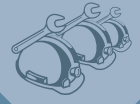


# Economy and employment



## KEY POINTS

To eliminate poverty and reduce inequality, South Africa has to raise levels of employment and, through productivity growth, the earnings of working people.

South Africa needs faster growth and more inclusive growth. Key elements of this strategy include raising exports, improving skills development, lowering the costs of living for the poor, investing in a competitive infrastructure, reducing the regulatory burden on small businesses, facilitating private investment and improving the performance of the labour market to reduce tension and ease access to young, unskilled work seekers.

Only through effective partnerships across society can a virtuous cycle of rising confidence, rising investment, higher employment, rising productivity and incomes be generated.

South Africa requires both a capable and developmental state, able to act to redress historical inequities and a vibrant and thriving private sector able to investment, employ people and penetrate global markets.

## INTRODUCTION

Building on South Africa's progress in forging a democracy over the past 18 years, the country now enters a new 20-year phase of development, focused principally on the economic advancement of the poorest South Africans. This plan provides a detailed and holistic approach to the task; covering education, infrastructure, rural development, health care and social protection, among other issues. But most critically, to eliminate poverty, South Africa has to raise employment. This can happen only if the economy grows faster and in ways that draw in the historically disadvantaged.

This chapter principally deals with proposals to raise employment and economic growth. The key measures of economic success identified in the plan are that South Africa achieves average Gross Domestic Product (GDP) growth of over 5 percent, and that by 2030 GDP per capita is more than twice the present level, export growth has accelerated, income levels have risen above the poverty line for all, inequality has been substantially reduced, and unemployment has been reduced from 25 percent to 6 percent.

The first half of the 21st century offers South Africa enormous economic opportunities. It also promises unprecedented challenges and risks, which will be driven by both external developments and internal dynamics. While South Africa is too small an economy on the global stage to affect the direction of the changes to come, understanding and anticipating the drivers of change internationally could make the difference between economic success and failure. Similarly, pre-empting domestic and regional developments and dangers will affect outcomes. Choices made now on the basis of these insights will largely determine whether or not South Africa emerges in 2030 with a stronger economy and a more socially equitable society.

These goals will be achieved only if the country confronts current structural and policy weaknesses, minimises risks, and exploits its economic strengths in ways that benefit the most marginalised in society.

## STRUCTURAL FEATURES OF THE SOUTH AFRICAN ECONOMY

### The economic challenge

The fragility of South Africa's economy lies in the distorted pattern of ownership and economic exclusion created by apartheid policies. The effects of decades of racial exclusion are still evident in both employment levels and income differentials. The fault lines of these differentials are principally racially defined but also include skill levels, gender and location.

Consequently, South Africa has developed into one of the most unequal societies in the world, with very high levels of poverty, carrying all the attendant risks. In addition, the country has failed to reap a demographic dividend by harnessing the potential of a proportionately large cohort of working-age youth.

Our analysis of the problem indicates that South Africa is in a low growth, middle income trap. There are four key features of this trap that serve to reinforce each other. These are:

- Low levels of competition for goods and services
- Large numbers of work seekers who cannot enter the labour market
- Low savings
- A poor skills profile.

Uncompetitive goods and services markets are a result of the pattern of economic growth under apartheid and sanctions-induced isolation. This has led to relatively high profit margins but little new investment or innovation. Profits are shared and then consumed by both existing owners of capital and existing workers. Uncompetitive markets for

goods and services and low levels of investment mean that new firms are not entering the market and employment is low. Uncompetitive labour markets keep new entrants out and skew the economy towards high skills and high productivity sectors. Low savings mean that the country is reliant on foreign capital inflows, which reinforce the oligopolistic nature of the economy since foreign investors invest in existing high-profit firms. Skills constraints push up the premium for skilled labour, inducing a large gulf in the salaries of skilled and unskilled people, raising levels of inequality.

Overcoming these challenges is neither easy nor straightforward. For example, liberalising labour markets without dealing with other features could lead to higher profits without increases in investment, innovation or employment. While there are several sectors where further steps to increase competitiveness is required; distance from markets, the size of the market and its high cost structure make it difficult to break oligopolies. Even if it were possible to break the oligopolies leading to lower profits, this would not necessarily lead to higher investment and employment.

Other weaknesses in the South African economy include extreme pressure on natural resources, energy constraints, spatial misalignments, and limited access to large markets because of geographical distance.

South Africa is in the fortunate position of having areas of comparative advantage. These include its natural endowments (including minerals), a strong

fiscal position, its location on the continent, a strong and deep financial services sector, quality universities and a small but sophisticated services industry.

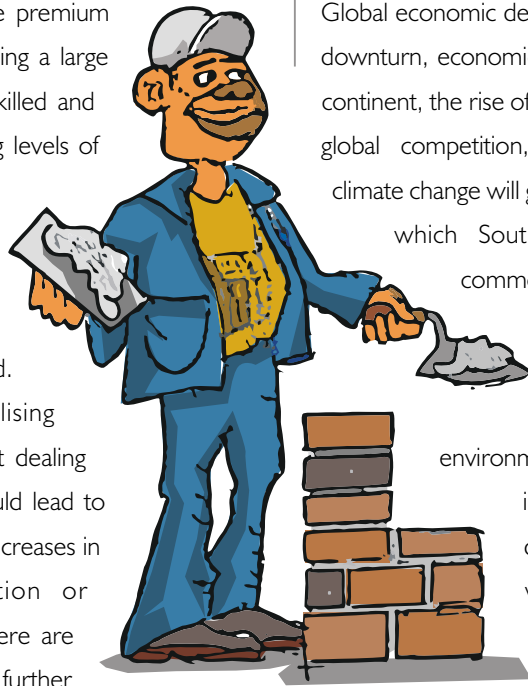
In transforming the economy, South Africa faces several challenges, some of them external, some of them as a result of history or geography, and some because of limited capacity. Even where they are external, South Africa can and must plan for them. Global economic development and the economic downturn, economic performance on the African continent, the rise of emerging markets, intensified global competition, technological change and climate change will greatly influence the context in which South Africa operates. Global commodity prices will affect different parts of the economy differently. A global drive for compliance on environmental standards will have cost implications; but it will in turn drive innovation, reduce waste, improve energy efficiency and promote new investment. These external drivers are discussed in detail in chapter 1.

There are other structural factors that should heavily influence policy-making in the pursuit of full employment. In the first category are those that are common to economies similar to South Africa's. In the second are challenges and opportunities specific to this country.

### **Structural challenges in similar countries**

Some of the structural challenges South Africa faces are not unique. Awareness is key to overcoming them.

**Resource curse:** Mineral-exporting economies tend to have difficulty diversifying their industrial base, and also experience slower than average



growth and high inequality. An exchange rate linked to commodity prices, rather than the sophistication of a nation's exports, is a major challenge. In addition to volatility, the exchange rate can become overvalued in periods where commodity prices rise, putting a brake on non-commodity exports. Activities that are not traded benefit, such as retail, banking, telephony and housing construction. Difficulties arise when the boom is over and goods producers are left weakened. Some firms have adapted to this cycle by producing for local or export markets depending on domestic market conditions and the exchange rate. This enables survival, but is not conducive to long-term planning and expansion.

Higher commodity prices buffer the economy and create the appearance of growth, leading governments and companies to become complacent and under-invest in people and productivity growth.

If these pitfalls are consciously avoided, and if the mineral endowments are used to facilitate long-term capabilities, these resources can serve as a springboard for a new wave of industrialisation and services for domestic use and exports.

**Middle-income trap:** Many economies that have achieved middle-income status struggle to shift further upwards. However, many have experienced substantial, albeit relatively slow, growth over the past decade. The differentiator is how much the country invests in human capital, product development and technology.

**Global economic downturn:** The global recession and its aftermath of slow growth have persisted since late 2007. Global growth is unlikely to recover rapidly. Slow growth could persist, because the unwinding of imbalances – such as excessive current-account surpluses and deficits, high levels of

government debt, and the deleveraging process of businesses and households – is incomplete.

The worst-case scenario is a decade of slow growth, low demand for imports, low levels of employment growth and low interest rates, which fuel currency swings in emerging markets. At worst, slow growth in the United States, the European Union (EU) and Japan will negatively affect growth in Brazil, China and India because these richer countries remain major markets for the goods produced in developing countries.

**The youth bulge:** Many developing economies are experiencing a “youth bulge”. A large economically-active population can contribute to falling poverty rates, though much depends on whether this population is activated. The changes in demography, particularly the increase in the numbers of people in the working-age cohort, can be a dividend or a burden.

**The future of work:** Manufacturing is becoming a proportionately smaller employer in upper-middle-income and high-income countries, with at least three quarters of new employment found in services. South Africa is no exception. Most jobs are found in domestically oriented services such as retail, personal services, security, domestic work and office cleaning, where productivity and wage growth is lower. Secondly, the nature of work is changing from most people having a single employer, a standard 40-hour working week and a standard set of benefits. Today many people work for several employers, work less than 40 hours a week and do not enjoy a standard package of benefits. This is a reality that we must grapple with, seeking to expand such employment while also improving the conditions of both existing workers and casual workers.

**Resource-intensive economy:** South Africa is the 27th largest economy in the world, but the 12th largest carbon dioxide emitter. This is mainly because the energy intensive economy is largely dependent on carbon-based fuels. As the world takes steps to cost the negative effects of carbon,

South Africa is likely to face challenges (and opportunities) in reducing emissions. South Africa is also a dry country with limited fresh water resources. It will have to find ways of using water more sensibly and improving both the water and energy efficiency of industry.



## SOUTH AFRICA AND THE CURRENT GLOBAL ECONOMIC CRISIS

This plan has a 20-year horizon. However, the immediate effects of the deepening global economic crisis cannot be ignored. While the United States economy is recovering, growth over the next decade is likely to be slow, largely because of high levels of public debt and European Union leaders' ability to find a credible solution to the sovereign debt crisis. While forecasts for developing economies are more upbeat; a recession in the EU, South Africa's largest trading partner, could further dampen growth.

What steps can South Africa take to mitigate the risks in the short term to medium term?

- **Counter-cyclical fiscal policy:** Government needs to build in macro-policy cushions to enable South Africa to counteract the effects of the financial crisis. Continued fiscal discipline is important, though a more expansionary stance might be necessary if the EU contracts.
- **Monetary policy:** A balancing act needs to be struck between curbing inflation — and keeping the embers of economic growth alive.
- **Preventing excessive overvaluation of the rand:** Low interest rates in developed countries contributed to the excessive strengthening of the rand exchange rate, weakening the ability of the economy to diversify. Prudent accumulation of foreign-exchange reserves is an appropriate response to such developments.
- **Stronger social security net:** A spike in unemployment must be met with interventions to protect the most vulnerable, particularly the young who cannot find jobs.
- **Protect sectors with long-term prospects:** Short-term support measures must be provided to industries hard hit by the cyclical downturn.
- **Re-orient trade to emerging markets:** Developing-country demand has been at the heart of the recovery in global trade. South Africa must shift its focus to opportunities on the rest of the continent, as well as in other developing countries.
- **Social dialogue:** A common front to forge joint solutions to the risks facing the economy must be found. South Africa cannot afford dysfunctional relationships among the public and private sectors, and civil society. They urgently need to find one another.
- **Work together:** Confidence has collapsed in high-income countries. Political systems are unable to come up with decisive actions. This is most evident in the inability of the United States senate to pass a jobs bill and the EU to come up with a solution to the debt crisis. The lesson is stark. Unless all sections of South African society work together across the political and class spectrum, it will be unable to weather the effects of the global crisis.

## Structural challenges specific to South Africa

Some structural challenges are specific to South Africa, including:

- High levels of inequality and a relatively small market.
- Skewed ownership and control. The corporate landscape of South Africa has changed remarkably since 1994. However, it remains highly concentrated. This poses a barrier to business entry and expansion in key markets, which are essential for employment creation. Present forms of black economic empowerment (BEE) are not achieving all the desired objectives.
- Insufficient progress in advancing human development; whether in relation to education, health or safety.
- Extreme pressure on natural resources.
- An energy constraint that will act as a cap on growth and on options for industrialisation.
- Spatial misalignment whether in reference to the urban/rural divide or within urban areas, and binding constraints posed by poor physical planning and network infrastructure.
- Distance from main markets globally and limited market access.
- Implementation and coordination challenges.

There are also many favourable factors, such as growing middle strata, scientific capability and institutions, fiscal resources, capabilities in dynamic sectors that are growing globally, a strong minerals base in a context of a commodity boom, high education enrolments, being located in a high-growth region, and the fact that many challenges that would influence our success lie within our power to fix.

Some of the implications for South Africa are set out below:

- Recognise the importance of investing in the

engine of growth (rising outputs from tradable sectors), the sources of jobs (often domestically oriented and services firms) and the linkages between the two.

- Develop flexible human settlements, responsive to changing locations of work (such as available rental stock, and good and affordable public transport systems).
- To raise the chances of achieving continuous work opportunities, South Africa will require labour-matching services, transition support and easy access to retraining.
- In the earlier years, as the country expands access to employment on a mass scale, a large proportion of working people will receive low pay. It is essential to reduce the cost of living in relation to food, transport, education, health and other basic services.
- The environment must be conducive to taking advantage of opportunities that arise. Create an enabling platform that allows people to respond to opportunities.
- The long-term solution to skewed ownership and control is to grow the economy rapidly and focus on spreading opportunities for black people as it grows. Improving standards of education; better support for entrepreneurs; and a focus on career mobility, workplace training and financial inclusion are ways to deal with these structural weaknesses. Government procurement, licensing and other forms of economic rents should help reduce racial patterns of ownership of wealth and income.

## SUMMARY OF THE ECONOMIC PLAN

To pave the way for accelerated economic progress over the next 20 years, South Africa needs to make tough decisions that will involve compromise and trade-offs.

