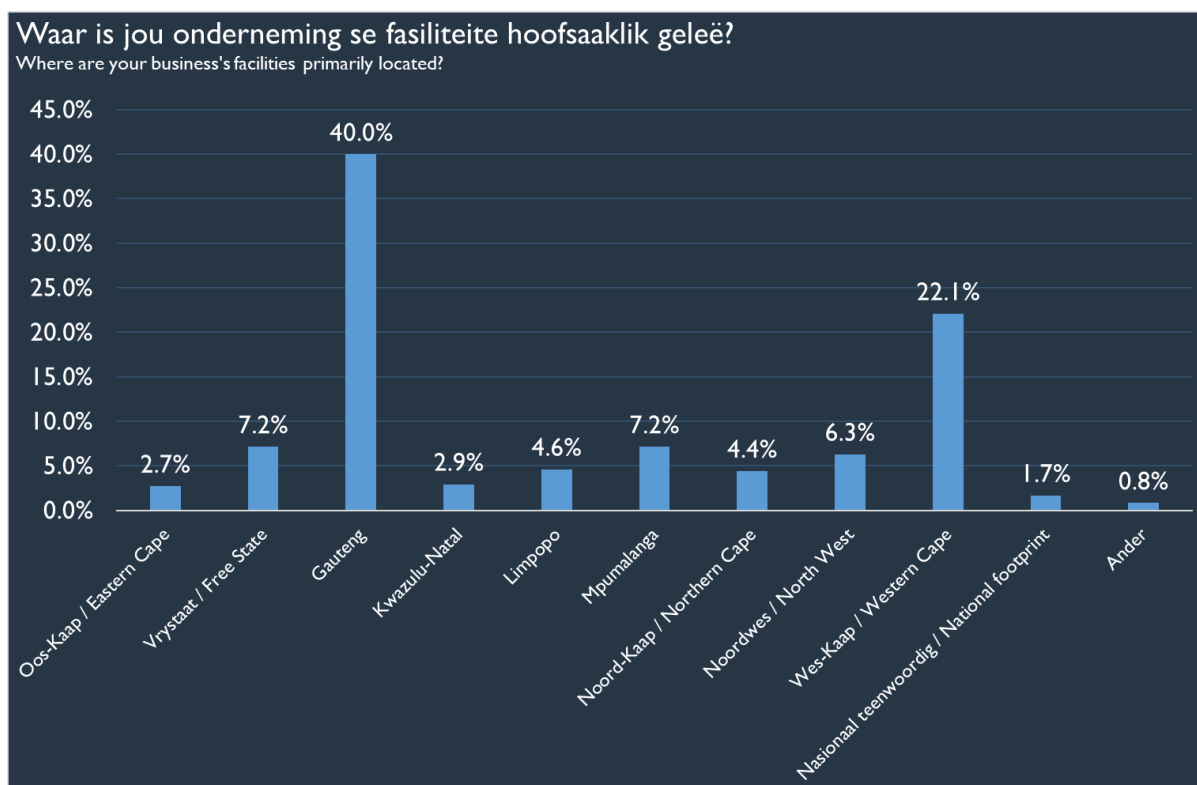
Overview: Taking the pulse of businesses in Sakeliga's member economy

Sakeliga undertook a survey among our members and broader business network in June (to early July) 2022 to gain a clearer understanding of the cost and impact of loadshedding on businesses.

While the broader disruption of Eskom's rolling blackouts is obvious, the response to our survey provides a clearer picture of the impact on Sakeliga member businesses and our broader network.

The survey was conducted by email and on social media from 22 June 2022 to 1 July 2022.

Responses were drawn from Sakeliga's membership and broader network and social media. Most of the respondents were from Gauteng (40%), followed by the Western Cape (22,1%), Mpumalanga (7,2%), and the Free State (7,2%).

