

Chapter 3

ECONOMY AND EMPLOYMENT

*"We are a people at work.
We work to create plenty.*

*We work towards goals with patience invested in actual effort.
We invest our effort and are not trapped in disengaged expectation.
The painstaking rigour of work is driven by impatience.
We wait for the results of our efforts, not for what is given by the efforts of others.
This kind of patience,
gives birth to our new work ethic.
In this work ethic we ground our dreams.*

*We have built our own houses.
We are confident and self-sufficient.
We are traders.
We are workers.
We are investors.
We create companies.
We set up stalls.
We are studios.
We feel a call to serve.*

*Out of our homes we create objects of value.
We invest and reap good returns for our efforts.
We travel to trade beyond our borders, carrying our values with us.*

*As artists we express and celebrate,
we expose and nurture, we explore and shift frontiers.
Through sports of all kinds, we push the limits of our possibilities.
Our philosophies and stories have enriched the world.
We respect ability, competence and talent.
Now our economy is growing.
Our prosperity is increasing.
We are energised by our resourcefulness."*

***"Everybody actively
has set out to
change his or her
own life in a way that
not only oneself, but
also one's family
and the broad
community, benefits
(work)."***

Vision 2030

Achieving full employment, decent work and sustainable livelihoods is the only way to improve living standards and ensure a dignified existence for all South Africans. Rising employment, productivity and incomes are the surest long-term solution to reducing inequality. Similarly, active steps to broaden opportunity for people will make a significant impact on both the level of inequality and the efficiency of the economy.

This will be achieved by expanding the economy to absorb labour and improving the ability of South Africa's people and institutions to respond to opportunities and challenges.

We can reduce the unemployment rate to 6 percent by 2030. It will require leadership, difficult political choices and effective implementation. It will require a rebalancing and realignment of key areas of government policy alongside some reprioritisation in economic policy.

To achieve full employment, the country needs to create about 11 million more jobs in the next 20 years. We estimate that the economy would have to grow by about 5.4 percent on average every year over this period to achieve this aim. This chapter outlines how the country can both accelerate growth and make it more labour absorbing.

Our goal of decent work and sustainable livelihoods requires that every family has an acceptable standard of living within their reach. That in turn means that the economy must generate sufficient economic opportunities and a supportive system of social protection and services, along with respect for human rights and growing solidarity.

The chapter is based on research work conducted in preparing the commission's diagnostic document and consultations that took place after the release of that document. With regard to current government policies and programmes, the New Growth Path outlines actions that are required to take the country onto a higher growth trajectory. The proposals in this chapter are largely consistent with these policies: however, they span a longer timeframe and the emphasis on catalysts and action steps may differ in some respects.

Objectives for employment and growth to 2030

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

- The strict unemployment rate falls from 25 percent to 14 percent in 2020 to 6 percent by 2030. The labour force participation rate rises from 54 percent in 2010 to 65 percent. About 11 million additional jobs is targeted by 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	54%	57%	60%	65%
Labour force (million)	17.5	19.8	21.9	25.3
Age dependency	1.6	1.5	1.5	1.5
Employment target				
Unemployment rate	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

- 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.

Key elements for employment creation

A central message of this plan is that solving South Africa's most pressing problems involves implementing all aspects of the plan. In order to raise employment, we need 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. The chapter is based on research conducted in preparing the commission's diagnostic document and consultations that took place after the release of that document.

With regard to current government policies and programmes, the New Growth Path is government's key programme to take the country onto a higher growth trajectory. At its core, 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 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 timeframe and the emphasis on catalysts and action steps may differ in some respects.

A critical complementarity between the New Growth Path and this plan is the need to lower costs in the economy, especially as these costs contribute towards limiting employment growth and raising costs for poor households.

In addition to the need to lower the cost of living for the poor, the vision and plan for the economy has five central elements, which are discussed below.

Creating an environment for sustainable employment and economic growth

The capabilities of the workforce need to be developed 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. A stable and constructive environment will be needed 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 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 the 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 be critical in boosting growth and employment, with small- and medium-sized firms 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.

Procurement by both private and public sectors will enable improved access for small and medium enterprises to opportunities. 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 our 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.

The impact of expanded and diversified exports on employment and incomes includes 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 economic 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 government to implement its economic policy

The South African state will be capable of implementing programmes and policies effectively and consistently, at least in the most critical priority areas. Accountability, combating corruption and professionalising the public service are critical. Strengthening oversight of public entities will be essential.