Any solution must tackle the problem holistically dealing with each of the features of the low growth

trap over time. Key proposals include:

- Raising exports while taking steps to prevent excessive overvaluation of the currency
- Improving skills development
- Breaking the disincentive to hire young, unskilled work seekers by incentivising the employment of young, unskilled work seekers
- Using fiscal policy to raise savings and investment and to reduce consumption
- Taking measures to increase competition in regulated sectors or broadening price regulation in sectors that are natural monopolies
- Lowering the costs of transport and logistics and investing in remedies to address spatial divides
- Strengthening the social wage to raise living standards of those out of work or in low paying jobs.

South Africa must develop a more competitive and diversified economy. The plan identifies three strategic interventions to underpin this process: raising levels of investment; improving skills and human-capital formation; and increasing net exports. Success on these three fronts will lead to rising employment, increased productivity, improved living standards and a decline in inequality.

Rising rates of investment will be achieved initially through state spending on infrastructure, largely aimed at “crowding in” private-sector investment. The focus needs to be on infrastructure that promotes efficiency in the economy and reduces costs for business and for individuals.

Private-sector investment can be stimulated by creating policy certainty and ensuring that all policies address the need for South African companies to be competitive. Businesses are also likely to invest more on the back of expanding consumer markets, including those on the rest of the continent.

South Africa must tackle the diversification of the economy from a range of angles. It needs to build on state capacity to identify sectors that will improve export opportunities. In addition, development finance can play a crucial role in promoting industrial policy. The government, in partnership with the private sector, must identify areas to nurture and support; develop sensible instruments to support those areas; and implement them competently. Support and protection should be focused on industries, not firms. At the same time the government must encourage vigorous competition and impose it through competition laws. Critically, industrial policy should allow for learnings and for timely exit strategies.

The proposals in the plan take cognisance of the fact that South Africa is a middle-income country. On the one hand, it cannot compete in low-skilled industries because cost structures are already too high. On the other hand, the country lacks the skills to compete with advanced manufacturing countries such as Germany. South Africa therefore needs to compete in the mid-skill manufacturing and service areas, and niche markets that do not require large economies of scale.

To stay competitive and to move up the value chain, three interventions are necessary: labour-market reforms aimed at promoting employment, particularly of young people; action to promote productivity gains and new entry by firms; and research and development (R&D) for innovation.

In the short to medium term, most jobs are likely to be created in small, often service-oriented businesses aimed at a market of larger firms and households with income. Rising export earnings and rising investment are prerequisites for these service-oriented jobs to be created. Public policy can be supportive through lowering barriers to entry, reducing regulatory red tape and providing an



entrepreneurial environment for business development. Significantly, these firms are often intensive in mid- and low-skilled employment.

A rise in exports is central to the plan. However, net exports will only rise if South African businesses become more competitive. This requires investment, but it also requires supportive macroeconomic policies.

This is especially true in a minerals-exporting economy where external prices can have a destabilising impact on the non-minerals sector. Counter-cyclical fiscal policy and low and stable inflation are key elements of this supportive macroeconomic approach.

### **LOWERING THE COST OF DOING BUSINESS**

South Africa is a relatively small market, far from major trading partners. In addition, it has a history of economic development skewed by isolation and apartheid. These factors have resulted in major sectors of the economy developing in an uncompetitive manner, leading to a high cost structure. In a number of sectors, public and private monopolies have used their market dominance to charge high prices. This is especially damaging when these sectors provide critical inputs into the production process such as electricity or steel. Added to these factors, poor services by municipalities and utilities to businesses raise costs significantly.

The National Development Plan makes several proposals in the areas of regulatory reform, infrastructure investment, competition law and the quality of public services to address these structural features, thereby contributing to lower costs for businesses.

### **LOWERING THE COST OF LIVING FOR THE POOR**

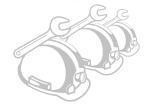
Reducing the cost of living for the poor is essential for achieving a social floor and enhancing peoples' lives and their opportunities to effectively participate in society and the economy. The main cost drivers for poor household are food and energy and, given the apartheid spatial legacy, the cost of transport.

Poor households feel the effects of food price increases much more severely than more affluent households. Furthermore, rural households pay more for a basic food basket than their urban counterparts because of the low volume of sales, limited competition, high transport costs and lack of adequate storage facilities in rural areas.

Reducing the cost of living for the poor requires a stable food inflation environment; provision of adequate, subsidised and reliable public transport; and a predictable energy price path.

The poor provision of public services, including education and health care, places additional cost burdens on poor households by forcing many to pay for private provision. Improving the provision of public services is important for lowering costs for poor households.





## KEY ELEMENTS FOR EMPLOYMENT CREATION

Solving South Africa's most pressing problems involves implementing all aspects of the plan. In order to raise employment, South Africa needs better educational outcomes, a healthier population, better located and maintained infrastructure, a sound social safety net, a capable state and much lower levels of corruption.

This chapter focuses on efforts to grow the economy faster and to make it more labour-absorbing. With regard to current government policies and programmes, the New Growth Path is the government's key programme to take the country onto a higher growth trajectory. The New Growth Path is about creating the conditions for faster growth and employment through government investment, microeconomic reforms

that lower the costs of business (and for poor households), competitive and equitable wage structures, and the effective unblocking of constraints to investment in specific sectors. The proposals in this chapter are largely consistent with these policies. They do, however, cover a longer time frame and the emphasis on catalysts and action steps may differ in some respects.

The New Growth Path and this plan are complementary in the effort to lower costs in the economy, especially as high costs contribute towards limiting employment growth and increase hardship for poor households.

In addition to lowering the cost of living for the poor, the vision and plan for the economy has five central elements, which are discussed in this section.

### OBJECTIVES FOR EMPLOYMENT AND GROWTH TO 2030

The high-level numeric targets for sustainable and inclusive growth include:

- A fall in the strict unemployment rate from 25 percent to 14 percent in 2020 to 6 percent by 2030
- A rise in the labour force participation rate from 54 percent in 2010 to 65 percent
- About 11 million additional jobs by 2030.

## EMPLOYMENT TARGETS (2010-2030)

Millions	2010	2015	2020	2030
Non-working age population	18	18.2	18.8	20.6
Working-age population (15-65)	32.4	35.1	36.5	38.8
Labour force participation rate, percentage	54%	57%	60%	65%
Labour force (million)	17.5	19.8	21.9	25.3
Age dependency, ratio	1.6	1.5	1.5	1.5
<b>Employment target</b>				
Unemployment rate, percentage	25%	20%	14%	6%
Employment (million)	13	15.8	18.9	23.8
Net new employment needed (million)	0	2.8	3	4.9
Dependency ratio	3.9	3.4	2.9	2.5

Under these conditions:

- About 41 percent of the working-age population between 15 and 64 would be employed. The aim is to increase this to 52 percent by 2020 and to 61 percent by 2030.
- Real GDP more than doubles (implying average GDP growth of 5.4 percent between 2011 and 2030. At this rate of growth, there will still be substantially more reliance on very low-income employment, survivalist activities and public employment schemes.
- The proportion of the population with income below the poverty measure of R418 per day (in 2009 rands) falls from 39 percent in 2009 to zero in 2030. The level of inequality will fall from 0.7 in 2010 to 0.6 by 2030. The share of income going to the bottom 40 percent of income earners rises from 6 percent to 10 percent.

On average, the dependency ratio (the number of people depending on one wage earner) will fall from 4 to 2.5. For low-income households, this ratio will fall from an average of 5 to 6 down to 4 to 5. A falling dependency ratio will be a central contributor to reducing poverty and inequality.

## Creating an environment for sustainable employment and economic growth

The country has to develop the capabilities of the workforce on a broad scale. In that context, earnings will need to be realistic from the standpoint of long-term competitiveness, and sufficient to ensure a decent standard of living. South Africa will require a stable and constructive environment for bargaining and labour relations that supports investment but also secures human rights.

The rate of investment to GDP is expected to rise from 17 percent to 30 percent by 2030. This will happen incrementally, with substantial contributions from a gradually expanding pool of domestic savings as well as foreign capital. The direction of national resource allocation will be important, with a greater part of this investment supporting productive sectors with competitive advantage.

There are evident binding constraints on growth, investment and employment creation, identified in the Accelerated and Shared Growth Initiative for South Africa (AsgiSA) and the New Growth Path. These must be addressed much more rigorously and systematically than has been the case to date. The most urgent examples include: energy generation and distribution; urban planning approval processes; water supply and waste-water management; the logistics platform; telecommunications; and licensing for water, minerals and environmental permits. Regulatory certainty and institutional reforms will draw forth competitive outcomes in network industries.

Human development is an essential part of inclusive growth. Lower living costs (through targeted microeconomic reforms in transport, telecommunications, food and spatial planning), better-quality public services (especially in health and education) and a more comprehensive social

security net will reduce pressure on households, particularly for low-income groups with limited earnings from work. This will improve individuals' ability to respond to labour-market opportunities and downturns, reducing the prevalence of crises that many households experience.

Macroeconomic policy helps minimise the impact of external shocks. Combined, these factors should enhance stability in low-income households, enable human capital development, and improve the chances of social and class mobility.

## Promoting employment in labour-absorbing industries

A large percentage of the jobs will be created in domestic-oriented activities and in the services sector. Some 90 percent of jobs will be created in small and expanding firms. The economy will be more enabling of business entry and expansion, with an eye to credit and market access. By 2030, the share of small and medium-sized firms in output will grow substantially. Regulatory reform and support will boost mass entrepreneurship. Export growth, with appropriate linkages to the domestic economy, will play a major role in boosting growth and employment, with small- and medium-sized firms being the main employment creators.

Economic participation in rural areas will rise from 29 percent to 40 percent as a result of reformed land tenure, support to farmers, expanded social services, higher agricultural output, mining social investment and tourism.

Private and public-sector procurement will improve access to opportunities for small and medium enterprises. Human settlements and services will need to be conducive to small- and medium-enterprise expansion.

Public employment programmes are an essential element of any employment strategy. Taking on



board lessons from successes and failures in existing programmes, up to 1 million opportunities will be created annually by 2015, mostly through community-based services. As market-based employment expands, so these opportunities can be reduced. However, they will be needed in large numbers over the entire period.

### **Promoting exports and competitiveness**

To expand production requires more active promotion of demand for South African products in domestic and foreign markets.

Policy will focus on developing areas of competitive advantage, where there are revealed strengths. In the process of implementation, it will be important to learn from success and failure and to withdraw from sectors where mistakes have been made. Playing a more pivotal role in regional development will be essential. South African companies will be encouraged to participate in regional infrastructure projects, but also in integrating regional supply chains to promote industrialisation (see Chapter 7).

The share of exports in South African output will rise and the profile will be more diverse, with a growing portion of non-mineral manufactures and services. A greater proportion of exports will be directed to emerging markets. Opportunities for increased trade and bilateral investment in Africa will develop. Offshore business services will be attracted, fuelling site developments and employment.

Expanded and diversified exports can be expected to increase employment and incomes through larger foreign exchange earnings, which enable the purchase of inputs for further industrialisation and infrastructure investments; an impetus for productivity and economic growth throughout the economy; and the creation of new jobs directly plus a more significant proportion of employment

generated indirectly as a result of a concerted effort to promote linkages in domestic industries.

The diversification of trade will reduce the strong link to commodity cycles and the associated volatility in the exchange rate and earnings. This will cushion the economy from shocks, with sufficient reserves and fiscal space. In turn, a more stable environment for domestically oriented firms, which create the majority of employment, will emerge. Moreover, stability in exports reduces the risk of a foreign debt trap, protecting critical public-spending programmes.

### **Strengthening the capacity of the government to implement its economic policy**

The South African state will be capable of implementing programmes and policies effectively and consistently, at least in priority areas. Accountability, combating corruption and professionalising the public service are of central importance. The country must exercise stronger oversight of public entities.

There must be a change in mind-set across all sectors of society – public, private and civil society – and increased focus on implementation and real change.

The government is responsible for a wide range of services for citizens and businesses, and functions through a number of spheres, agencies and institutions. Complexity and stretched capacity can blur focus, distracting attention from the critical problems. The government must therefore phase key strategies appropriately. Implementation of the economic policies presented here must be the top priority in the short to medium term.



### Demonstrating strategic leadership among stakeholders to mobilise around a national vision

Given the scale and ambition of the task, all sections of society will have to provide leadership and vision. Leaders must be able to rally constituencies around long-term goals, recognising that benefits may be unevenly distributed and take time to realise. Similarly, leadership in the government must ensure a more concerted and coordinated effort to implement agreed programmes.

### EMPLOYMENT SCENARIOS

The proposals in this plan are aimed at creating about 11 million net new jobs over this period, thus reducing the rate of unemployment to about 6 percent by 2030. This should be attained at the same time as South Africa increases labour-force participation rates from the current 54 percent of the working-age population to 61 percent. The specific targets and numbers for each period are outlined earlier in the chapter.

**Baseline scenario (scenario 1):** South Africa could continue along the current trajectory without any major improvements to the policy environment and with poor global economic conditions. While in this instance the country is able to meet some of its infrastructure commitments, the rate of investment in the economy is not much improved. More people are absorbed into the economy, but the unemployment rate declines only from the current 25 percent to 19 percent by 2030. Given the objective to create 11 million jobs by 2030, there would be a shortfall of 3.3 million. The deficit would have to be met through more than 5 million public-works job opportunities per year by 2030 (compared to the current 500 000 and the targeted 1 million job opportunities).