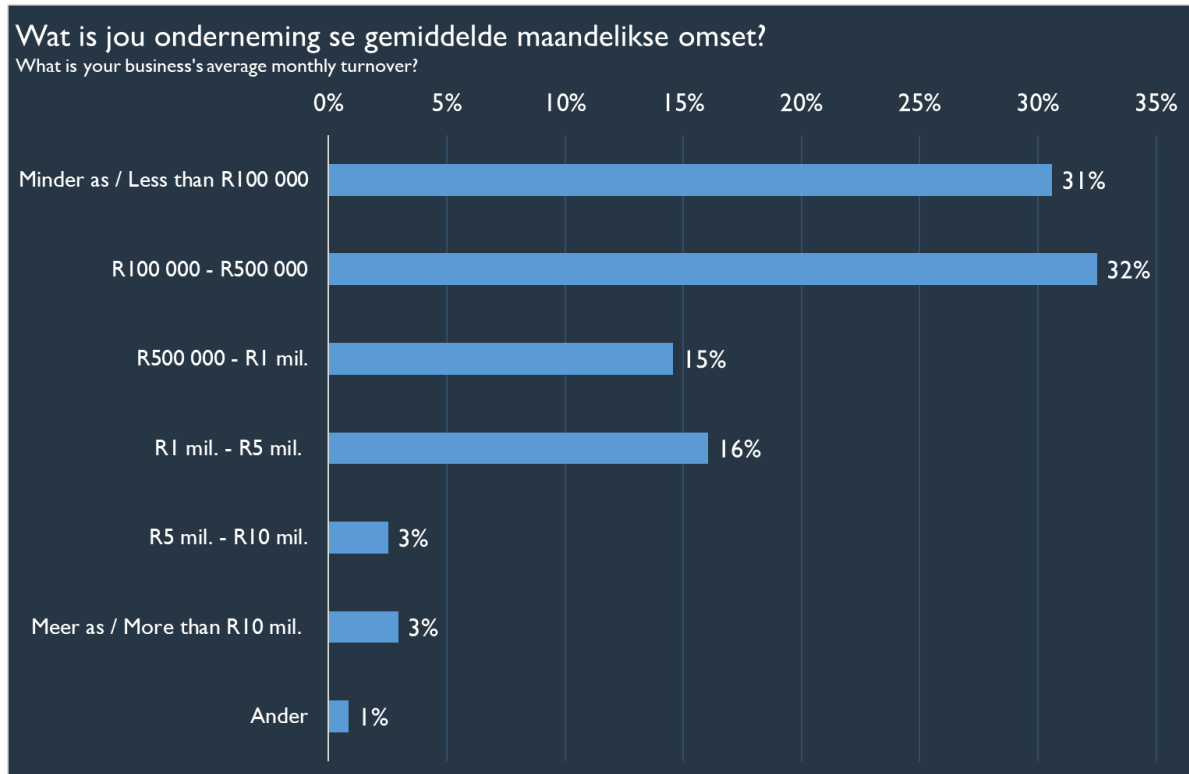


In total, 478 respondents participated in the survey. This is a sizable sample which in our view captures the situation among Sakeliga's member businesses and provides useful, broadly reflective insight on general conditions in the economy.

Of the respondents, 64% were small businesses with ten or fewer employees.

The Bottom Line: Revenue losses and higher costs

Sixty three percent of respondents reported a monthly turnover of R500 000 or less per month. Median turnover was around R300 000.

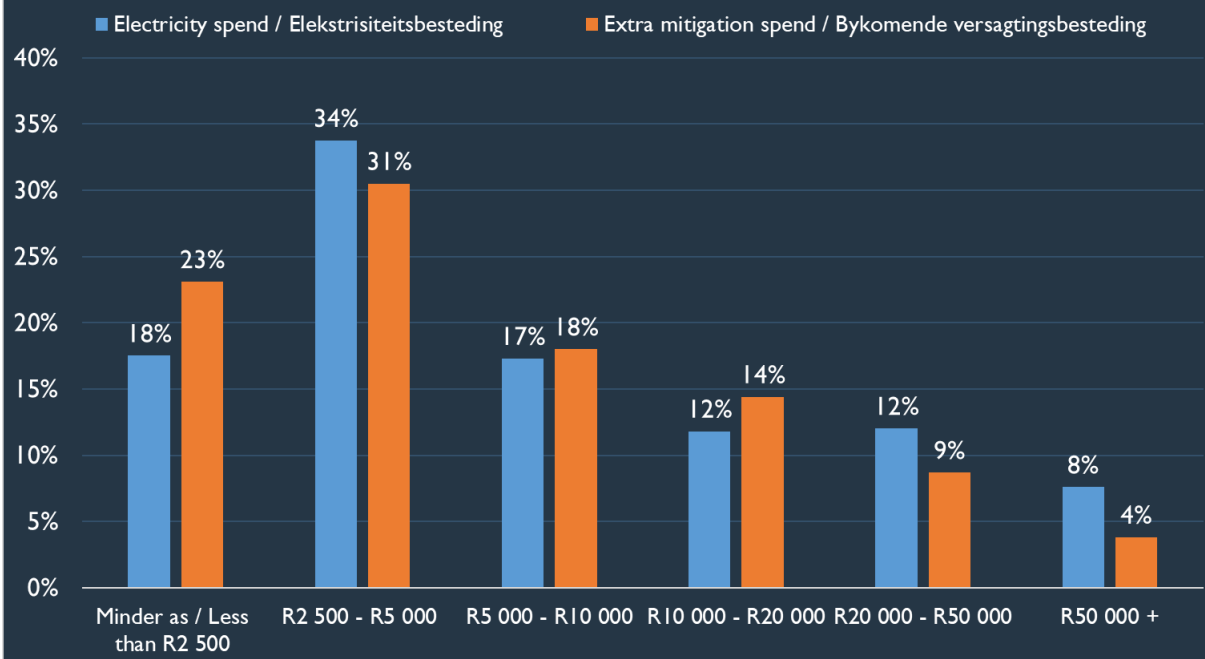


The median business reported spending close to R5 000 per month on electricity, plus an additional R5 000 to curb the impact of Eskom power cuts. This includes spending on generators, UPS systems, solar systems, or other solutions.