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.

Government is responsible for a very 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. It is therefore critical that key strategies be appropriately phased. 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, leadership and vision are needed from all sections of society, with leaders who are able to rally constituencies around long-term goals, recognising that the benefits may be unevenly distributed and take time to realise. Similarly, leadership in government will be crucial in ensuring 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 and thus reducing the rate of unemployment to about 6 percent by 2030. This should be attained at the same time as we increase labour force participation rates from the current 41 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): We 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. While more people are absorbed into the economy, the unemployment rate only declines from the current 25 percent to 19 percent by 2030. Given the objective to create 11 million jobs by 2030, there would be shortfall of 3.3 million to meet the target, the deficit would have to be met through more than 5 million public works job opportunities per year in 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 profitable activities which are capital intensive, in mining, energy, chemical 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 in 2030.

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 1801	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

Sectors Thousands	2010	2030		
	Employment in 2010	Scenario 1 mediocre minerals	Scenario 2 solid minerals	Scenario 3 diversified
Total	13 131	23 760	23 760	23 760
Average GDP growth		3.3%	4.8%	5.4%
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%

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%
Total	100.0%	100.0%	100.0%	100.0%
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%

A diversified dynamic economy (scenario 3: The plan)

This plan proposes choices for a path that would lead to more substantial investments are in strengthening municipal infrastructure and services, education systems, and in generating better 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 R&D and the commercialisation of South African innovations.

The substantial commitment to reducing the cost of production and living bears fruit, and South Africa becomes a more attractive investment destination. Improved efficiencies and oversight help to get under control the rapid increases in administered price inflation. A move to promote community-based house building with innovative local inputs helps expand housing, supplier industries and related job creation. These actions improve well-being, 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 apace, 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.

There is substantial success in promoting supplier industries to the mining industry that have spin-offs in supplying global mining projects and also lateral linkages into other uses such as water purification, electronics, and robotics amongst others. Much progress is made to process 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 the 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 are 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 stabilizing the environment for bargaining and labour relations in a way that is conducive to investment but also to human rights is 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 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 our traditional products, and a growing role for activities that are linked to existing industries in new non-traditional sectors. These are expanded by stimulating linkages in dynamic product areas, and by stimulating traded services activities where South Africa has a competitive advantage. In this case, domestically oriented services still play an important role in employment creation, but the proportion is smaller – contributing over 40 percent of all new jobs. Manufacturing employment grows, but its share falls from 15 percent to 12 percent of formal employment. That is, almost a million jobs might be created in manufacturing over the 20 years, but its share falls, although not by as much as in scenario 2. The share of high value services rises to about 22 percent of formal employment, as compared to 15 percent in 2010.

Structural challenges to full employment

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 these challenges are external, South Africa can and must plan for them. External drivers, such as 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 we operate. Global commodity prices will impact different parts of the economy differently. A global drive to 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 the chapter on drivers of change.

There are other structural factors that should heavily influence policy-making in the drive to achieve full employment. The first are those that are common to economies similar to our own. The second are challenges and opportunities specific to South Africa.

Structural challenges in similar countries

South Africa faces certain structural challenges, some of which are not unique to this country. Awareness is key to overcoming these issues.

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 one 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 the 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 longer 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. Although there may be exceptions, many middle-income countries experienced substantial, albeit relatively slower, growth over the past decade. The key differentiator is how much the country invests in human capital, product development and technology.

Global economic downturn: The global recession and its aftermath of slower growth have persisted since late 2007. Global growth is unlikely to recover rapidly. Slower growth could persist, because the unwinding of imbalances is incomplete, like excessive current account surpluses and deficits, high levels of government debt and the deleveraging process of businesses and households.

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, slower growth in the United States, 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 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, office cleaning), where productivity and wage growth is lower. This may be even more pronounced in sub-Saharan Africa, given the historical context within which the new growth trajectory is taking shape.

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 economy is more energy intensive and the energy used is highly carbon intensive. 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. The country 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 time-horizon. However, the immediate effects of the deepening global economic crisis cannot be ignored. The United States has been unable to solve its fiscal difficulties. EU leaders are unable find a credible solution to the sovereign debt crisis.

Forecasts for developing economies are more upbeat with growth of 6.3 percent forecast in 2011 through 2013. South Africa's economy is expected to grow by just 3.1 percent in 2011 and 3.4 percent next year. 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?