**Solid minerals scenario (scenario 2):** In a better global environment and with good performance on infrastructure programmes, the growth rate is much better and more people are employed. However, investment flows mainly to the most

**FIG 3.1 INDICATIVE SCENARIOS - EMPLOYMENT OUTCOMES BY 2030**

Sectors Thousands	2010	2030		
	Employment in 2010	Scenario 1 mediocre minerals	Scenario 2 solid minerals	Scenario 3 diversified
Agriculture	627	514	627	804
Mining	297	269	388	437
Manufacturing	1 556	1 880	2 169	2 289
Leader & high paid services (e.g. finance, transport)	2 025	3 009	3 657	4 188
Follower services (e.g. retail, personal services)	1 927	4 180	4 875	4 967
Construction & utilities	828	1 054	1 278	1 407
Informal sector & domestic work; excl EPWP	2 922	4 093	4 604	5 012
Public sector, private social services & parastatals	2 529	3 278	3 518	4 225
Expanded Public Works Programme (EPWP)	420	5 483	2 644	431
<b>Total</b>	<b>13 131</b>	<b>23 760</b>	<b>23 760</b>	<b>23 760</b>
<b>Average GDP growth</b>		<b>3.3%</b>	<b>4.8%</b>	<b>5.4%</b>
Percentage working-age population working (excl EPWP)	41.0%	47.1%	54.4%	60.1%
Unemployment without EPWP	25.0%	27.7%	16.5%	7.7%

**FIG 3.2 INDICATIVE SCENARIOS - SECTOR DISTRIBUTION OF EMPLOYMENT**

Sectors	2010	2030		
		Scenario 1 mediocre minerals	Scenario 2 solid minerals	Scenario 3 diversified
Agriculture	4.8%	2.2%	2.6%	3.4%
Mining	2.3%	1.1%	1.6%	1.8%
Manufacturing	11.8%	7.9%	9.1%	9.6%
Leader & high paid services (e.g. finance, transport)	15.4%	12.7%	15.4%	17.6%
Follower services (e.g. retail, personal services)	14.7%	17.6%	20.5%	20.9%
Construction & utilities	6.3%	4.4%	5.4%	5.9%
Informal sector & domestic work; excl EPWP	22.3%	17.2%	19.4%	21.1%
Public sector, private social services & parastatals	19.3%	13.8%	14.8%	17.8%
EPWP	3.2%	23.1%	11.1%	1.8%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>
Manufacturing as a % excluding informal sector & EPWP	15.2%	9.6%	11.3%	12.2%
High-skill services as a % of employment excluding informal sector & EPWP	18.9%	15.3%	19.1%	22.3%

profitable capital-intensive activities in mining, energy, chemicals and metals. As a result, most of the jobs are created in low-paid domestically oriented services, such as retail and business and personal services. In this instance, about 2.6 million public-works job opportunities would have to be created per year by 2030.

**A diversified dynamic economy  
(scenario 3: the plan)**

This plan proposes choices for a path that would lead to more substantial investments in strengthening municipal infrastructure and services, in strengthening education systems, and in generating access to capital for new and expanding firms. The Department of Trade and Industry develops partnerships with the private sector in positioning commercial representation in key export markets. Substantial investment is made in research and development and the commercialisation of South African innovations.

The substantial commitment to reducing the costs of production and living bears fruit, and South Africa becomes a more attractive investment destination. Improved efficiencies and oversight help to get the rapid increases in administered price inflation under control. A move to promote community-based house-building with innovative local inputs helps expand housing, supplier industries and related job creation. These actions improve wellbeing, so that although the majority of jobs created are still in low-skills services, families are able to achieve a decent standard of living.

The fall in production and living costs stimulates local production. As these industries expand, and value-added exports become a larger share of sales, so the rand becomes less subject to global swings. China and India grow rapidly, and the demand for commodities continues. South Africa sets up a Financial Centre for Africa to attract project finance and becomes well established as a financial and

services platform. Growing support from regional partners for this role is bolstered by substantial South African investment in major energy and infrastructure projects, as well as South Africa playing a greater role in promoting regional supply chains that underpin agricultural and industrial production in the region.

The expansion in offshore business services and related linkages stimulates almost 700 000 jobs, especially in Gauteng and the Western Cape.

Successful promotion of supplier industries to the mining industry have spin-offs in supplying global mining projects and also lateral linkages into other uses, such as water purification, electronics, and robotics. Progress is made in processing some of the minerals in the country, through clusters such as Platinum Group Metals and the production of about 25 percent of the global demand for fuel cells and related technologies.

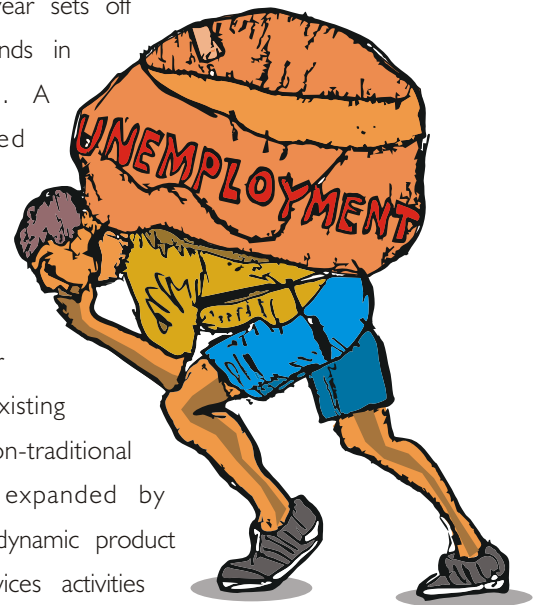
Some of the preconditions for this growth path are:

- Strengthening commercial transport, telecommunications, energy, and water, especially in servicing municipalities and activities of an expanding small- and medium-sized cluster of firms. The approach to achieving competitive costs and productivity in economic infrastructure is discussed in chapter 4.
- Education, health and safer communities – the approach to achieving improved education and health outcomes to 2030 are discussed in chapters 9, 10 and 12.
- Human settlements and transport – improved alignment of human settlements and public-transport systems to the emerging forms of employment are discussed in chapter 8.
- Strengthening the capabilities of the workforce, ensuring that earnings are responsive to industrial demands, but also sufficient to ensure

a minimum standard of living, and stabilising the environment for bargaining and labour relations in a way that is conducive to investment but also to human rights, are discussed in this chapter.

- Promoting the expansion of global market share in domestic and foreign markets.
- Playing a more pivotal role in regional development, including infrastructure investment, but also integrating supply chains.
- Strengthening public-service capabilities and the governance of state-owned enterprises, as discussed in chapter 13.

These improvements have a dynamic effect, where improvement in one year sets off activity with new rounds in subsequent years. A successful, diversified mineral-exporting economy involves success in exporting traditional products, as well as a growing role for activities linked to existing industries in new, non-traditional sectors. These are expanded by stimulating linkages in dynamic product areas and traded services activities where South Africa has a competitive advantage. In this case, domestically oriented services still play an important role in employment creation, in contributing over 40 percent of all new jobs, but the proportion is smaller. Manufacturing employment grows, but its share falls (although not by as much as in scenario 2) from 15 percent to 12 percent of formal employment. Almost a million jobs could be created in manufacturing over the 20 years. The share of high-value services rises to about 22 percent of formal employment, from 15 percent in 2010.



Rural economies will be activated through the stimulation of small-scale agriculture; tourism, including the creative and cultural industry; and mining investments and related spin-offs. Public-sector procurement will also be leveraged to stimulate local activity. Much will depend on strengthening local institutions, the flow of infrastructure funding, equitable social service provision, and addressing land tenure reform and regulation in respect of water and mining. The mining charter needs revision to improve the approach to community investment.

### **Spatial dynamics and rural employment**

As discussed in detail in chapter 6, it is important to locate poor and unemployed people in better-situated land. This will make it easier and cheaper to access work opportunities, provide cheap and efficient public transport networks from existing townships, and encourage business activity (including labour-intensive manufacturing) close to dense townships.

These are costly and complex reforms to implement, requiring clearer planning legislation, including reforms in the management of land use, firm steps to limit urban sprawl, and prioritising urban transport networks that are adequately resourced and well run.

It is possible to raise employment in rural areas through a rural development strategy that raises agricultural output; provides basic services; supports small farmers; broadens land ownership; and invests in water, transport and other network infrastructure. A well-implemented strategy to boost agricultural output could create up to 1 million jobs by 2030.

### **TOWARDS FASTER GROWTH**

The plan's central goals are expanding employment and entrepreneurial opportunities on the back of a growing, more inclusive economy. This will require deepening the productive base, whether in agriculture, mining, manufacturing or

services. By 2030, South Africa should have a more diversified economy, with a higher global share of dynamic products, and greater depth and breadth of domestic linkages. It will need to intensify stimulation of local and foreign markets, as well as strengthen conditions to promote labour-absorbing activities. Traded activities will act as a spur to growth, as will stimulation of domestic opportunities and the linkages between the two. It will take decisive action on the part of the state and the other social partners for the country to break out of the current path dependency.

### **Achieving and sustaining a growth acceleration**

The goal is to almost treble the size of the economy by 2030, so that 11 million more work opportunities are created.

Many countries achieve an accelerated rate of growth for, about, eight years. Very few sustain it. Only 13 countries have grown at an average of 7 percent a year for 20 years. There is no consensus on what accelerates growth and how to sustain it. Some economists propose a binding constraints approach: detecting the key constraints and eliminating them, and advancing to newer, more pressing constraints. This entails a state capable of singling out and agreeing on the main restriction, dealing effectively with it, and moving on to the next set of issues.





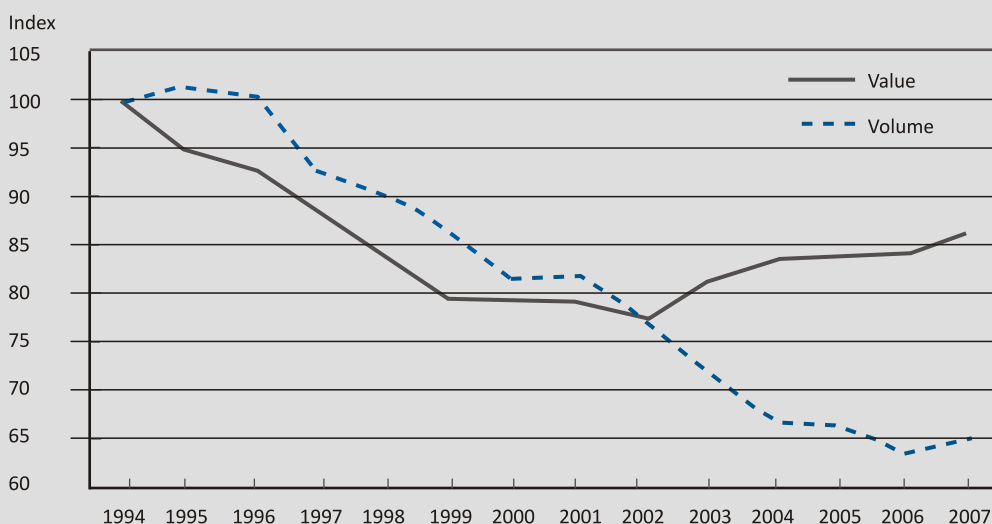
Growth acceleration might arise through an external shock that leads to rising terms of trade.<sup>1</sup> In African economies, this stimulus has come from rising demand for and prices of commodities. The external shock can begin such acceleration, but it will not sustain growth.

Countries can accelerate growth if firms respond to these incentives. Fig.3.3 shows rising value of South African exports since 2002, but falling volumes since 1996. This indicates poor responsiveness, cushioned by higher commodity prices. The reasons for this weak response are likely to be the “binding constraints”.

Exchange-rate devaluations, in some countries, have had the effect of creating a growth spurt. However, this only works if firms can respond to opportunities and if labour and product markets are flexible enough to prevent the weaker currency from fuelling inflation. In South Africa, these conditions do not exist, though they can be developed over time. South Africa's present economic capabilities do not allow greater control over the exchange rate, although reducing volatility should receive greater attention.

This plan involves sequencing the identification of a select number of binding constraints to industrial

**FIG 3.3 SOUTH AFRICAN EXPORTS - WORLD MARKET SHARE (1994 = 100)**



Source: Organisation for Economic Cooperation and Development financial statistics database.

### CONSTRAINTS

Labour-absorbing growth will be stimulated by identifying major constraints that hinder investment and production in key sectors. These can be addressed in a sequenced manner.

Committed action will lift some significant binding constraints. The first commitments will include constraints in electricity supply, water, business registration, urban planning approvals, mining licensing, and high-skilled labour supply – the elements that obstruct business. The rolling nature of this commitment is intended to support growth acceleration and sustain it over time, with a bias to labour absorption. Many of these are already policy commitments, but require rapid decision-making and strong institutional oversight.

expansion, eliminating them, then advancing to the next round of constraints.

Lifting those constraints to growth that are within power of policy-makers to influence can be an effective way of spurring growth. These must be factors that have an economy-wide effect on lowering prices or raising productivity, or else a targeted effect on groups of activities that underpin investment in dynamic sectors. Often a combination of actions is required, as one improvement in isolation may not be sufficiently enabling for firms.

Rapidly rising wages do not usually precede growth acceleration – they are more likely to follow the onset of a sustained acceleration by two to five years. This is particularly the case if the urgent focus is on access to employment opportunities for large numbers of workers, on the back of which qualitative improvements can be attained. This is a trade-off that South African society has to address. However, two qualifications should be attached to it: expanding access to new entrants should not be undertaken in a manner that lowers the working and remuneration conditions of existing employees; and the overall dispensation should include some sacrifices by management.

In summary, growth accelerations are associated with rising investment, rising productivity growth, increasing exports and rising employment.

### **Raising the rate of investment**

A labour-absorbing growth path will rely on improved infrastructure and network services that support traditional industries, such as mining and agriculture, and newer dynamic industries and associated linkages. These services tend to account for a large proportion of domestic costs and can make a substantial difference to improving economy-wide efficiency and cost structures. In an



effort to promote an accelerated and sustained growth rate, these improvements can generate successive productivity spurts that begin a new round of growth.

Attaining a rate of fixed investment to GDP of 30 percent is a gradual process – taking perhaps a decade after an initial accelerated growth phase. If these rates of investment are not achieved, growth might be sustained if there is a significant rise in the productivity of capital.

The nature of infrastructure spending is important. Direct benefits from infrastructure investments that lower the real cost of transport services are generally more pronounced in industrial sectors. Infrastructure investment that reduces the real cost of communications network services extends greater direct benefits to the services sector groupings. However, given the links between sectors and sector groupings, the indirect lowering of network infrastructure costs must be considered. Investments that improve efficiency and reduce the cost of transport and communication to other productive sectors have the potential to enhance competitiveness in a way that boosts labour, rather than displacing it.



## INVESTMENT

Raising the rate of investment will require measures to reduce business costs and uncertainty and enhance profitability, public sector commitment to capital investments and maintenance, and regional integration to expand the consumer base. The savings rate will ratchet up over time.