It appears that businesses' energy costs roughly double during bouts of severe loadshedding.

Gemiddelde maandelikse besteding aan elektrisiteit asook bykomende koste om impak van beurtkrag te verlig

Ave monthly spend on electricity and additional spend to mitigate impact of loadshedding



What about lost revenue from power cuts over the preceding three months?

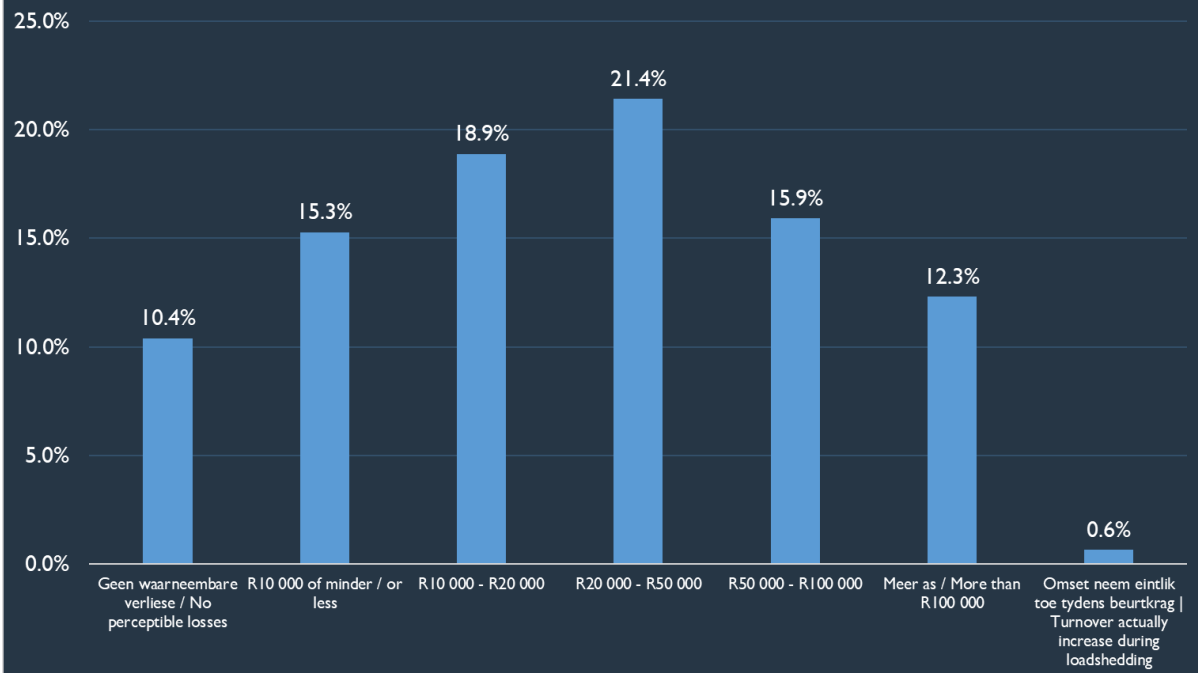
The median business in our survey reported a loss of around R25 000 over the preceding three months due to electricity shortages (or about R8 000 per month).

Only around 10% of respondents reported no perceptible losses, while under 1% (0,6%) appear to derive more revenue from loadshedding, perhaps by supplying goods and services that help households and business deal with Eskom shortages, like solar energy enterprises.

However, for most of the respondents, loadshedding came with notable estimated losses in revenue.

Na jou raming, hoeveel het beurtkrag jou onderneming rofweg in verlore omset oor die laaste drie maande gekos?

Estimated roughly, how much has loadshedding cost your business in lost turnover over the past three months?



Disrupted: Effects on businesses, clients, and suppliers

We also asked respondents to indicate the degree of disruption to their business premises, their clients, and their suppliers.