- 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 the need to curb inflation – which is expected to breach the 6 percent target ceiling in the first quarter of 2012 – and the need to keep the embers of economic growth alive.
- Overvaluation of the rand. The exchange rate has weakened sharply against the dollar and a basket of currencies of South Africa's most important trading partners. Continued accumulation of foreign reserves remains the best way to manage capital inflows and prevent prolonged overvaluation.
- 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-orientate 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 between the public and private sectors and civil society. They urgently need to find one another.
- 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 US 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 we will be unable to weather the effects of the global crisis.

Structural challenges specific to South Africa

There are some structural challenges specific to South Africa:

- 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 is critical to employment creation. Present forms of black economic empowerment are not achieving all the desired objectives.
- Policies and programmes that is not conducive to human development, whether in relation to education, health or safety.
- An extreme pressure on natural resources.
- An energy constraint that will act as a cap on growth and on our options for industrialisation.
- Spatial misalignments whether in reference to urban/rural, or within urban areas and binding constraints posed by poor physical planning and network infrastructure.
- Distance from our main markets globally and limited market access.
- Implementation challenges.

We also have many factors working in our favour, 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 the resolution of many challenges that would influence our success lie within our power to fix.

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

- We need to 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.
- Flexible human settlements responsive to changing locations of work (such as available rental stock and good and affordable public transport systems).
- Labour-matching services, transition support and easy access to retraining are critical. These raise the chances of achieving continuous work opportunities.
- In the earlier years, as we expand access to employment on a mass scale, a large proportion of working people will be low paid. 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 a platform that allows people to respond to opportunities that do not cause trauma or crisis.
- The longer-term solution to skewed ownership and control is to grow the economy rapidly enough and focus on spreading opportunities for black people as it grows. Improving standards of education, better support for entrepreneurs, 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.

Specific economic policy proposals

The plan's central goals are expanding employment and entrepreneurial opportunities on the back of a growing, more inclusive economy. This will require far greater commitment to 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. Intensified stimulation of local and foreign markets will be needed, as well as strengthening conditions to promote labour-absorbing activities. Traded activities will act as a spur to growth, as will active stimulation of domestic opportunities and the linkages between the two. Specific actions will need to be taken to break out of the current path dependency. This will require decisive action on the part of the state and the other social partners.

Achieving and sustaining a growth acceleration

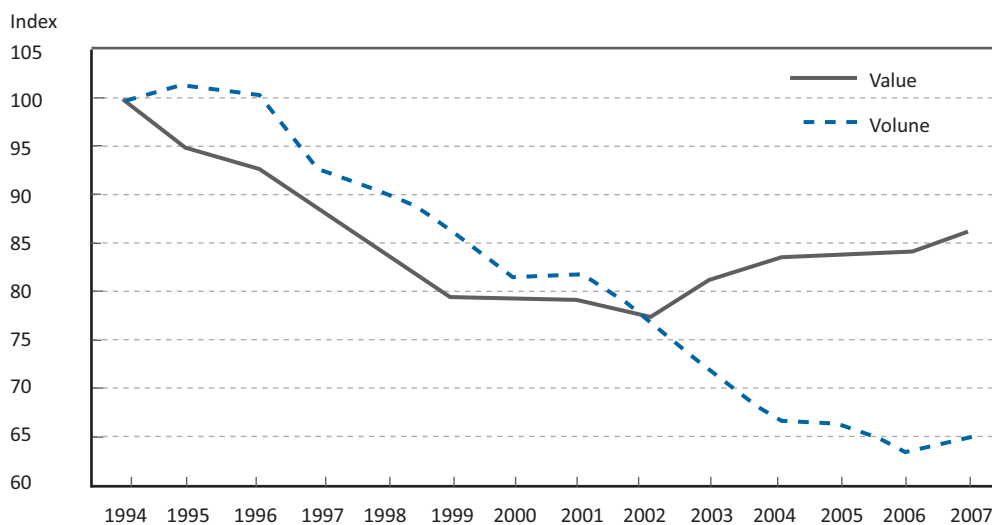
The goal is to almost treble the size of the economy by 2030, so that 11 million more work opportunities are created.

Many countries achieve an accelerated rate of growth, sometimes for 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.¹ In African economies, this stimulus has come from rising demand and prices of commodities. The external shock can begin such an acceleration, but it will not sustain growth.

Growth acceleration is realised if firms respond to these incentives. The figure below 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".

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.

South African exports – world market share (1994 = 100)

Source: Organisation for Economic Cooperation and Development financial statistics database²

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 is a critical challenge that requires attention.