Rising fixed-capital formation does not guarantee growth or employment. It will only have this effect if output, and output per worker (or labour productivity), rises. This in turn implies falling employment per unit of output. Output must therefore rise fast enough to promote net employment growth. Fast-rising employment will depend on the expansion of highly labour-intensive, domestically oriented activities.

Rising rates of investment will be sourced from:

- Higher levels of public-sector fixed capital formation, especially in the earlier years, with an emphasis on infrastructure that promotes efficiency and reduces costs. Public-sector fixed capital formation's contribution to GDP should rise to 10 percent, which is consistent with ratios during high-growth phases in other countries.
- Private investment stimulated by expanding consumer markets, rising profitability, natural resources endowments and leveraging the country's position on the continent. It will be attracted by improved conditions created as a result of policy certainty, infrastructure delivery, efficiency of public services and the quality of labour.
- Foreign investment, which will have to play a significant role in a context of curbed savings. These investments lead to rising output, incomes and employment growth. Savings will rise. Over time, a larger share of investment should be funded domestically, but this will depend on how well resources are used in the short term to raise productivity, incomes and employment.

### Gaining global market share

To optimise the impact of expanding exports, it is necessary to stimulate areas where there is a revealed competitive advantage and growing global demand, where the product would contribute to rising terms of trade, and where potential exists to expand domestic linkages.

South Africa has competitive capabilities in a range of minerals and fast-growing goods and service activities, although it is not gaining global market share. There is a high opportunity cost to this that needs investigation.

South African industrial policy will transition from its historical approach of favouring energy- and capital-intensive goods production, sometimes with limited domestic linkages, towards an increasingly diversified industrial base. It is often presumed that substantial employment might be created through trade in light manufactured goods. However, South Africa can only compete in labour-intensive activities on the basis of niche products, processes and know-how.

Trade in services deserves more attention. Some of the fastest-growing global segments are in finance and business services, where South Africa has capability. Tourism is another example, which already receives substantial attention. The country is not sufficiently exploiting demand for goods and services arising from South African investment in other countries.

Promoting structural change and stimulating new industries will require state intervention, including incentives, procurement, research and development, and infrastructure investment, to provide the right type of skills and to ease access in those sectors to other markets. If the activity is traded goods, the World Trade Organisation defines permissible subsidies as those that support only human or technology development, or site or infrastructure. If the traded activity is a service, there are few, if any, limits imposed by global regulations.

South Africa has made substantial use of trade-related benefits, especially to promote the automotive and clothing sectors, with tradable duty-free import permits linked to export performance.

The country will have to adopt a more forceful approach to market-access arrangements, as well as a commitment to commercial presence in key export markets.

## GLOBAL MARKET SHARE

Opportunities to raise the share of employment in traded activities sustainably will be identified and stimulated. These will be found in clusters centred on agriculture, mining, manufacturing and services, where South Africa has proven competitive advantage and initial capabilities in dynamic products with the potential for expanded domestic linkages. Industrial zone developments and trade promotion will rely on competitive logistics, services, skills, product capabilities and market access. South Africa will find it difficult to compete with low-income economies on the basis of labour cost, unless it focuses simultaneously on lowering the cost of living and logistics costs for these products, and considers subsidising some low-skill sectors.

South Africa will strengthen its positioning for offshore business services, taking advantage of its telecommunications, banking and retail firms operating in other countries.

Strong economic diplomatic presence will be established in countries with the potential for expanded market share. Trade will be diversified towards emerging economies by improving market access for South African exports, working with regional trading partners to lower tariff and non-tariff barriers, and improving transport and logistics networks in the region.

Developing true partnerships between business and government will be essential. Cooperation can support market penetration globally. South Africa will also support domestic cluster development.

The tariff structure will be simplified while recognising the need for tariffs in specific areas. In addition, more emphasis will be given to offensive interests by seeking greater multilateral liberalisation from large emerging economies. Protection against unfair trading practices will be an essential barrier to undercutting domestic producers.

### **Stimulating domestically oriented activity**

Most new employment will arise in domestically oriented activities, where global competition is less intense and there is high labour component. It may be functionally possible to trade in these activities, but in essence, they must take place where the demand exists. Examples include housing construction, retail, personal services such as

hairdressing or cleaning, and business services such as office cleaning or repair. The environment for small-scale agricultural producers will also be improved. The stimulation of demand for these goods and services, support for small firms, access to credit, and easing of the regulatory environment could help to make these activities absorb more labour. The challenge is that the productivity of

these activities is lower than the rest of the economy, and can have the effect of dampening potential growth.

A number of countries have effectively promoted industrial development through local procurement rules. Two recent policy efforts will form an important foundation for promoting procurement. The Preferential Procurement Policy Framework Act (2000) and the Revised Preferential Procurement Regulations (2011) constitute an important step in stimulating local production through public-sector procurement. This effort must be stepped up, alongside strengthened public-procurement systems. A Local Procurement Accord, negotiated through the Department of Economic Development and social partners, commits both the private and the public sectors to ambitious targets in respect of the localisation of procurement. However, efforts to stimulate local procurement should not reinforce higher costs for the public sector and business because this will undermine growth and job creation.

#### **STIMULATING DOMESTIC DEMAND**

**Domestically oriented industries will be actively stimulated, as they will be the main source of employment creation. Public and private procurement will be important sources of demand, enabling market entry in a highly concentrated environment. Small-business support and special sector-targeting measures will be pursued and are discussed in sections below.**

#### **South Africa as an integral part of regional growth**

Leveraging a regional platform will be an essential part of a growth strategy. Each market is relatively small, but together they create a substantial consumer base that could attract foreign investment. Economies of scale and scope could be enabled through this larger market and through regional production chains. South Africa's growth potential will be tightly linked to that of the region.

Currently less than 6 percent of South Africa's merchandise imports are sourced from the Southern African Development Community (SADC), while more than 18 percent of the country's merchandise exports are to other SADC countries.

Commodities are an important driver, and currently account for 32 percent of growth. Commodity investments, large infrastructure projects and growing consumer demand are potential opportunities for South African companies, along with consequent regional growth in consumer demand. The extent to which this potential can be unlocked will depend on how the continent deals with barriers to trade and investment, and implements agreements on regional integration.

South Africa will have to develop strategic relationships across the continent and further afield. This will depend on trade negotiating capabilities, as well as the ability to leverage project finance for regional investments. Bilateral agreements are crucial.

The current strategy rests on leveraging African growth, which has been faster than South Africa's.

South Africa therefore needs to fulfil a more active and integrating role within the region. This may



entail shifting activities that cannot be undertaken competitively in South Africa to lower-cost environments. In southern Africa's case, this could include integrating farmers (and intermediate-input suppliers) within the region into supply chains, and shifting production of some of the more highly commoditised products. Similarly, geographic diversification of South Africa's power sources could reduce risks of supply constraints, assist in

correcting trade imbalances, and help to increase regional demand for South African exports. In the area of tourism, rising costs in South Africa can be partially offset by the packaging and marketing of regional tourism destinations together with South African ones – so that the relative attractiveness of both the local and regional offerings are enhanced and sustained. This could necessitate a different approach towards the development and expansion of regional transport routes and modes.

#### **REGIONAL OPPORTUNITIES**

**South Africa will act as a spur to regional growth, rather than merely relying on it. This will involve greater commitment to regional industrialisation and supply chain linkages, shifting trade balances, power purchase agreements, the establishment of a Financial Centre for Africa, and substantially more financial resources devoted to funding projects in the region with linkages to South African companies.**

By 2030, regional cooperation and integration in southern Africa and the continent will have produced demonstrable benefits for South Africa and its neighbours, boosting economic growth and social welfare (employment and incomes), as well as giving the region greater voice and influence in international forums. Progress in relation to regional integration will be reflected in the increasing share of intra-African trade in total continental trade: an estimated doubling from current levels of about 10 percent by 2030. The approach to achieving this result is outlined in the chapter on South Africa in the region and the world (chapter 7).

## NATIONAL SYSTEMS OF INNOVATION AND LEARNING PERMEATE SOCIETY AND BUSINESS

Continuous learning and innovation are essential ingredients for the success of middle- and upper-income economies. A substantial research and development sector, with support for the commercialisation of innovation, is essential. However, learning, innovation and process improvements often take place in incremental steps on the shop floor if there is a conducive environment. A stronger system of labour relations and improved shop-floor relations and communication will promote learning feedback loops within existing firms.

Accelerated technological redundancy and reduced product lifecycles create opportunities for new industrial firms to enter new product segments, but they also increase the risk to established firms and product segments. The policies and institutions that will support the formation of new, dynamic market segments will need to be agile, efficient, dynamic and self-correcting. They must help firms discover new lines of competitive advantage.

Global experience indicates that while growth in export earnings can encourage higher imports, it does not necessarily generate technological innovation and broad-based, export-led economic

growth. In shifting to a more dynamic economy, the country must allow structural change arising from technological redundancy. It is unclear how South Africa will manage the implications of such shifts for the output and employment of existing, but no longer viable, firms. The best solution is for the state to play an active role both in funding research and development and in guiding the type of research that the private and public sectors conduct. Despite an excellent set of science institutions, research priorities are not always consistent with South Africa's competitive advantage or growth strategy. Often the country looks far afield when the base for innovation and new product development are linked to existing industries and firms. A well-functioning research capacity is vital in sustaining growth and improving productivity. Chapter 9 considers implications for the education system.

### A RESPONSIVE LABOUR MARKET

By 2030, the South African economy should generate sufficient opportunity that enables those who want to work the access and possibility to do so. It should create opportunities and work for all, while ensuring human rights, labour standards and democratic representation. Progressively over time, the vision of decent work should be achieved, in an expanding economy, with rising skill levels. Constructive labour relations should be conducive to an inclusive economy.



### INNOVATION

South Africa's competitiveness will rely on national systems of innovation, permeating the culture of business and society. Innovation and learning must become integral. This will require interventions from the schooling system, through to shop-floor behaviour, to research and development spending and commercialisation. Public policy could focus on research and development in existing areas of competitive advantage, where global markets are set to grow. These include high-value agriculture, mining inputs and downstream processing, innovation to meet environmental and energy efficiency objectives, and financial services.

The labour regime will become more responsive to the challenge of simultaneously expanding employment opportunities, raising living standards and reducing inequality. The labour environment operates in a context of slow growth, insufficient levels of employment, and weak skills. Issues that need attention include:

- Improving access to lifelong learning and career advancement
- Improving labour market matching and transitions
- Stabilising the labour environment, improving dispute resolution and shop-floor relations
- Clarifying dismissal and retrenchment provisions in the Labour Relations Act (1995) Code of Good Practice and its management
- Strengthening the labour courts, bargaining councils and resourcing the Commission for Conciliation, Mediation and Arbitration (CCMA)
- Reviewing regulations and standards for small and medium sized enterprises
- Addressing essential services.

Labour relations involve buyers and sellers in a highly contested terrain. In South Africa, there are extreme income and wage inequalities. Achieving desired social objectives is a challenge, particularly given the competing interests of reducing mass unemployment, raising living standards and closing the earnings gap. In the earlier phase of the plan, emphasis will have to be placed on mass access to jobs while maintaining standards where decent jobs already exist.

Historically, race-based labour rules entrenched apartheid injustice and increased inequality. The central roles of the new labour regime were to define and protect against unfair labour practices; minimise dispute settlement costs, ensuring visibly fair outcomes; promote collaboration between workers and employers to enable industrial expansion, with visibly fair distribution of benefits;

and overcome obstacles to skills development and career mobility.

### **Wage determination in the private sector**

Wage determination must be conducive to employment and equity objectives. Some considerations include:

- Ensuring a fair division of earnings in a context of extreme inequality
- Determining affordable wages that support economic expansion
- Recognising the need to achieve a social floor, including the social wage (for example free basic services and transport costs) and measures to reduce inflation of basic commodities and that of administered prices.

From a 20-year perspective, real wage growth will have to be linked to productivity growth – although it is possible for it to veer off for a few years, it is not feasible to sustain a labour-absorbing path unless both are growing in tandem. This is a sensitive, but central point. Raising economy-wide and intra-firm productivity will help achieve rising real wages and expanding employment.

In 2010, the median income from work was R2 800 per month overall, and R3 683 per month in the non-agricultural formal sector. The bottom 25 percent of workers averaged R1 500 per month, the top 25 percent R6 500, and the top 5 percent R17 000. Within the top 5 percent, there is significant upward variation. The variation by race and gender is substantial. Average earnings for women are 25–50 percent less than for men. In the bottom 50 percent of earners, the average earnings of African workers is one-quarter to one-fifth that of their white counterparts. With high dependency ratios in low-income households, the majority of working people live near or below the poverty line. Addressing this tension requires an appreciation of the multi-dimensional relationships among a variety



of factors. Mass labour absorption will reduce the dependency ratio and thus lift the pressure on the employed. State interventions and cooperative relations with business will help reduce prices of basic commodities and improve the social wage. Employers will have to commit to higher rates of investment and labour absorption, and equitable sharing of the benefits of higher growth and productivity. Measures such as entry-level wage flexibility should be encouraged, but should not be exploited to displace experienced workers. In other words, there should be commitment to achieving the objectives agreed upon, within rules that are jointly developed.

### **Public-sector labour relations should be conducive to delivery and employment objectives**

The public sector is the largest employer and lies at the heart of service delivery. Its labour regime has to be conducive to service-delivery and developmental objectives.

The current system of managing disputes in essential services such as health, education and policing does not enable public-sector productivity. Extended strike action can undermine the delivery of essential services. The current system neither discourages strike action, nor inspires confidence in other ways of addressing disputes and grievances. Improved relations and commitments between the employer and organised labour are required to achieve a more effective working environment. A clear definition for essential services is required. The determinations of appropriate sanctions are required where essential services and minimum service level agreements are not upheld. Similarly, expectations of the state as employer to implement agreements on wages and conditions are required, and appropriate sanctions set where these are not implemented timeously.

There have already been substantial movements

towards improved pay equity in the public service. The public-sector wage bill has grown rapidly over the past few years and is set to exceed one-third of total government expenditure. The levels need to be sustainable. The Commission recommends that multi-year agreements be reached on public-service pay, and this is determined in line with the national budget process.