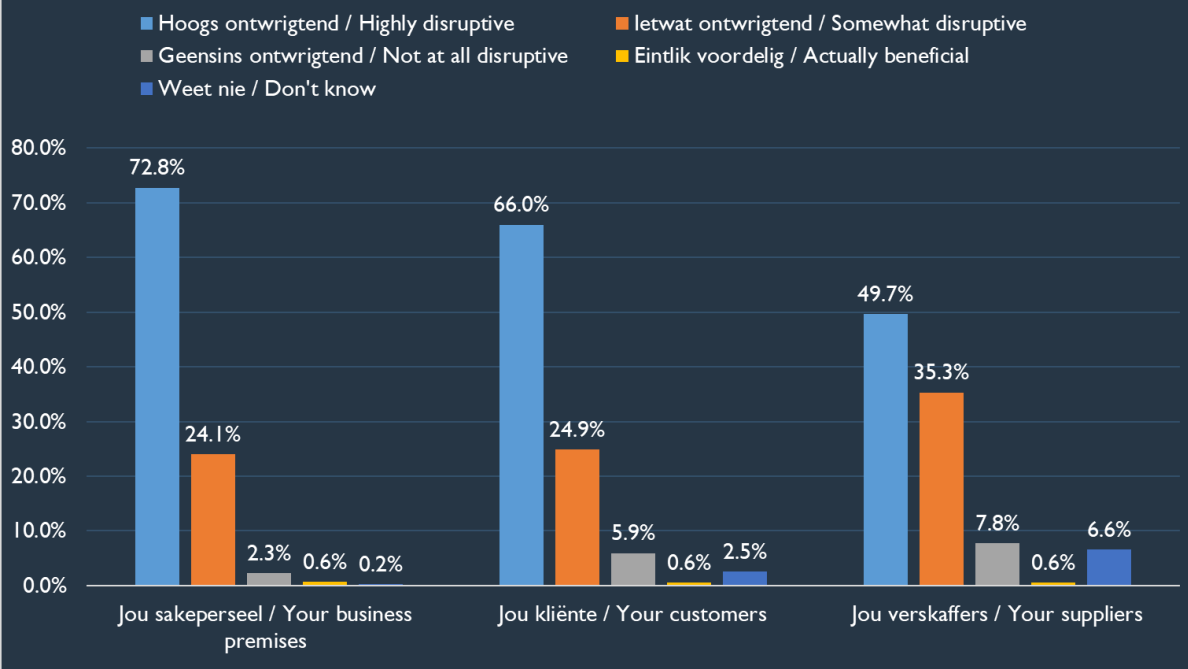
- **Effect on business premises:** Of the respondents, nearly 97% rated the impact of loadshedding over the last six months as *highly disruptive* (72,8%) or *somewhat disruptive* (24,1%) to their business's premises. Very few (2,3%) noted no disruptions to their business premises.
- **Effect on clients:** Ninety-one percent of the respondents noted a *highly disruptive* (66%) or *somewhat disruptive* effect on their clients.
- **Effect on suppliers:** Eighty-five percent of the respondents noted a *highly disruptive* (49,7%) or *somewhat disruptive* (35,3%) effect on their suppliers.

In essence, this confirms what we know: that loadshedding disrupts not only business premises themselves, but also clients of those businesses and their suppliers.

The impact on suppliers was seen as less severe than on the businesses themselves, perhaps because loadshedding has lesser effects on overseas suppliers, large domestic suppliers who can afford scaled mitigation costs, and suppliers relying on fuel-based supply logistics.

Oor die laaste ses maande, hoe ontwrigtend was kragonderbrekings (beurtkrag) in die algemeen vir jou sakeperseel, jou kliënte, en jou verskaffers?

Over the past six months, how disruptive were interruptions of power supply (loadshedding) to your business?



Damages: Direct loss from damage over 12 months

Respondents were asked to estimate the direct damage or losses due to power surges resulting from loadshedding over the preceding 12 months.

More than 85% of the respondents reported such damage or direct losses. These losses came to around R15 000 over the 12 months for the median business. Only 13% of the respondents noted no perceived direct damage or losses attributable to loadshedding over the last 12 months.

Most of Sakeliga's member businesses reported damage due to power cuts.