In this plan, the proposed approach involves sequencing the identification of a select number of binding constraints to industrial expansion, which are eliminated, then advancing to the next round of constraints.

Lifting constraints to growth that are within our power 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 of others 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 critical trade-off that South African society has to address. However, two qualifications should be attached to this: 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.

² <http://dx.doi.org/10.1787/406237323856>

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

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. A few significant binding constraints will be lifted through committed action. 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 stop business in its tracks. 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 stronger institutional oversight.

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 – 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 impact of lowering network infrastructure costs generally 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.

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 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 our 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 will have to play a significant role in a context of curbed savings. These investments leads 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.

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.

Gaining global market share

To optimise the impact of expanding exports, it is crucial 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 of light manufactured goods. However, we can only compete in labour-intensive activities on the basis of niche products, processes and know-how.

Trade in services deserve 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. Demand for goods and services arising from services and other investment abroad by South African firms are not sufficiently exploited.

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 subsidies to 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.

A more forceful approach to market access arrangements will be needed, as well as a commitment to commercial presence in key export markets.

Global market share

Opportunities to sustainably raise the share of employment in traded activities 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, lowering logistics costs for these products and considers subsidising some low-skill sectors.

South Africa's positioning for offshore business services will be strengthened, 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. Domestic cluster development will also be supported.

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 of domestic producers.

Stimulating domestically oriented activity

The majority of new employment will arise in activities that are domestically oriented, 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 *in situ*. Examples include: housing construction, retail, personal services such as hairdressing or cleaning, business services such as office cleaning or repair. The environment for small-scale agricultural producers will also be improved. The active stimulation of demand for these goods and services, support for small firms, access to credit, easing of regulatory environment could help to make these activities more labour absorbing. 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.

Promoting industrial development through local procurement rules has been used effectively in a number of countries. Two recent policy efforts will form an important foundation for promoting the role of procurement. The Preferential Procurement Policy Framework Act constitutes 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 there is a substantial consumer base that can 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 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 growth in consumer demand regionally. The extent to which this potential can be unlocked, will

depend on how the continent deals with barriers to trade and investment, and implement 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 produced competitively in South Africa to lower cost environments regionally. In Southern Africa's case, this could include integrating farmers (and intermediate inputs suppliers) within the region into supply chains, and shifting production of some of the more highly commoditised products. Similarly, diversifying the sources of electricity out of South Africa 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 for longer. This could necessitate a different approach towards the development and expansion of regional transport routes and modes.

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 fact that the share of intra-African trade of total continental trade will more than double 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.

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.

National systems of innovation and learning permeate society and business

Continuous learning and innovation are essential ingredients to the success of middle and upper income economies. A substantial R&D sector, with support into commercialisation is essential. However, learning, innovation and process improvements often take place in incremental steps on the shop-floor if there is a conducive environment. Strengthening the system of labour relations and improving shop-floor relations and communication will be essential ingredients in promoting 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 will need to 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, structural change arising from technological redundancy must be allowed. 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 and development 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 we are looking far afield, when the base for innovation and new product development are linked to existing industries and firms. A well functioning research capacity is critical to sustaining growth and improving productivity. Chapter 9 considers the implications for the education system.

Innovation

South Africa's competitiveness will rely on national systems of innovation, permeating the culture of business and society. Innovation and learning must become part of our culture. This will require interventions from the schooling system, through to shop-floor behaviour to R&D spending and commercialisation. Public policy could focus on R&D 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, among others.

A responsive labour market

The labour regime needs to be 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.
- 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 and resourcing the Commission for Conciliation, Mediation and Arbitration (CCMA).
- Reviewing regulation and standards for small and medium enterprises.
- Addressing public employment labour relations, wage setting, performance and the management of 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 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 role of the new labour regime was 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.

Today, almost 30 percent of those in formal employment are unionised. About 1 million work days were lost to strikes annually in the eight years after the Labour Relations Act was passed. In 2007, 9.2 million days were lost and in 2010, 20 million days were lost, suggesting that the labour relations environment has become particularly fraught.

South Africa needs to ensure better workplace relations, more protection of the rights of vulnerable workers, and promotion of an inclusive development path. With these rights come responsibilities for employer and worker organisations, as well as the state. This new scenario will require leadership, maturity and a commitment to rising employment, living standards and productivity.

Wage determination in the private sector

Wage determination needs to be more 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 (e.g. free basic services, transport costs) and measures to reduce inflation of basic commodities and that of administered prices.