Another reason for strike action in the public sector is that its bargaining council represents different occupations and skill levels, leading to conflation of priorities and bargaining position. The Commission therefore recommends that the public service bargaining council be reformed, and that the chamber be broken into various separate chambers, based on the occupations and skills levels in the public service.

### **Skills supply**

Chapter 9 deals extensively with education and training. To deal with the skills crisis the Commission has identified improving the quality of education outcomes throughout the education system as one of the highest priorities over the next 18 years, and beyond. This includes the post-school system which the Commission believes must provide quality learning opportunities for young people; adults who want to change careers or upgrade skills; people who have left school before completing their secondary education; and unemployed people who wish to start a career (see chapter 9 improving education, training and innovation for the detailed proposals).

### **Active labour-market policies**

In South Africa, most low-income households live far from the centres of economic activity. The costs of searching for and getting to work are high, and information about work is often unavailable. In this context, labour-market services are extremely important, including those that prepare



workseekers and match them with opportunities.

In addition, low-cost and efficient public transport is essential – the approach to achieving this is discussed in the chapter on human settlements (chapter 8).

Several labour-market experiments will be put into action from 2012. The following proposals will strengthen labour matching and increase skills development and supply:

- Provide driver training for school leavers.
- Offer a tax subsidy to employers to reduce the initial cost of hiring young labour-market entrants; and facilitate agreement between employers and the unions on entry-level wages.
- Give a subsidy to the placement sector to identify and prepare matric graduates, and place them in work opportunities. The placement company would be paid upon successful placement. This should be complemented by strengthening the ability of the Department of Labour's labour centres to match supply and demand in the labour market.
- Extend the non-state-sector Expanded Public Works Programme's employment incentive, aimed at increasing employment in non-profit organisations.
- Expand learnerships and make training vouchers directly available to workseekers.
- Create employee retention schemes to offer short-time work during periods of low demand.
- Provide access to lifelong learning that improves employability and institute measures to expand further and higher education throughput and quality (as discussed in chapter 9).
- Adopt a more open approach to skilled immigration to expand the supply of high skills in the short term, in a manner that obviates displacement of South Africans.

### **Labour-market regulation**

To achieve a “decent work” agenda, one must balance faster expansion in employment opportunities with the protection of human rights. Policy intervention will be required to improve employment creation and labour protection. The main areas that require attention are:

- An approach to handling probationary periods that reflects the intention of probation
- An approach that simplifies dismissal procedures for poor performance or misconduct
- An effective approach to regulating temporary employment services
- Monitoring compliance to statutory sectoral minimum wages
- Implementing and monitoring health and safety regulations
- Strengthening the CCMA and the Labour Court in dispute resolution and to support trade unions and employers in managing shop-floor relations
- Limiting the access of senior managers who earn above R300 000 to the CCMA, given that their employment contracts better regulate dismissal procedures.

### **Approach to probation and dismissals**

Probation allows employers to assess the suitability of employees. It is set for a specified period, often six months, to determine whether a new employee fits in based on capability, performance, personality, culture and other factors. Probation allows the new employee the opportunity to perform, but also gives the employer the chance to avoid undue risk. Uncertainty about the application of current provisions undermines the willingness of firms to hire inexperienced workers.

To ease entry into formal work opportunities, ordinary unfair dismissal protections should not apply to employees on probation, up to a limit of six

months of service. This means that the contract is assumed to be limited to the probationary period, unless confirmed otherwise. To prevent the abuse of terminating and re-employing just before the probationary period expires, the period of service could include all previous service with the employer, whether directly or through a temporary placement agency.

### **Dismissals: misconduct or poor performance**

Pre-dismissal procedures in cases of misconduct or poor performance are of concern to employers. The Code of Good Practice has a simple set of guidelines for such cases. However, experience has not reflected this simplicity. The old Industrial Court developed jurisprudence under the old Labour Relations Act (1956) that imposed strict procedural requirements on pre-dismissal hearings. Despite the amended act trying to break from this approach, lawyers, arbitrators and judges continue to apply technical and exacting jurisprudence in applying the new act. Rulings from the Labour Court have clarified that the “criminal model” of procedural fairness is not consistent with the 1996 act and arbitrators are required to follow a less technical approach. The procedures, however, remain strict and formulaic, and are inconsistent with legislation on the statute books. There is also anecdotal evidence of excessive reversal of dismissals on procedural rather than substantive grounds.

To reduce the regulatory burden, we recommend that the pre-dismissal procedure requirements be revisited to simplify the procedures. Any appeal or reversal of a dismissal should be ruled on substantive and not procedural grounds, except in the case of constructive dismissal.

### **Labour regulation for small business**

Small businesses highlight the obligations of labour legislation as one of their main regulatory burdens,

arguing that they generally do not have the financial or administrative resources to comply with all regulatory requirements. This does not, however, imply that these businesses should be exempt from labour regulatory requirements, as complete exemption may act as a perverse incentive for a race to the bottom among small business and for larger employers to reduce their workforce to circumvent labour regulation.

To reduce the regulatory burden on small- and medium-sized enterprises, we recommend that the Code of Good Practice clearly lay out procedures appropriate to small business.

Compliance requirements and regulations for reporting on employment equity and skills development should be simplified for small firms, or even eliminated for very small firms.

### **Regulating temporary employment services**

Private temporary employment and placement services have significantly contributed to labour-market matching in the past two decades. This may partly be explained by formal employers seeking to circumvent labour regulations. It may also be caused by the rapid expansion of services sectors, which have been the main source of employment growth. Borat<sup>3</sup> estimates that 900 000 people have been given some work opportunity as a result of temporary employment services. These services are essential given the fragmented labour market, where low-income households are generally far from economic opportunity and have weak labour-market networks. Most new opportunities are in services activities, which often involve changing jobs periodically. These employment services raise the chance of achieving more regularised employment, as well as access to skills training for new placements. They also provide access to benefits for workers.



To ensure that the opportunity for labour matching is available to vulnerable workers, while protecting their basic labour rights, South Africa needs to regulate the private labour placement sector and temporary employment services effectively. Some basic provisions could ensure that after a worker had spent six months with a temporary employment service and/or client, the two would be jointly and severally liable for unfair dismissal and unfair labour practices. The temporary employment service would be responsible for the employment relationship with regard to the Unemployment Insurance Fund, the Compensation for Occupational Injuries and Diseases Act (1993), the Basic Conditions of Employment Act (1997, as amended) and the Skills Development Act (1998).

### **Strengthening the ccma, the bargaining councils and the labour court**

#### **The CCMA and bargaining councils**

The CCMA is an independent institution overseen by a tripartite governing body. This system was intended to provide cheap, quick, accessible and informal dispute resolution. Cases not settled by mediation or arbitration are referred to the Labour Court.

The Bargaining Councils play an essential role in dispute resolution within their respective sectors. They typically handle 90 000 cases a year. The CCMA plays a larger role for unorganised sectors, such as domestic workers.

The resources provided to the CCMA must be in line with the pressures of cases handled. The CCMA's funding model requires review and deepening, along with recognition of the need for its enhanced role in developing capacity for conciliation, mediation and arbitration for the parties.

Labour relations have become fraught over the past few years and this has increased the workload and effectiveness of the organisation. Reduced negotiating capacity, the re-emergence of non-work-place issues in wage negotiations, and the rise of general mistrust between parties and has resulted in a rise in cases referred to the Labour Court.

To deal with this, the CCMA is introducing negotiating training forums and mediation capacity-building for parties. The operational efficiencies of this institution are important for the effective operation of the labour market. The Commission recommends additional support for the CCMA.

#### **The Labour Court**

Labour courts are specialist courts with national jurisdiction and have the same status as the High Court of South Africa.

The Labour Court handles only a fraction of all disputes, as intended by the new labour regulatory regime. Even so, the courts are not handling this reduced caseload well. Only 20 percent of reviews lodged with the labour courts in the first 10 years of the CCMA's operation have been finalised. It takes an average of 24 months for a review application to be heard in the Labour Court. In the Labour Appeal Court, reports of delays between 12 and 18 months between date of hearing and date of judgment are not uncommon.

The Commission recommends a review of the funding model and the operational functionality of the Labour Court and Labour Appeals Court.

## PROVIDING A STABLE AND ENABLING MACROECONOMIC PLATFORM

### MACROECONOMY

**A stable and enabling macroeconomic platform will underpin sustainable growth and employment creation. Within the framework of a floating exchange rate, the government will explore approaches to protecting firms from rand volatility. It will devote considerable attention to fiscal impact on development, through improved efficiency in government spending, and an appropriate balance between investment and consumption expenditures**

A stable and enabling macroeconomic platform will underpin sustainable growth and employment creation. Macroeconomic policy serves as a foundation for growth and development. It must support the country's overall development strategy and contribute towards higher growth and employment.

The principal task of macroeconomic policy is to provide a stable and enabling platform upon which firms and individuals invest, work and consume. A crucial role for macroeconomic policy is to minimise the cost of shocks to the economy, especially in its impact on workers and the poor. It does this by ensuring relative stability in prices, and in critical variables, such as interest rates and the exchange rate. There is an inherent trade-off among stable prices, interest rates and exchange rates when the price of leading imports and exports change.

The success of the development plan will depend on supporting investment, especially domestic investment; incentivising savings; and enabling firms

and individuals to take a longer-term perspective of economic opportunity. Given South Africa's economic circumstances, a floating exchange rate is the most sensible instrument to protect the economy from external shocks. For example, if the oil price rises by 10 percent under a fixed exchange-rate regime, the price of fuel will rise by a similar magnitude. However, under a floating exchange rate, an appreciation of the currency can offset the need for a fuel price rise. Similarly, if the gold or platinum price falls sharply, a weaker exchange rate can smooth out the rand earnings of these commodities.

The rand is a highly volatile currency, militating against long-term expansion in goods production and diversification, and constraining small firms. Policy should focus on minimising the impact of this volatility on the real economy. Higher reserves, higher savings rates, a more diversified economy (and export basket), prudent and countercyclical fiscal management, sensible mineral royalty regimes and macroprudential regulations<sup>4</sup> all help to provide the stable platform for investment, growth and employment creation.

Additional steps can be taken to help protect the economy from an overvalued exchange rate when commodity prices are high. Running a budget surplus and faster accumulation of reserves helps to weaken the exchange rate. The mandate of the Reserve Bank gives it the licence to take factors such as the exchange rate and employment into account in conducting monetary policy. Rand volatility poses great difficulty for both exporters and importers, and for small- and medium-sized enterprises in particular. An approach will be required to buffer smaller firms from rand volatility.

The balance in expenditure between consumption and investment will be key to delivering higher growth and employment. Significant choices are to



be made among public-sector wage levels, the size of the public sector, and the allocation to investment. The budget should prioritise those investments that raise economic growth and that improve people's capabilities.

Development-finance institutions are part of the overall fiscal armoury of the state. They partner the private sector in lowering risk, take a long-term perspective towards investment, and promote the government's development objectives. Development-finance institutions in the industrial, infrastructure, agricultural and housing sectors are central to the plan to raise growth and employment. Measures will have to be instituted to ensure that they operate efficiently and have sound balance sheets, for them to meet their development mandate.

## **ECONOMIC TRANSFORMATION**

Economic transformation is about broadening opportunities for all South Africans, but particularly for the historically disadvantaged. It is about raising employment, reducing poverty and inequality, and raising standards of living and education. It includes broadening ownership and control of capital accumulation. In addition, it is about broadening access to services such banking services, mortgage loans, telecoms and broadband services, and reasonably priced retail services. It is also about equity in life chances and encompasses an ethos of inclusiveness that is presently missing. This includes equity in ownership of assets, income distribution and access to management, professions and skilled jobs.

### **Employment equity and workplace opportunity**

Employment equity in the workplace is a key element of the country's plans to broaden opportunities for the historically disadvantaged. Since 1994, it has successfully contributed to a growing black middle class. It is a policy premised on

the fundamental acceptance that opportunity was distorted by apartheid and that rectifying this is a logical, moral and constitutional imperative.

For at least the next decade, employment equity should focus mainly on providing opportunities for younger people from historically disadvantaged communities who remain largely marginalised. More specifically, race and gender should continue to be the main determinants of selection. This will ensure that society is able to utilise the totality of the country's human resources, and also help improve social cohesion. It will be critical in this regard to put in place a more robust and efficient monitoring and enforcement system.

The Employment Equity Act (1998) states that if two candidates have the same qualifications, similar competencies and experience, then the black person or woman should be selected. The act does not encourage the appointment of people without the requisite qualifications, experience or competence. If these provisions were implemented consistently and fairly, the act would enjoy broader support and appeal among citizens.

The intention of the act is to encourage firms to develop their own human potential. This requires spending time and resources mentoring and developing staff. Staff training, career-pathing and mobility in the workplace will grow both the person and the company. South African employers spend too little on training their staff and investing in their long-term potential. If more staff were trained, the economy would do better and the incentive to job-hop would be reduced. Short-term solutions, such as overpaying for scarce skills, are counterproductive to the long-term development of both the individual and the company. The government may need to review the present incentive structure embodied in the Skills Development Act to ensure higher spending on staff development.

Two other factors affect skills and staff development: rapid economic growth, which will lead to greater career opportunities and rising incomes; and an improved education system, producing ever greater numbers of skilled black and female work entrants.

### **Transforming ownership of the economy**

BEE largely focuses on broadening ownership and control of capital accumulation. It aims to de-racialise ownership structures as well as the top echelons of the business community.

Two potential avenues exist for ensuring greater black ownership and control: the first is through redistribution, and the second is through ensuring that new growth is skewed towards black entrepreneurs.

Most BEE has taken place through the first avenue as deals have been struck to enable black ownership of large firms. There has been less success in implementing the second opportunity, which focuses on growing entrepreneurs including small businesses.

Instruments to drive empowerment include:

- Licensing arrangements in mining, telecoms and broadcasting
- Preferential procurement legislation
- BEE charters, the codes and the BEE scorecard
- Development Finance Institutions which either specifically seeks to broaden black ownership or generally seeks to grow new sectors.