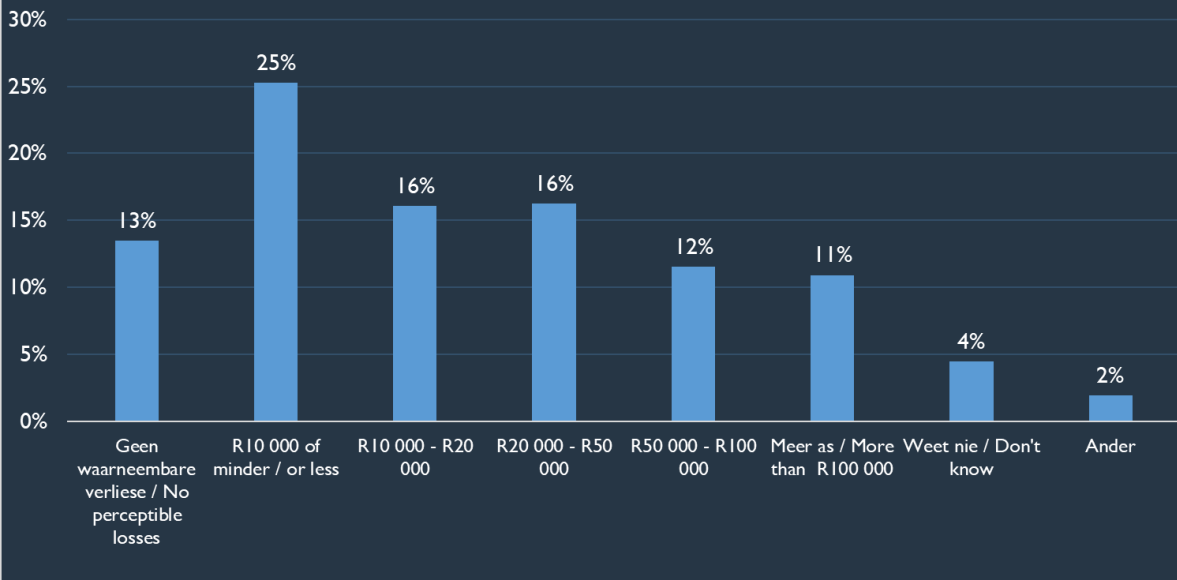
To give an indication on the scale of the problem, R15 000 per year in median damages amounts to R1 250 per month. Median monthly turnover is R300 000, so the median cost of damages from loadshedding is around 0,4% of total turnover.

Total annual turnover in South Africa is about R12 trillion per year (Stats SA). 0,4% of R12 trillion is close to R50 billion, or almost 1% of annual GDP.

This cost will either be absorbed directly, or translate to higher insurance costs, or damages not be repaired with detrimental effects on productivity.

Oor die afgelope 12 maande, hoeveel rand se direkte verliese en/of skade is weens beurtkraggerwante kragstuwings ('surges') of verwante kragprobleme aan masjinerie, bates en voorrade in jou onderneming aangerig?

Over the past 12 months, how much direct damage and/or losses was caused to your business's machinery, assets and stock due to loadshedding-related power surges or related power problems? (NB: Damage or losses must in your understanding be directly related to loadshedding.)



State-Proofing: Dependence on Eskom and alternative solutions

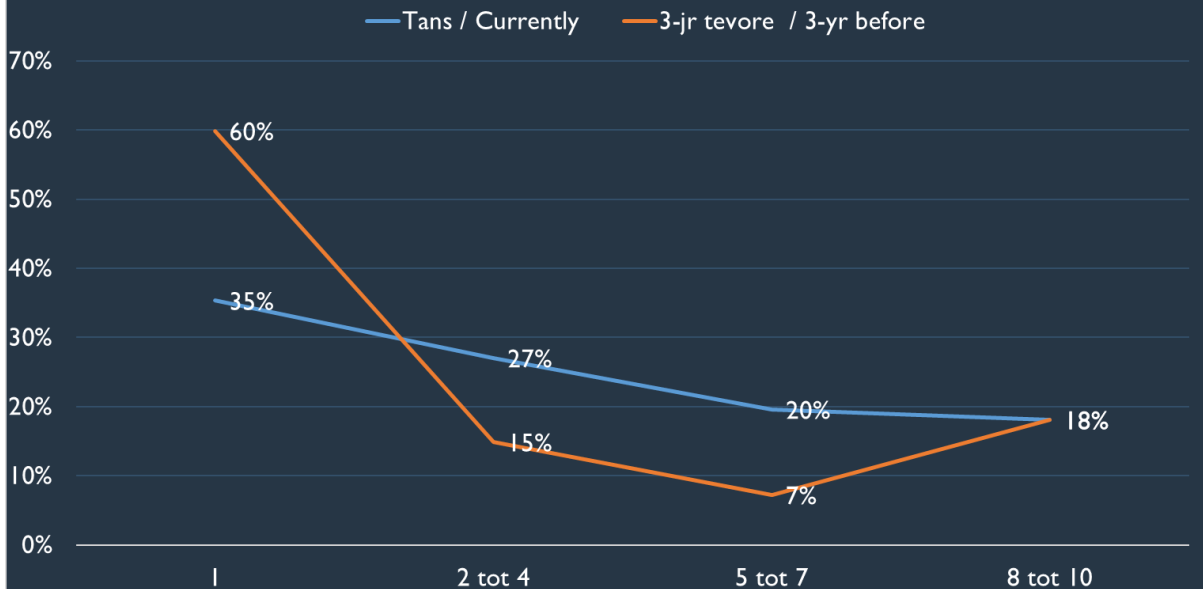
The respondents were asked to estimate how dependent their businesses are on Eskom *presently* versus how dependent they were *three years ago*.