From a 20 year perspective, real wage growth will need 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 critical point. Raising economy-wide and intra-firm productivity will help achieve rising real wages and expanding employment.

The median income from work was R2 800 per month in 2010 overall, and R3 683 per month in the non-agricultural formal sector. The bottom 25 percent earned 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 percent to 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 need to commit to higher rates of investment, 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 achieve the objectives agreed upon, within the rules that are jointly developed.

Skills supply

Active labour market policies

In South Africa, low-income households live far from the centre 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 critical, including those that prepare and match work seekers with opportunities. Low-cost and efficient public transport is essential – the approach to achieving this is discussed in the chapter on human settlements.

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

- 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, prepare and place matric graduates into work opportunities. The placement company will be paid upon successful placement.
- Extend the non-state sector Expanded Public Works Programme's employment incentive, aimed at increasing employment in non-profit organisations.
- Expansion of learnerships and making training vouchers directly available to work seekers.
- Employee retention schemes, which offers short-time work during periods of low demand.
- Provide access to lifelong learning that improves employability and measures to expand further and higher education throughput and quality (as discussed in Chapter 9).
- Adopt a more open approach to skilled immigration to enable expansion of high-skill supply in the short term, in a manner that obviates displacement of South Africans.

Labour market regulation

To achieve a decent work agenda, a balance is needed between enabling faster expansion in employment opportunities and the protection of human rights. There is evidence that policy intervention is required to improve employment creation and labour protection. The main areas that require attention include:

- An approach to handling probationary periods that reflects the intention of probation
- An approach that simplifies dismissal procedures for 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 in support for 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 is twofold. It 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

Employers are concerned by pre-dismissal procedures in cases of misconduct or poor performance. 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 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 too strict and formulaic, and are inconsistent with legislation on the statute books. There is also anecdotal evidence showing that there may be 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 the 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 for small and medium enterprises, we recommend that the Code of Good Practice clearly lay out procedures appropriate to small business.

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

Dismissal of senior managers

The laws on dismissal apply to all employees, regardless of their level of seniority or skill. This is despite the fact that senior managers and even professionals can be excluded from protection from unfair dismissal as they should be adequately protected in terms of their employment contracts. Evidence suggests that senior managers use free services offered by the CCMA to get large financial settlements or to avoid dismissal, or both – even in a situation of egregious misconduct. This is a concern, particularly for the public service.

To prevent regulatory duplication and to reduce the burden on the CCMA, it is recommended that laws of unfair dismissal apply to senior management, but that private mediation and arbitration services, or the courts, are used, not the CCMA.

Strengthening the Commission for Conciliation, Mediation and Arbitration and the Labour Court

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

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

The operational efficiencies of this institution and the labour courts are important for the effective operation of the labour market.

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 had 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, it is reported that delays between 12 and 18 months between date of hearing and date of judgment are not uncommon.

A review of the funding model of the CCMA and the operational functionality of the Labour Court and Labour Appeals Court is recommended.

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. Borat³ estimates that 900 000 people have been placed in some work opportunity as a result of the temporary employment services sector. These services are essential given the fragmented labour market, where low-income households are generally far from economic opportunity with 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. Such a service provides the opportunity for regulation and access to benefits for workers.

The private labour placement sector and temporary employment services need to be effectively regulated to ensure that the opportunity for labour matching is available to vulnerable workers, while protecting basic labour rights. Some basic provisions would ensure that after six months with a temporary employment service and/or client, they would be jointly and severally liable for unfair dismissal and unfair labour practices. The temporary employment service would be responsible for the employment relationship regarding the Unemployment Insurance Fund, the Compensation for Occupational Injuries and Diseases Act, the Basic Conditions of Employment Act and the Skills Development Act.

Labour market

The labour market will become more responsive to the challenge of expanding employment, raising living standards and reducing inequality. The labour environment should become more stable and mature. The most important improvement will involve strengthening the accessibility and relevance of the post-school training system, as well as active labour market policies that enable the matching of seekers and employers, and that bring down the cost of searching and taking on work.

Private sector remuneration underpins income inequality and cannot only be explained by disparities in skill. Approaches to identify a fair division of earnings will receive attention.

Public sector labour relations will become more conducive to delivery and employment objectives, with wage determination aligned to budget processes, clearer rights and responsibilities in respect of essential workers, and greater work opportunity opened up in the lower ranks of the public service.