The combined effect of the legislation is that major companies must meet targets on seven elements of BBEE: ownership, management control, employment equity, skills development, preferential procurement, enterprise development and socioeconomic development.

The present model of BEE has not succeeded to any considerable degree in broadening the scope of ownership and control of large firms. However, there have been difficulties. These include:

- Lack of capital to acquire ownership or control of major parts of the economy. This has encouraged debt-driven deals that are likely to work only when the economy is growing rapidly and company profitability is expanding significantly.
- There have been some positive spin-offs from procurement policy. In many instances it has enabled fast and more visible growth of black entrepreneurs. However, this has also created perverse incentives such as causing job losses when firms import goods rather than use local producers. In addition, the current processes are riddled with corruption and incompetency.
- Misaligned targets and definitions between the BBEE Act (2003) and the codes and the sector charters, and the other redress legislation such as the Employment Equity Act and the Public Finance Management Act (1999).

To overcome these challenges, the Commission makes a number of proposals for transforming the ownership of the economy. They include:

- Creating an enabling environment for small, micro and medium enterprises and entrepreneurs to thrive. This includes inculcating the spirit of entrepreneurship in schools, lowering the cost of doing business in the economy, and reducing barriers to entry in various value chains.
- Aligning all legislation and the codes and charters that flow from the BBEE Act. This process has begun and should continue to ensure that the state procurement lever is used more effectively to advance socioeconomic targets in certain



geographies and industries. Mandatory targets for socioeconomic development and job creation for all tenders above R10 million should be introduced.

- The National Empowerment Fund must be resourced adequately to execute its mandate. It must strengthen its support to black-owned small and medium sized enterprises as well as strengthen and expand the provision of finance and other support to new black industrialists and entrepreneurs. This should not just be in the form of financial support, but must also include enabling market access and the removal of administrative and regulatory burdens on small businesses.
- The state must develop capacity to optimise returns from South Africa's natural resources. Rent collected from mining companies should be used to drive an accelerated development agenda for skills development and sustainable job creation.

### Land reform

The Constitution protects property rights and prevents confiscation of property without due compensation. However, it also provides a legal, political and moral basis for redress measures such as land reform. Flowing from the Constitution, the White Paper on land allows for land redistribution, land restitution and tenure reform. The principles underpinning land reform are threefold:

- De-racialising the rural economy
- Democratic and equitable land allocation and use across race, gender and class
- A sustained production discipline for food security.

Overall progress has been slow. In 1994, the target for redistribution based on all three pillars was 30 percent of land to be redistributed in five years. By 2011, only 4.1 percent of land had been redistributed, most of which was state land. The rate for productive land has been even slower: only

3.7 percent of agricultural land has been redistributed since 1994.

Chapter 6, which deals with an integrated and inclusive rural economy, provides specific proposals to raise agricultural production and effect land reform in a way that focuses both on ensuring land is distributed more equitably and on building the capabilities of farmers and communities to earn an income. The chapter also makes specific recommendations on land tenure in communal areas. These balance traditional authority with greater certainty for female-headed households to invest in farming.

### Small and expanding firms will support job creation and redress skewed ownership patterns

Small and expanding firms will become more prominent, and generate the majority of new jobs created. They will also contribute to changing apartheid-legacy patterns of business ownership. They will be stimulated through public and private procurement, improved access to debt and equity finance, and a simplified regulatory environment.

Small- and medium-sized enterprises will play an important role in employment creation. According to the Finscope (2006) survey, 90 percent of jobs created between 1998 and 2005 were in small, medium and micro enterprises. Despite this, total early-stage entrepreneurial activity rates in South Africa are about half of what they are in other developing countries.

State efforts to assist the sector have had limited success. Moreover, partly due to the lack of robust



data, the debate around small and medium sized enterprises and their ability to assist in employment growth has become heavily weighted with ideology, assumptions and anecdotes.

Aside from creating jobs, there are other advantages to broadening the base of new and expanding firms: reduced levels of economic concentration, higher levels of competition, and increased opportunities for BBEE. However, there are real obstacles to creating such an environment, including distortions created by apartheid in ownership and access to land, capital and skills for the majority of the population; widespread crime; a policy environment that traditionally favours concentration and large corporations; and a global trade environment that encourages and rewards economies of scale and scope in both production and distribution.

Because they have supply chains across the country, large firms are able to sell their products at prices smaller companies cannot match. A strategy to promote small business needs to address access to established supply chains and the facilitation of buyer–supplier relations.

The extent to which small-scale agriculture, microenterprises and artisanship have weakened is a concern. In many developing countries, it is these activities that provide shock absorbers for extreme poverty and platforms for self-employment, with the potential to serve as rungs on the ladder of economic advancement.

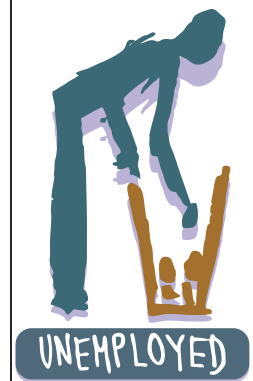
Before measures can be instituted, clear understanding of the issues facing small and medium sized enterprises and recognition of the diversity of the sector is essential. Small businesses operate in different environments and are owned and managed by people with a wide range of motivations and aspirations. The size of the

business, its geographical location and the sector in which it operates will determine the kind of assistance it needs and interventions required.

Support measures should be segmented, based on whether small firms are start-ups or multiple start-ups; survivalist businesses; so called “dassies” or lifestyle businesses; “gazelles” or high-growth businesses; franchises; very high potential or high impact businesses; and/or new industries or new technology businesses.

For example, South Africa needs to address the challenge of start-ups and repeat start-ups, including after failure. The country has a comparatively low start-up rate and a high proportion is survivalist in nature. What does South Africa need to do to promote new businesses and enhance the potential of those businesses to grow? Reduced administration cost to get started could help, equity/seed funding gaps should be addressed, and quality of business models and support are important.

Entrepreneurs with the highest potential are those who have previously started businesses successfully. Creating strong markets for these businesses to buy and sell, and making it simple to start more businesses, is critical. This group of entrepreneurs is a great target market for an incentive system. Another group requiring focus on is those entrepreneurs who have failed before. They find it difficult to start businesses again as credit access and so on becomes challenging. The country needs a mechanism to address this. The one-size-fits-all support programmes of government must change.



Nearly 80 percent of small businesses in South Africa offer retail services and the remaining 20 percent provide services. Small, medium and micro enterprises in the retail sector mainly buy products and sell them in the same form. Those offering services are involved largely in manufacturing, tourism and the business-services sector, and are located primarily in Gauteng, the Western Cape and Mpumalanga.

The Small Business Project's *Small and Medium-sized Enterprises Growth Index 2011* shows that net new employment is not typically created on a significant scale in existing businesses. This is usually the preserve of newly established business entities, which tend to be smaller in size.

The figure above (Fig 3.4) provides the top reasons for small firms not growing their employee

The activities non-retail SMMEs are involved in include:

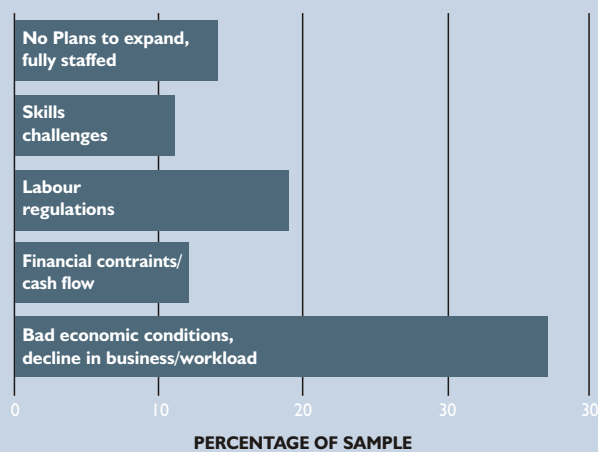
- **Business services:** IT (consulting, services, software development and programming); financial services (including insurance brokers, accounting and tax consultant firms); and advertising, communications and marketing. Sub-sectors include human resources service providers, research providers, business-support services and legal services.

- **Manufacturing:** plastics or food, steel, metal and wood manufacturing, printing, and manufacturing for the construction industry. Among the industries they are active in are chemicals, industrial equipment, clothing and textiles, rubber, packaging, sports equipment and pharmaceuticals.

- **Tourism:** guest houses, bed-and-breakfast establishments, hotels and lodges, backpackers, tour operators and conference venues.

Small- and medium-sized enterprises operating in the various sectors face different pressures. Those in the manufacturing sector are hardest hit by labour laws and other regulatory burdens. Those in the services sector are badly affected by the shortage of skills, particularly accounting and service-sector capabilities such as sales.

FIG 3.4 GLOBAL EQUALITY



Source: Small Business Project, *SME Growth Index*, 2011.

numbers. The main reason is the current economic environment followed by the labour environment, financial constraints and skill challenges.

The challenge is therefore twofold: to create a more enabling environment for small enterprises to grow, expand their operations and employ more people; and secondly to create the conditions under which start-ups can flourish and more entrepreneurs enter the market. Interventions to support both these outcomes will be mutually reinforcing for the sector.

Key proposals to support small business development:

- **Public and private procurement**
  - Leverage the Local Procurement Accord to promote stronger buyer-supplier relations and deeper localisation.

- ⊙ Implement commitments to 30-day payments to smaller suppliers.
- ⊙ Make government procurement opportunities more accessible to small businesses, streamline tender processes, improve transparency and get rid of corruption.
- ⊙ **Regulatory environment**
  - ⊙ Simplify the regulatory environment. The first step would be to appoint an expert panel to prepare a comprehensive regulatory review for small- and medium-sized companies to assess whether special conditions are required. This includes regulations in relation to business registration, tax, labour and local government. Regulatory Impact Assessments will be done on new regulations.
- ⊙ **Access to debt and equity finance**
  - ⊙ Examine a role for the state in easing access to finance by start-ups and emerging businesses. The government and the private sector should collaborate in creating financial instruments for small, medium and micro enterprises. A risk-sharing agreement should be created as start-ups are particularly in need of financial support and are least able to access it.
  - ⊙ Explore the role of venture capital.
  - ⊙ Urgently consider measures to reform the mandates and operations of development-finance institutions in line with initiatives already being undertaken, and upgrade the skills of those providing business advice and services.
  - ⊙ Build research capacity to address the paucity of data currently available on small businesses and scale up public communication on available opportunities.

- ⊙ **Small-business support services**
  - ⊙ Consolidate and strengthen these. Action has already been taken to create a unified small-business service delivery agency. Public-private partnership can be considered, where the private sector is incentivised to provide small businesses with support, with increased payment contingent on success.
  - ⊙ Support and grow franchising associations and get involved in commercialising models of this nature. Franchising has been globally successful in reducing risk and failure rate.
- ⊙ **Address the skills gaps**
  - ⊙ Provide training for school leavers and unemployed youth with a focus on skills development. The public sector should establish programmes run by well-trained ex-entrepreneurs who have first-hand experience of the sector; the government should incentivise the private sector through tax breaks to set up mentoring programmes; established small enterprises should be offered wage subsidies to take on apprentices and to offer youth placements.
  - ⊙ Provide skills development for students currently in school with a focus on grooming an entrepreneurial attitude. This should include reviewing the curriculum with a view to encouraging entrepreneurial thinking and creating the skills necessary for start-ups. The review should consider focusing education into technical and academic streams after grade 8, and establishing vocational and technical training for students in grades 9 and 11.
  - ⊙ Promote skills development for new sectors with a focus on high-technology skills advancement. This will include improving the Further Education and Training (FET) colleges to ensure that they are producing better-quality



students with the skills identified as lacking in the small enterprise sectors. Colleges should introduce entrepreneurship programmes.

As reflected in chapter 9, the country must reform the system of skills training to provide for the needs of the economy (including the sectors and activities identified in the plan) and of society as a whole.

### SECTOR AND CLUSTER STRATEGIES

To attain full employment, decent work and sustainable livelihoods, it will be necessary to take firm decisions on sectors and clusters that will serve as a platform to launch a new growth trajectory.

There are two related sets of tensions in industrial policy: between the government picking and supporting winners, and an open-architecture approach where support is informed by market-based mechanisms. In practice, most countries try both approaches, but there is an opportunity cost where resources are limited.

The sectors identified below are those with substantial potential for either growth stimulation or employment, or both. They cover areas of existing competitive advantage and the main resource industries. There is evidence that there is substantial growing global demand in these areas, that they will contribute to rising terms of trade, and that they have potential to stimulate domestic linkages.

While the sectors identified below contain competitive advantages for South Africa and the possibility for large-scale labour absorption, these and other sectors should be promoted in a manner that allows for a transition to a knowledge economy and optimal usage of information and communication technologies (ICTs). Research into and initiation of such a transition should happen immediately, as should optimal exploitation of

capabilities in which South Africa is already a leading player, because such initiatives take a long time to bear fruit.

### The agro-industrial cluster

The agro cluster encompasses farming activities, downstream processing of foodstuffs and beverages, and upstream suppliers of inputs into food manufacturing (such as packaging, containers and preservatives) and into farming (such as fertiliser, seed and capital equipment). The sector favours large commercial farms, and vertically integrated agro-processing. This constrains entry and expansion of small farmers and manufacturers. South Africa accounts for 0.6 percent of global market share in food sales, increasingly veering away from mass grains towards more diversified products such as edible fruits and nuts, fats and oils, meat, and dairy products.

The falling share of agriculture employment is not unusual in a development process, but is so in the context of a large labour surplus. Agriculture is still one of the most labour-intensive goods-production sectors, with substantial employment linkages. Resources are not being used sensibly, which requires urgent attention because this sector is one of the few remaining goods producers with strong direct and indirect economic and employment links to the rural poor.