Sixty percent of the respondents were completely dependent on Eskom three years ago. This has fallen to 35% in 2022.

Fewer businesses surveyed are as acutely dependent on Eskom compared to three years ago. Nearly one in five businesses are *completely* independent of Eskom.

Op 'n skaal van 1 tot 10, hoe afhanklik of onafhanklik [is/was] jou onderneming van Eskom se kragvoorsiening?
 [Skaal: 1 = heeltemal van Eskom afhanklik | 10 = heeltemal van Eskom onafhanklik]

*On a scale of 1 to 10, how dependent or independent of Eskom's power supply was your business three years ago?
 [Scale: 1 = Completely dependent on Eskom | 10 = Completely independent of Eskom]*

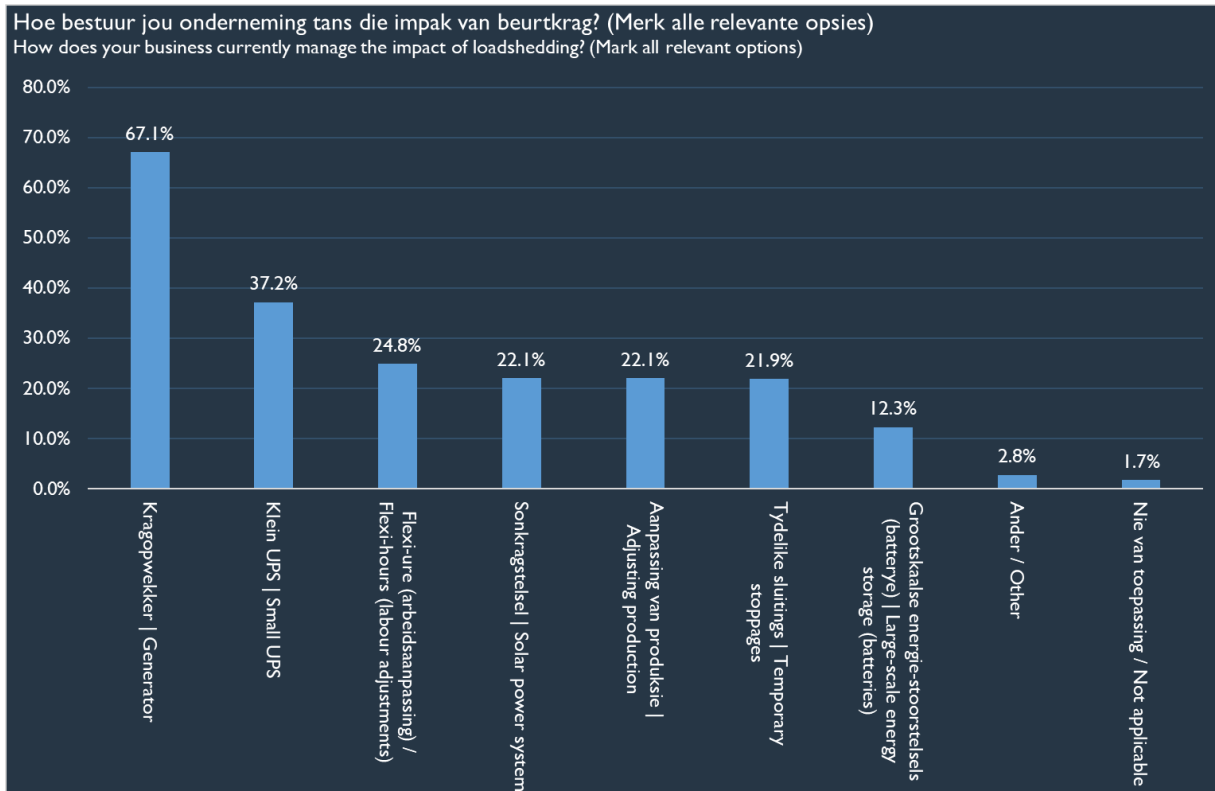


Electricity generators (67% of respondents) and small uninterruptible power systems (UPS) (37% of respondents) are the main ways most of the surveyed businesses deal with loadshedding. Only 22% of the respondents indicated the use solar power systems and 12% large-scale battery storage solutions.

The relatively low uptake of these technologies is interesting, but likely understandable given the high upfront cost and relatively low energy output of such systems.

Yet heavy reliance on petrol and diesel generators is problematic at this point of the power crisis. Expensive fuel, fuel taxes, and heavy regulation of petroleum production, are concerns for heavy petroleum reliance. Combined with rolling blackouts, these elements are hampering effective functioning of businesses.