The labour market regulatory system will be strengthened with a special eye to improving the efficiency of dispute resolution mechanisms. In addition, temporary employment agencies will be regulated. Statutory minimum wages will be more closely monitored and implemented to ensure protection of highly vulnerable workers.

³ Borat H (2011). A labour market position paper for South Africa: Six policy suggestions. Paper prepared for the National Planning Commission.

Spatial dynamics and rural employment

Rural economies

Rural economies will be activated through the stimulation of small-scale agriculture, tourism, and mining investments. 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.

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 land use management reforms, 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 focuses on raising agricultural output, providing basic services, supporting small farmers, broadening land ownership and investing in water, transport and other network infrastructure. A well implemented strategy to boost agricultural output could create up to 1 million jobs by 2030.

Small and expanding firms will support dynamism and linkages

Small and medium enterprises

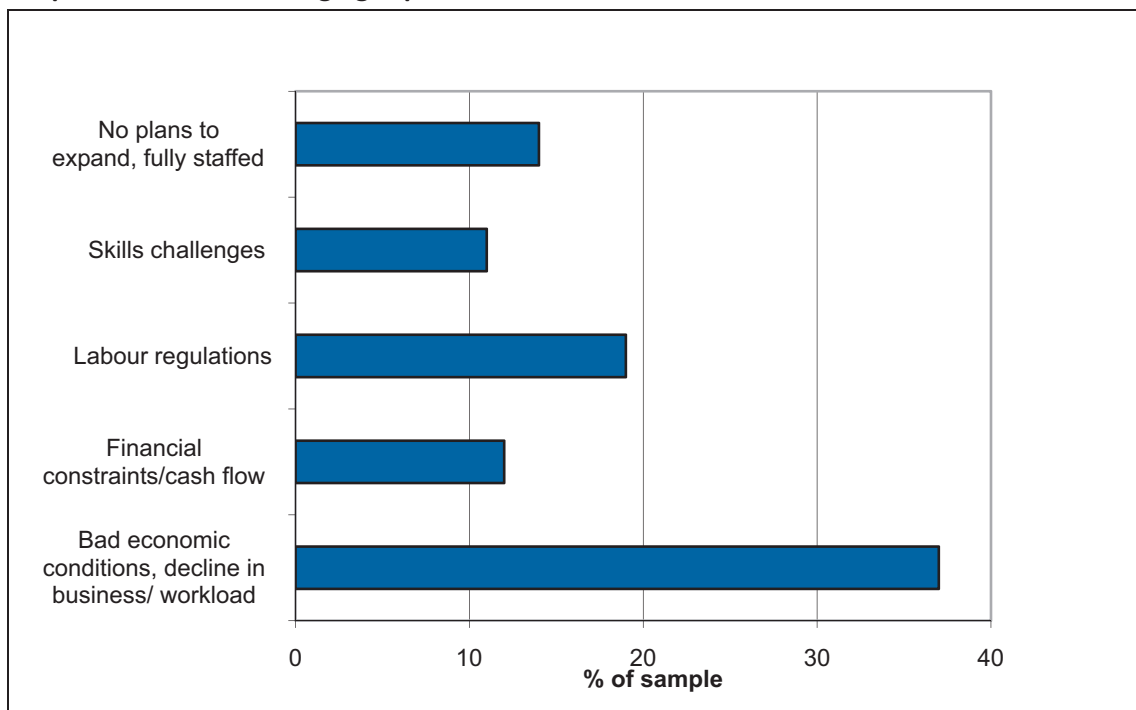
Small and expanding firms will become more prominent, and generate the majority of new jobs created. They will be stimulated through public and private procurement, improved access to debt and equity finance, a simplified regulatory environment, and support services.

Small- and medium-sized firms will play an important role in employment creation. According to a FinScope survey,⁴ 90 percent of jobs created between 1998 and 2005 were in micro, small and medium firms. Despite this, total early-stage entrepreneurial activity rates in South Africa are about half of what they are in other developing countries.

⁴ FinMark Trust (2006). *FinScope South Africa: Survey highlights including FSM model*.

The figure below provides the top reasons that prevent small and medium enterprises from growing their employee numbers. The main reason is the current economic environment followed by the labour environment, financial constraints and skill challenges.

Top five factors discouraging expansion of staff numbers



Source: SBP’s *SME Growth Index*, 2011

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. We need to foster sustainable businesses with potential for job creation and competition. This will generally require significant access to supply chain opportunities and facilitative buyer-supplier relations.