The neglect of agriculture speaks to the neglect of rural communities. The contraction in formal employment in agriculture is not a recent phenomenon. In 1971, there were 1.8 million people employed. This dropped to 1.2 million in 1995, and, dramatically, to just over 600 000 today (or 900 000, if food and beverage processing and fishing are included). The number of hectares under cultivation has fallen since 1974, and hectares under irrigation have not expanded since the early 1990s.<sup>5</sup>

Compared to other regions, South Africa has a small share of its rural population engaged in agriculture. These longstanding trends show that although it is possible to turn agricultural production around, it will not be easy or rapid.

Major investments in South Africa's commercial farming sector (from the public sector, the private sector, and public-private partnerships) have resulted in new growth and jobs. For example, partnerships between the Industrial Development Corporation and the private sector have led to expansion of the table grape industry along the Orange River and the sugar industry into Mpumalanga), and more recently the wine industry has expanded. Similar opportunities exist with untapped potential, including on the Makatini Flats and in the Eastern Cape (Umzimvubu River Basin). New initiatives, such as those to do with agriculture in the green economy and conservation efforts, can potentially create new employment opportunities

in rural areas. Climate change will influence which investments will pay off best, and where they should be made.

Without major policy improvements, the agriculture sector could continue to shed employment, mostly due to land consolidation and technical change. Of the range of possible employment outcomes in agriculture discussed here, the most optimistic scenario shows that about 1 million direct and indirect jobs can be created. The future depends on whether the country can develop land to produce labour-absorbing crops. An additional million opportunities might be created in micro and semi-subsistence farming.

Chapter 6 outlines proposals to stabilise income for farmers, and to stimulate demand for their output.



## AGRICULTURE AND AGRO-PROCESSING

- Key proposals in the agriculture and agro-processing sectors include:
- Substantial investment in irrigation infrastructure, including water storage, distribution and reticulation throughout the country where the natural resource base allows, as well as in water-saving technology. A 50 percent increase in land under irrigation would cost R40 billion in off-farm infrastructure over a 10-year period.
- Greater investment in providing innovative market linkages for small-scale farmers in communal and land-reform areas.
- As part of comprehensive support packages for farmers, preferential procurement mechanisms to ensure that new agricultural entrants can also access these markets.
- Tenure security. Farmers will only invest in these areas if they believe that their income streams from agriculture are secure. Tenure security will secure incomes for existing farmers at all scales, for new entrants into agriculture, and for the investment required to grow incomes.
- Technology development. Growth in agricultural production has always been fuelled by technology, and the returns to investment in agricultural research and development are high.
- Policy measures to increase intake of fruits and vegetables, and reduce intake of saturated fats, sugar and salt, as recommended in the South African food dietary guidelines, to accompany strategies to increase vegetable and fruit production.
- Exploration of innovative measures, such as procurement from small-scale farmers to create local buffer stocks and community-owned emergency services.

### **The minerals and metals cluster**

The minerals cluster encompasses all mining and quarrying activities, supplier industries to the mining sector, and downstream beneficiation of the minerals that are mined.

The collective share of direct mining activities of South Africa's GDP has declined from 21 percent in 1970 to only 6 percent in 2010. The number of people employed directly in mining (excluding upstream and downstream industries) fell from 660 000 in 1970 to about 440 000 in 2004 and stabilised at that level. Mining, minerals and secondary beneficiated products account for almost 60 percent of export revenue.

The expansion of mining exports mainly depends on global demand, the availability of the mineral, prospecting and mining technology, access to energy and water, and an enabling and transparent regulatory environment. The relative competitiveness of alternative locations is also a factor. In minerals such as platinum or manganese, South Africa has the main global deposits. Despite this clear potential, the mining sector has failed to benefit fully from the commodities boom over the past decade or more. South Africa must exploit its mineral resources to create employment and generate foreign exchange and tax revenue.

Given the energy-intensive nature of mining and mineral beneficiation, South Africa will also need to invest heavily in helping the industry to reduce its carbon footprint. Similarly, the mining sector needs to use water more efficiently. Concerns about the impact of a resource curse should not be confused with an essential commitment to expanding minerals production and exports. The resource curse will be addressed partly through stimulating forward and backward linkages to expand industrial and services capabilities.

The South African mining industry has performed poorly over the past decade. During the commodity boom from 2001 to 2008, the mining industry shrank by 1 percent per year, as compared to an average growth of 5 percent per annum in the top 20 mining exporting countries. The mining industry is smaller now than it was in 1994. This is an opportunity lost, as estimates show the mining sector could expand by 3 percent to 4 percent a year to 2020, creating a further 100 000 jobs.<sup>6</sup> The Human Sciences Research Council's most optimistic estimates show that mining employment could expand to 200 000 by 2024,<sup>7</sup> potentially stimulating a further 100 000 jobs through linkages, and more if they are actively stimulated. This relies substantially on platinum-group metals.

The central constraints are uncertainty in the regulatory framework and property rights; electricity shortages and prices; infrastructure weaknesses, especially in heavy haul rail services; ports and water; and skills gaps.

It is urgent to stimulate mining investment and production in a way that is environmentally sound and that promotes forward and backward linkages, given South Africa's substantial unrealised opportunity and global market dominance in deposits.

Beneficiation or downstream production can raise the unit value of South African exports. In this regard, resource-cluster development, including the identification of sophisticated resource-based products that South Africa can manufacture, will be critical. Electricity is the main constraint, as most of these activities are energy intensive. As long as electricity is scarce, there will be a trade-off between beneficiation and other more labour-absorbing activities. In general, beneficiation is not a panacea because it is also usually capital intensive, contributing little to overall job creation.

Substantially more attention will be devoted to stimulating backward linkages or supplier industries (such as capital equipment, chemicals and engineering services). Demand is certain; there is an opportunity for specialised product development, and the product complement is diverse. They are also more labour-absorbing than typical downstream projects. Such products have the potential for servicing mining projects globally, which is an advantage should the commodity boom persist.

Mining companies have an explicit requirement to participate in local development, and have the

resources to do so in South Africa and the region. The sector could stimulate local economic development more substantially if the mining charter was aligned to these goals. More could be done on human-resource development, local economic development and procurement.

Notwithstanding the difficulties, it should be possible to create about 300 000 jobs in the minerals cluster, including indirect jobs.

### **Manufacturing**

South Africa's manufacturing strength lies in capital-intensive industries. In the context of high



## **MINERALS CLUSTER**

Proposals to grow investment, outputs, exports and employment in the minerals cluster include:

- Address the major constraints impeding accelerated growth and development of the mining sector in South Africa. The main interventions include: ensuring certainty in respect of property rights; passing amendments to the Minerals and Petroleum Resource Development Act (2002) to ensure a predictable, competitive and stable mining regulatory framework; secure reliable electricity supply and/or enable firms to supply their own plant with an estimated potential of 2 500MW by 2015; and secure, reliable rail services, potentially enabling private participation.
- Develop, deepen and enhance linkages with other sections of the economy. This includes: linkages with both manufacturers of inputs (capital goods and consumables) and suppliers of mining-related services; and downstream producers, especially for platinum-group metals and chrome ore. In this regard, an export tax could be considered.
- Provide focused research and development support to enable improved extraction methods that lengthen mine life; better energy efficiency and less water intensity; and alternative uses of South Africa's extracted minerals, especially platinum-group metals, titanium and others that have potential for application in new energy systems and machinery.
- Identify opportunities to increase regional involvement and benefit in the whole minerals cluster. This could include encouraging the establishment and development of alternative providers of partially processed intermediate inputs in other countries in the region.
- Ensure active engagement on, and resolution to, issues raised through the Mining Industry Growth and Development Task Team process.
- Improve alignment of mining charter requirements to ensure effectiveness in local communities.



unemployment, growth would ideally be sourced through expanded contribution of labour. However, to compete, the country's cost structure requires an emphasis on productivity, products and logistics.

The most important contributions to manufacturing expansion will be in relation to the business environment. Challenges relate to the availability and cost of electricity; the efficiency of the logistics platform; the quality of telecommunications; and fast-rising administered pricing for electricity, transport, fuel, and fertilizer. A constrained skills supply also poses great challenges. A volatile and sometimes overvalued currency adversely affects

both imported inputs and exports.

Half of South Africa's manufacturing exports lie in capital-intensive processed minerals, metals and chemicals. Intensive support to the motor industry has had a substantial effect on expanding both imports and exports of vehicles, the stimulation of assembly, and some backward linkages, but vehicle retail sales generate most employment.

Other major opportunities for manufacturing should be considered in relation to clusters of activity and are discussed in other parts of this section – such as supplier industries to construction, the energy sector, waste reutilisation, mining inputs, downstream processing of metals, and others.

### STIMULATING MANUFACTURING

- Stimulation of these sectors will mainly be facilitated through:
- Ensuring a growing share of products that are dynamic, and have potential for domestic linkages
- Leveraging public and private procurement to promote localisation and industrial diversification
- Intensifying research and development support for product development, innovation and commercialisation
- Exploring approaches to buffering manufacturers from the effects of currency volatility
- Strengthening network infrastructure and skills supply, and bringing administered prices under control.



### Construction/infrastructure cluster

The construction/infrastructure cluster includes industries that produce new infrastructure and construction assets, the network of suppliers to those industries, and the entities engaged in operating and maintaining this new infrastructure. Infrastructure investment is crucially important because it creates jobs for low-skilled people, encourages private investment, lowers the cost of doing business, promotes spatial inclusivity, and has strong backward linkages to supplier industries.

The state has committed substantial funding to public infrastructure to address backlogs, but not all of it has been spent. Its current commitment is R808 billion over the next three years.

Employment in the construction/infrastructure

sector has fallen from 833 000 in 2006 to 712 000 in 2009. Of this, about 60 percent is formally employed. There have been only two years of substantial employment growth in construction over the past decade.

Rising income and employment, combined with a stable outlook for interest rates, can promote small-scale construction in the residential construction and housing renovation market – a key employment driver. Similarly, more and better-quality public housing has strong linkages to local supplier industries, promoting growth and employment.

There is also scope for export growth – particularly to other African markets – for products that competitively meet customer needs.



#### Key proposals to grow this sector:

#### CONSTRUCTION/INFRASTRUCTURE

- Address government's ability to spend its infrastructure budget, particularly with regard to project-management capacity, long-term planning, and monitoring and evaluation of both expenditure patterns and construction work.
- Support the civil construction and the supplier industries in their export efforts – with the establishment of a Financial Centre for Africa, and more support in commercial diplomatic relations.
- Intensify support to supplier industries such as building supplies, steel, glass and cement.
- Create conditions for a less cyclically volatile industry by emphasising numerous, smaller-scale, regionally dispersed projects to address backlogs, which are more accessible to smaller firms and new entrants.
- Expand public funding for alternative types of low-income housing that would generate more demand directly and in supplier industries.
- Promote a simultaneous focus on more energy-efficient buildings and building techniques to reduce demands on electricity supply in the longer term. Home insulation and the installation of solar water heaters are labour-intensive activities that have strong backward linkages to supplier industries.

### **The green economy**

The United Nations Environmental Programme defines the green economy as “a system of economic activities related to the production, distribution and consumption of goods and services that result in improved human well-being over the long term, while not exposing future generations to significant environmental risks and ecological scarcities”. Shifting to a green economy, including to a low-carbon economy, is shifting to a more sustainable economic growth and development path in the long term, and therefore has implications for choices about the structure of the economy. This section deals with the green economy in the context of a new and growing sector within the South African economy. Chapter 5 considers how South Africa will shift to a low carbon-emitting path.

The green economy agenda arises simultaneously with South Africa's energy shortages. Aside from intentions to build coal-fired plants, South Africa's imperative to expand renewable energy sources dramatically and to promote energy saving is consistent with the global agenda. A target to generate 20 000 MWh of renewable energy by 2030 has been set. Progress towards achieving this target has so far been sluggish, with about 1 percent of electricity generated from renewable sources.

The green economy agenda will be leveraged to promote deeper industrialisation, energy efficiency and employment. The Green Economy Accord currently being negotiated among social partners will help drive this agenda forward.

### **The finance sector**

The finance sector incorporates all those activities linked to credit and loans, the raising of capital, the trading of financial assets and properties, the investment and management of savings, and the provision of banking and insurance services. Like many other areas, it has undergone significant

change in recent decades, mainly as a result of technological change. There is now a far larger foreign presence in ownership as a result of mergers and acquisitions.

While the rest of the economy has expanded by 67 percent since 1994, finance sector output has tripled, and was an important contributor to employment expansion. About 300 000 to 400 000 people work in finance, insurance and related activities. Substantial employment is created indirectly, through property, building maintenance, security, personal and business services.

In addition to its role as a provider of potentially dynamic intermediate services, the finance sector has the potential to contribute towards greater inclusion of historically marginalised groups – by extending access to banking and insurance services, by helping to promote and mobilise household savings, and by easing broader access to credit. While the South African banking and insurance sector is viewed as relatively sophisticated in a global context, banks and insurers find it hard to extend services to this market segment using traditional channels because of their high costs and limited potential for income.

The proportion of the population that is banked or has access to transactional financial services and savings facilities is expected to increase from about 63 percent to about 90 percent by 2030. Developments in ICT have made it possible to establish alternative virtual networks that can be used to deliver financial and other services at much lower cost. Similarly, alternative, lower-cost technology platforms such as the internet and mobile networks will make it easier for short-term insurers to offer reduced premiums (for commensurately lower levels of cover), which should help to expand access.



## THE FINANCE SECTOR

### Areas that should be prioritised:

- Continuously broaden access to banking services to poorer people and lowering costs through a combination of competitive pressures and reducing other infrastructure costs.
- Strengthen credit extension to productive investments, especially small and expanding firms, and for working capital. Government and the private sector have to work together to find ways of increasing business lending.
- Provide small-business advisory and support services, financed partly by the state.
- Conclude discussions to identify and deploy investable capital to increase production in labour-absorbing sectors.
- Encourage private firms, such as construction firms, to partner with South African banks in providing project finance for contracts on the continent.

It is of concern that South Africa's banks do not extend sufficient credit to businesses, especially smaller firms. Greater access to credit for firms would lead to higher levels of business investment and jobs. Several countries, most notably India, have quotas for credit to the business sector. To reduce lending risks, South Africa should consider public-private partnerships to provide advisory and support services.