Other, more business-disruptive ways of dealing with loadshedding were adjustments to production (22%), flexi-hours (25%), and temporary stoppages (22%).



Priorities and Policies: Serious problem needs a serious solution

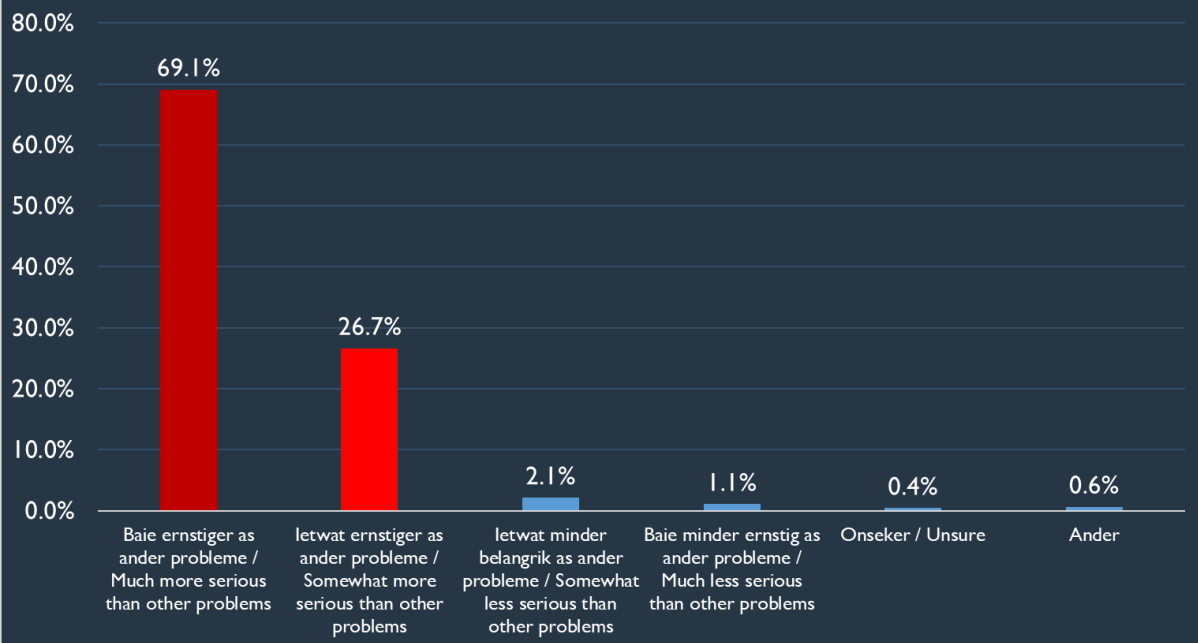
Respondents were asked to indicate the degree to which loadshedding is more serious than other pressing problems in South Africa.

Concerningly, 96% of the respondents regard the Eskom crisis as much more serious (69,1%) and somewhat more serious (26,7%) than other problems. This illustrates the comparative urgency of the power crisis for our members.

However, the results must be interpreted in a way that considers the salience and disruption of the current power crisis, which puts the power crisis front of mind. Electricity supply as a top priority would likely be biased by acute stage 4 and 6 loadshedding during the survey period. But the point is just how vital electricity supply is and what a grave concern it is when it is insufficient.

In vergelyking tot ander knellende probleme, hoe ernstig is die probleme met Eskom en beurtkrag vir die toekoms van besigheid in Suid-Afrika