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 broad-based black economic empowerment. However, there are real obstacles to creating such an environment, including distortions created by South Africa’s apartheid past 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 cannot succeed without addressing the challenge of accessing established supply chains.

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.

By 2030, South Africa will have created an economic environment that is conducive to the dynamic formation and expansion of new businesses. This will be reflected in significant increases in the number of new firms that are established, decreased levels of economic concentration in most sectors, more diversified economic activity, deeper supply chains with more intermediate inputs sourced from local suppliers, and higher levels of innovation. Key proposals are discussed below.

- **Public and private procurement** will be an essential stimulator of demand for small and expanding firms. The Local Procurement Accord will be leveraged to promote stronger buyer-supplier relations and deeper localisation. Critically, both public and private sectors must implement commitments to 30 days payments to their small- and medium-sized suppliers.
- **Access to debt and equity finance will be improved.** The state's role in easing access to finance by emerging businesses needs to be examined. Part of the reluctance of credit providers to lend in this market arises from the high costs of additional monitoring, advisory and support services that are required to manage the risk of default. It may be preferable to establish a subsidy to existing banks that specifically targets these support service costs, rather than underwriting the principal debt. The role of venture capital requires exploration.
- Critically, urgent measures are needed 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.
- Measures should also be taken to build research capacity to address the paucity of data currently available on small, medium and micro enterprises and scale up public communication on available opportunities.
- **The regulatory environment will be simplified.** An expert panel will be appointed to prepare a comprehensive regulatory review for small- and medium-sized firms to assess whether special conditions are required. This includes regulations in relation to business registration, tax, labour regulation, local government regulations. Regulatory impact assessments will be done on new regulations.
- **Small business support services will be consolidated and strengthened.** 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.
- **Skills gaps will be addressed.** There is a need for early-stage entrepreneurship training to draw in younger people. Artisan training and practical experience often lead to the creation of new firms.
- We need to improve the system of identifying critical skills and instituting measures to address the deficit through joint action of government, state-owned enterprises, the private sector and further education and training institutions.

- As reflected in Chapter 9, the system of skills training should be reformed to provide for the needs of the economy (including the sectors and activities identified in the plan) and of society as a whole.
- **Black and gender economic empowerment will continue to be a priority.** As indicated in the diagnostic document, besides the fact that many of the empowerment transactions are debt-financed, the demographic distribution of economic assets remains skewed and the benefits of redistribution are shared by a small section of the previously disadvantaged. These and other weaknesses do not detract from the necessity for broad-based empowerment. In addition to intensifying pursuit of broad-based black economic empowerment objectives across the variety of its dimensions, among the actions proposed are:
 - Conduct a comprehensive study to collate data on progress across all elements of broad-based black economic empowerment as well as an analysis of the macro-impact of the policy on the economy and case studies of models of empowerment.
 - Strengthen accountability and enforcement mechanisms to ensure compliance.
 - In addition to small enterprise development, promote black and women's involvement in emergent and expanding industries (referred to in this plan), as active hands-on entrepreneurs. Among others, this would imply for instance that procurement opportunities for black enterprises that rely on cheap imports would be discouraged in favour of building value-addition capacity in the economy.

Providing a stable and enabling macroeconomic platform

Macro economy

A stable and enabling macroeconomic platform will underpin sustainable growth and employment creation. Within the framework of a floating exchange rate, approaches to protecting firms from Rand volatility will be explored. Considerable attention will be devoted to fiscal impact on the 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 critical variables, such as interest rates and the exchange rate. There is an inherent trade-off

between stable prices, interest rates and exchange rates when the price of leading imports and exports change.

The success of the development plan depends 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, the present approach of 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 a secular 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 regulations⁵ all help to provide the stable platform for investment, growth and employment creation.

There are additional steps that 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 militates against smaller- and medium- sized firms in particular. An approach will be required to buffer small and medium enterprises from rand volatility, and this will be an issue considered by the commission in 2012.

The balance in expenditure between consumption and investment will be key to delivering higher growth and employment. There are significant choices to be made between public sector wages levels, the size of the public sector and the allocation to investment. In general, the budget should prioritise those investments that raise economic growth and that improves the capabilities of people.

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

⁵ Macroprudential regulations govern the banking and insurance sectors, compelling these institutions to keep a major portion of their assets in the country.

Sectors and clusters

In order to attain the objective of 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 onto a new growth trajectory.