The country has not used its sophisticated financial services industry sufficiently to foster growth and create employment. With government support, these sectors can expand aggressively on the continent, with strong linkages to the South African economy. Obstacles to expanding back-office operations include high internet charges, low bandwidth, and skills constraints in managing these types of operations. Making it easier for foreign companies to bring in skilled foreign workers will also help the sector.

### Retail and business services

Retail and business services together are the biggest employers in most middle- and high-income economies. In South Africa, the formal retail sector accounts for almost 2 million jobs, and another 3 million jobs exist in informal activities. Business services account for about 20 percent to 30 percent of gross value added and over 1 million jobs.

A number of retailers have located in the region, and this will generate export opportunities for fast-moving consumer goods producers if effectively leveraged.

Business services comprise a wide set of activities, including office cleaning, computer repair, real estate and back-office processing.

Information technology-enabled services transacted locally and across borders have become firmly established over the past decade, and could be seen as a rapidly-growing new industry. South Africa must therefore invest into drawing this business to its shores.

In support of employment and growth, the following will be pursued in the plan:

- The retail sector will be encouraged to procure goods and services aimed at stimulating local producers, and especially small and expanding firms.
- Further investigation will be conducted on opportunities to stimulate sustainable small-scale retail and cooperative buying, with the aim of reducing costs in townships and rural areas, and stimulating related employment.
- South African retail operations in the region will be encouraged to supply stores with South African products, and also be supported to develop suppliers within the region in support of regional industrialisation objectives.
- Information technology-enabled service exports will be promoted, with the aim of attracting United States, United Kingdom and Indian business-process outsourcing. South Africa should become a leading provider of information technology-enabled services globally, with services integrated into the region.
- Rising consumption of the lower-income groups in South Africa and the region should stimulate retail employment and demand for supplier industries.

### Tourism and culture

The tourism cluster encompasses the range of activities and associated incomes that accompany people visiting the country. The total contribution of tourism activity to South Africa's gross value added was estimated at over 9 percent in 2008. South Africa has the disadvantage of being far from the wealthiest consumers, but it has several comparative advantages, including natural beauty, well-managed national and other parks, the domestic aviation sector, hotel capacity and the personal-services industry. South Africa has positioned itself as a conference and sports event destination. It is also home to nine world heritage sites and an area of global niche tourism.

Culture, the arts and other parts of the creative economy have the potential to generate employment and export earnings. Foreigners visit South Africa to see, understand and learn about its peoples and cultures. The arts and related creative economy sector are thus an asset that needs investment to provide opportunities for more people, often outside of the formal economy.

The tourism industry and the creative economy sector are labour intensive, and stimulate the growth of small businesses. They can develop other spin-offs, such as foreign direct investment and the crafts industry. Increased airline competition would help lower costs of travel.

### Public-sector employment

The public service typically plays an important role in employment creation. South Africa exhibits a paradox in this regard. The public sector employs about 9 percent of the labour force and accounts for about 18 percent of formal employment. Despite this limited number, the public-service wage bill (including local government) exceeds 12 percent of GDP – very high by both developed and developing country standards.

South Africa's public sector is faced with a dilemma. In a skills-constrained economy, the premium for skilled labour is high. This pushes up the salaries of skilled people in the public service. The public service also pays well above the market rate for low-skilled people, inhibiting its ability to create low-skill jobs.



### KEY POLICY ISSUES:

- Emphasis will be placed on increasing the total number of tourists entering the country, and the average amount of money spent by each tourist.
- Ease of doing business, as well as availability of appropriate levels of tourism infrastructure (particularly transport, tourism offerings/ products and accommodation), will play an important role in attracting different types of tourists.
- Foreign business tourists arriving by air generate the most significant multipliers. South Africa will be positioned as the business and shopping centre for the region.
- South Africa can do more to develop the region as an international tourist destination by emphasising the broader biodiversity, cultural diversity, scenic beauty and range of tourism products, and making it easier for tourists to travel between countries in the region. A Schengen-type visa for the region will be considered.

In theory, it should be possible to grow public employment in areas such as health, policing, social welfare and education. This, however, has to be balanced against the magnitude of increases in public-sector salaries. Furthermore, the public service has to identify opportunities in entry-level services such as auxiliary nurses, community health workers and day-care services for pre-schools.

#### Public employment schemes

The problem of unemployment and under-employment has become too big for market-based solutions to solve in the next 10 to 20 years. There is no doubt that market-based employment is the most sustainable source of job creation, but in even the most optimistic of scenarios, many people are likely to remain out of work. Low productivity, non-market services such as expanded public works projects in government construction, care, self-help projects and survivalist activities are generically called public employment schemes.

The public employment programmes should target the creation of 2 million opportunities annually by 2020 or earlier, if possible. The central challenge is

to identify institutional approaches that will enable this scale of achievement. Few programmes have succeeded. South Africa has existing commitments to public employment in the EPWP and the new Community Works Programme. The EPWP II could provide a number of these opportunities, mostly in the social sector, particularly in community-based care such as early childhood development projects. The Community Works Programme, which decentralises decision-making to the ward level, also holds this promise. These employment schemes should therefore complement social-delivery programmes to strengthen community reach.

The government must investigate more creative and innovative ideas. For example, the Department of Arts and Culture's plans include employment of graduates as arts facilitators for clusters of schools. The rationale is to identify and develop talent and support career choices in the arts, as well as to develop audiences and consumers through exposure to the arts and participation in them. This would include all learners having access to heritage sites, performing and visual arts etcetera.

## ROLE OF THE STATE AND INSTITUTIONAL CAPABILITY

This plan places a high premium on making specific choices to launch the country onto a higher growth trajectory. It does not seek to address all the challenges at the same time. The government will have to provide firm and focused leadership. The major institutional challenges in the public sector are dealt with in chapter 13. In the economic sphere, among the major stumbling blocks to efficient economic services are poor coordination and integration, multiple priorities, and an undefined hierarchy of authority among the plethora of government departments involved in the economic sector.

Whenever a complex and integrated set of responsibilities is split across departments, it is difficult to maintain coherence over time. This has been evident in the inability of the government to drive a microeconomic reform strategy over the past 18 years because the functions are split over so many departments. . While integrative structures on such priorities and employment and infrastructure have been set up, there has been in

**Public employment schemes will be an essential part of an employment plan to 2030. The main opportunities will lie in community-based services and the roll-out of the social-sector initiatives of the Expanded Public Works Programme (EPWP). Realistically, South Africa must plan and budget for a minimum of two million opportunities annually.**

**Emphasis should be placed on generating market-based opportunities where possible.**

the recent period a higher level of fragmentation in government's economic strategy and how it is implemented. The Commission recognises that a certain degree of fragmentation has crept into government's economic strategy and this must be fixed. Clear lines of responsibility are necessary but clear direction and a commonly agreed upon strategy are also of central importance.

To deal with this issue, the Commission proposes that the Presidency, as the centre of government, be given strategic coordinating responsibility. This will entail convening power to resolve key points of disagreement and ensuring policy alignment. See chapter 13.

The country also needs to clarify its thinking, and develop a firm and consistent view on the role of the state in the economy. The realisation of the economic, and indeed other, objectives of Vision 2030 requires long-term commitments by all sectors of society, including the private sector. Policy certainty is therefore essential.

### Specific proposals include:

- Strengthening the role of the state as service provider, as the core provider of public goods (such as infrastructure and other public services), as an economic regulator, as a consumer, and as a critical player in giving leadership to economic development and addressing market failures.
- Creating a clear system of hierarchy and decision-making across economic line-function departments and spheres of government. The Presidency will act as the strategic centre of power to resolve key points of disagreement and ensure policy alignment.
- Responsiveness on the part of the state to anticipate possible crises and respond to them rapidly and appropriately.

- Establishing significant consequences for not reaching targets, whether in social or economic areas of delivery.
- Measuring performance in economic services departments on the basis of success, or otherwise in facilitating investment and building partnerships among the economic actors.
- Improving trust between the public and private sectors. The government must treat private actors as partners in policy design and implementation, and the private sector in turn must respond to and facilitate the realisation of national objectives.
- Urgently addressing constraints to public-private partnerships – including the institutional arrangements for regulating and executing such partnerships as well as relevant capacity in government departments and spheres.
- That any direct state involvement in productive sectors should be informed by the “balance of evidence” in relation to stimulating economic growth and competitiveness, creating jobs and reducing inequality, as well as availability and optimal deployment of public resources.

### **Social compact**

- For South Africa to achieve its objective to eliminate poverty, reduce inequality and create jobs requires greater trust between the state and business. As highlighted in the diagnostic report and the inputs of various organisations and individuals, the lack of trust between government and business and in turn, between these and the labour movement, is a stumbling block towards faster economic development. Various accords have been signed between social partners and an institutional mechanism such as the National Economic Development and Labour Affairs Council (NEDLAC) exists. But because of the lack of

strategic engagement among the social partners, focus on immediate sector interests and general questioning of each other's “bona fides”, no effective partnership exists. This problem is especially acute at regional and local level.

- The Commission proposes that the National Development Plan serves as a basis for developing a broad social compact among critical role-players and society at large. See chapter 15. This should also find expression at local and regional levels, with greater engagement between businesses and provincial and local government, as well as trade unions and other sections of civil society.

### **CONCLUSION**

- Achieving full employment and sustainable livelihoods is possible. Moving onto this new trajectory of high, sustained and job-creating growth implies a break from the current path. It requires a commitment by all sectors of society to contribute to the efforts required to meet our common objectives, and difficult choices will have to be made.

### **Trade-offs and choices**

- Achieving full employment, decent work and sustainable livelihoods will depend on making choices during various phases to 2030. The ability to do this is a function of leadership among all social partners. The achievement of the objectives and targets in this plan will be to the benefit of all, but each sector of society needs to agree on the contribution it will make, and take turns to carry the heavier part of the load.
- Given that many proposals in this plan will take time to register any meaningful impact, it is critical to urgently introduce the active labour-market policies proposed in this chapter, to initiate massive absorption of young people and



women into economic activity. This will require decisiveness on the part of the state, and business and labour should adopt a strategic approach to negotiations and building trust between themselves.

### **Role of the state**

Not only does the state have a role in setting the appropriate macroeconomic framework, it must also provide the right microeconomic conditions, to ensure that the day-to-day decisions and actions of people and companies help deliver the best social and economic outcomes. These frameworks and interventions determine the social and economic climate that South Africans live in, and therefore the level of economic growth and employment.

Among other actions, the state must enhance regulation of market participation, identify and resolve market failures, provide appropriate public infrastructure and services, and help to lower transaction costs across the economy.

### **The private sector**

Most of the jobs will be created in the private sector. This, however, will require South African entrepreneurs to be vibrant and seize opportunities when and where they arise, and to adapt themselves to the continuous process of technological change.

Rather than rely on economic rent and endeavouring to accumulate the bulk of the rewards of improved productivity and general economic performance, the private sector should embrace entrepreneurship, innovation and an equitable sharing of the fruits of prosperity.

### **Worker leadership**

Worker leaders have to advance and defend the interests of employed workers, and with other sectors of society, ensure that inequality is reduced.

At the same time, they need to consider those who are presently marginalised from economic activity.

Allowing for greater access to the labour market for those not active in the economy and ensuring that those currently without an appropriate voice are adequately catered for is a responsibility of leaders of workers and society at large.

### **The first phase (2012–2017)**

Movement towards an inclusive and dynamic economy requires that the country should urgently launch the virtuous cycle that allows it to move to a new growth trajectory.

In the early years, emphasis will be on absorbing the unemployed, especially young people, into economic activity.

Higher mining exports during this period of high commodity prices will help pay for the development of capabilities and endowments to forge a new path in the economy of the future. The country needs urgent investments in rail, water and energy infrastructure, alongside regulatory reforms that provide policy certainty. At the same time, the private sector should commit more investments to supplier industries for the infrastructure programme and in general economic capacity while capital costs are low, and imported equipment is cheaper. Opportunities for large exports to sub-Saharan Africa and other destinations in the developing world should be creatively pursued.

Concurrently, policy instruments and agreements on moving to the next phase should be ironed out. The plan identifies a number of steps required to move towards this new path. These include prioritising actions that lift key constraints to economic expansion, even though the government's responsibility is necessarily broader. In the



first five years, the government will commit to:

- Doubling the annual expansion in high-skills supply and improving education throughput at primary and secondary levels
- Improving the labour relations environment
- Interventions to improve labour-market matching
- Ensuring the supply of energy and water is reliable and sufficient for a growing economy, and that the responsibilities of municipal maintenance of distribution systems are appropriately allocated and funded
- Intensifying research and development spending, emphasising opportunities linked to existing industries
- Developing the arrangements for a Financial Centre for Africa
- Implementing its commitment to promote industrial diversification through its procurement programme
- Changing the approach to land tenure systems in ways that stimulate production and economic opportunity, thereby reducing uncertainty
- Expanding public employment programmes rapidly.

### **The second phase (2018–2023)**

Subsequent to this, South Africa should focus on diversifying the economic base. This should include building the capacities required to produce capital

and intermediary goods for the infrastructure programme and sub-Saharan Africa. It should include resource-cluster development for the mining industry, combining production of capital goods, provision of engineering services, and beneficiation that targets identified opportunities.

In this phase, the country should lay the foundations for more intensive improvements in productivity. Innovation across state, business and social sectors should start to become pervasive. Centres of learning should be aligned to industrial clusters with potential for domestic and global linkages. Innovation should also focus on improved public services and on goods and services aimed at low-income sectors.

### **Approaching 2030**

As the country approaches 2030, the emphasis should be on consolidating the gains of the second phase, with greater emphasis on innovation, improved productivity, more intensive pursuit of a knowledge economy and better exploitation of comparative and competitive advantages in an integrated continent.

Closer to 2030, South Africa should be approaching “developed world” status, with the quality of life greatly improved, with skilled labour becoming the predominant feature of the labour force and with levels of inequality greatly reduced.



## NOTES

1. Rising terms of trade means the price of exports is greater than the price of imports. In the development process, a country starts with low-priced (commodity) exports and high-priced (fabricated) imports. Over time, shifting this balance is accomplished by raising the sophistication of production and exports.
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