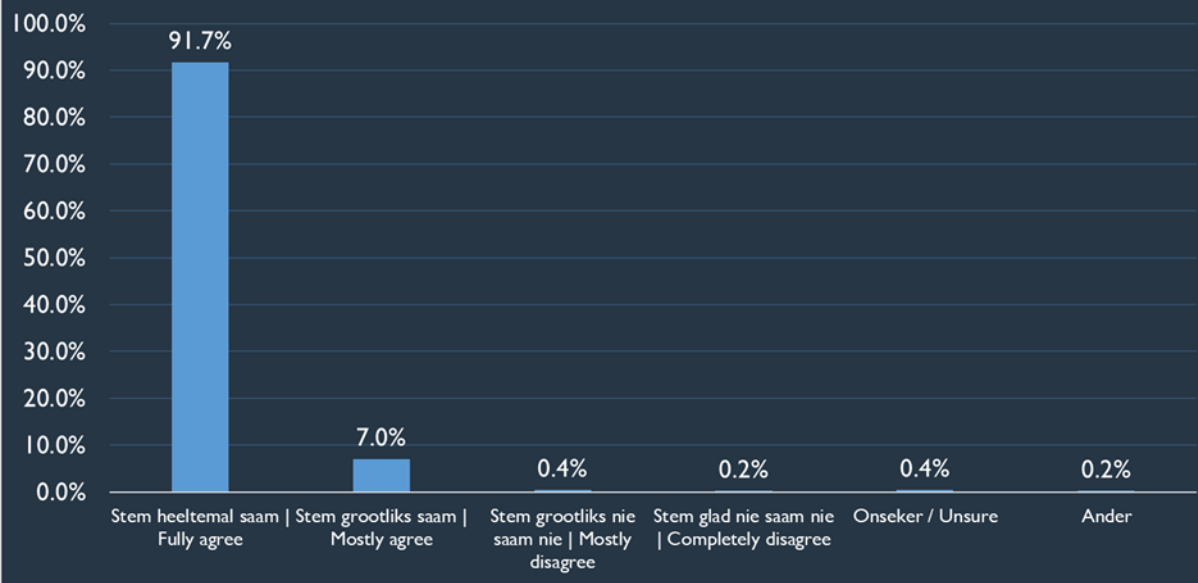
In comparison to other pressing problems, how serious a problem is Eskom and loadshedding to the future of commerce



Ninety-two per cent of respondents agreed with the statement that South Africa’s energy market must be completely opened for private generation and distribution. Almost all respondents favour substantial energy market liberalisation.

Tot watter mate stem jy saam met die volgende stelling: Suid-Afrika se energiemark moet volledig oopgestel word vir private kragopwekking en -verspreiding.

To what extent do you agree with the following statement: South Africa’s energy market must be fully opened up for private power generation and distribution.



Open Responses

The respondents were afforded an opportunity to make additional comments. Comments about the power crisis were mostly negative and revealed the deeper impact of power cuts on the economy and business.

Some of the themes included:

- Anger about corruption and mismanagement at Eskom.
- Concerns about the harms of loadshedding on businesses and the economy.
- Fears about forced business closures.
- Mentions of cost pressures on business.
- Prohibitive cost of alternative power systems.
- General disdain about the dismal state of the economy and politics.

Analysis: Estimating the cost of loadshedding

The median business in our survey reported losing R8 000 per month in revenue over the three months prior to the survey, which was a period of moderate to substantial loadshedding interspersed with periods of no loadshedding.

The median business also reported spending roughly as much on alternative energy sources as on Eskom power – around R5 000 per month – and reported damages related to loadshedding of around R1 250 per month.

So we have:

- R8 000/month lost revenue.
- R5 000/month supplementary spend on power.
- R1 250/month in damages.
- Median business income: R300 000/month.

These losses amount to around R14 250 per month for the median business, or nearly 5% of median revenue. But these costs did not just show up in 2022. They have been accumulating monthly over years of Eskom failure and power shortages.

Net losses from loadshedding have a considerable long-term impact on businesses' ability to produce true surpluses. To shoulder losses, enterprises would have to draw down savings or raise equity, incur debt, or sell other assets. To protect profits or avoid losses, firms would have to cut other costs, for example delaying hiring or paying increases, and reduce capital spending and maintenance, harming their longer-term operational sustainability.

Making it harder for businesses to make profit also means fewer businesses are established, and that means less hiring and employment. Clearly, severe power shortages can be economically devastating. If they persist long enough, they can put enterprises out of business, put a handbrake on new hiring, reduce demand for capital equipment and maintenance services, create risks of distressed borrowing, and slow down new investment and business formation.

Total annual revenue in South Africa is about R12 trillion, so if total business losses reflected those in our survey ($\pm 5\%$ of revenue), it would amount to about R600 billion per year. This would be about 10% of GDP.

This does not mean that we should expect GDP to fall by 10% in new bouts of heavy loadshedding. South Africa has already had loadshedding for a long time, and so we must consider the impact of *additional* loadshedding. What this means is that the overall cost of reaching stage 4-6 loadshedding is that South Africa's economic activity is perhaps around 10% smaller than it would otherwise have been without electricity shortages since 2008.

Seen in this light, a cost of R600 billion in foregone annual productivity and income (R10,000 per person per year) does not seem implausibly large. In fact, it may even still be too conservative an estimate of the damage done by Eskom's inability to supply enough electricity.

Compared to other emerging-market, commodity-rich countries, South Africa's economy has grossly underperformed over the last 20 years. By comparison with these countries, South Africa could be 50-

100% more productive than it is today if it were not for Eskom's failures, restrictive and harmful policies like BEE, and corruption and political mismanagement.

Our survey only begins to scratch the surface of the cost of power shortages. It only looks at businesses, does not account for the cost of businesses that were never started and does not consider the direct impact on households and a loss of confidence expressed through divestment and emigration.