There are two related sets of tensions in industrial policy: between 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 our 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. Research into and initiation of such a transition, and optimal exploitation of capabilities in which South Africa is already a leading player in cutting-edge technologies should happen immediately, because the impact of such initiatives has long lead times.

The agro-industrial cluster

The agro cluster encompasses farming activities, downstream processing of foodstuffs and beverages, 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, dropping to 1.2 million in 1995, and falling dramatically to just over 600 000 today (or 900 000 if including fishing and food & beverage processing are included). The number of hectares under cultivation has been falling since 1974, and hectares under irrigation have not expanded since the early 1990s.⁶ Compared to other regions, South Africa has a very 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.

South Africa's commercial farming sector has had major investments (from the public sector, the private sector, and from public-private partnerships) that have resulted in new growth and jobs. For example, extending the table grape industry along the Orange River and the sugar industry into Mpumalanga (both through partnerships between the Industrial Development Corporation and the private sector), and the more recent expansion of the wine industry. Similar opportunities exist with untapped potential, including the Makatini Flats and the Eastern Cape (Umzimvubu River Basin). New initiatives, such as the role of agriculture in the green economy and conservation efforts in general, can potentially create new employment opportunities in rural areas, although climate change will influence which investments will pay off best, and where they should be made.

Without any 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 land can be developed 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.

⁶ BFAP (2011). *The contribution of the agro-industrial complex to employment in South Africa*. Report prepared for the National Planning Commission.

Agriculture and agro-processing

Key proposals include 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 should be put in place to ensure that new agricultural entrants can also access these markets.
- Investment by farmers in these areas will only occur if they believe that their income streams from agriculture are secure. Tenure security is vital to secure incomes for existing farmers at all scales, for new entrants into agriculture, and for the investment required to grow incomes.
- Growth in agricultural production has always been fuelled by technology, and the returns to investment in agricultural research and development have always been 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, should accompany strategies to increase vegetable and fruit production.
- Innovative measures, such as procurement from small-scale farmers to create local buffer stocks and community-owned emergency services, could be explored.

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. Over the same period, the number of people employed directly in mining (excluding upstream and downstream industries) fell from 660 000 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 needs to 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 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 forward and backward linkages stimulated to expand industrial and services capabilities.

Over the past decade, the South African mining industry has performed poorly. 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 (Mining Industry Growth and Development Task Team). The HSRC's most optimistic estimates show that mining employment could expand to 200 000 by 2024,⁷ 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.

Stimulating mining investment and production, in a way that is environmentally sound, and that promotes forward and backward linkages is urgent, 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 highly 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 usually highly energy and 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, engineering services), especially as 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, an advantage should the commodity boom persist.

⁷ Baartjes N, Auchterlonie A, Sorensen P and Goode R (2007). *Mining employment scenarios for South Africa to 2024*. HSRC.

Mining companies have an explicit requirement to participate in local development, and the resources to do so in South Africa and the region. Local economic development could be more substantially stimulated by the mining sector if the mining charter were better aligned to these goals. More could be done on human resource development, local economic development or procurement.

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

Minerals cluster

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

- Address the major constraints impeding the accelerated growth and development of the mining sector in South Africa. The main interventions include: ensuring certainty in respect of property rights, pass amendments to the Minerals and Petroleum Resource Development Act to ensure 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 2 500 MW by 2015, 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; 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, 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 Mining Industry Growth and Development Task Team process.
- Improve alignment of mining charter requirements to ensure high impact on local communities.

Manufacturing

Currently South African manufacturing strength lies in capital-intensive industries. In a context of high 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 itself. Some of the key 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. Constrained skills supply poses great challenges. A volatile and sometimes overvalued currency challenges 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 substantial effect on expanding both imports and exports of vehicles, the stimulation of assembly and some backward linkages, but most employment is generated in vehicle retail sales.

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 be facilitated through, among others:

- Ensuring a growing share of products that are dynamic, and with potential for domestic linkages.
- Public and private procurement will be leveraged to promote localisation and industrial diversification.
- R&D support for product development, innovation and commercialisation will be intensified.
- Approaches to buffering manufacturers from the effects of currency volatility will be explored.
- Strengthening network infrastructure and skills supply, and bringing administered prices under control.

Construction/infrastructure cluster

The infrastructure/construction cluster includes industries producing 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 critical, 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 (R808 billion over the next three years) to public infrastructure to address backlogs, but not all of it is spent.

Employment 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 last 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 also 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.

Construction/infrastructure

Key proposals to grow this sector include:

- Government's ability to spend its infrastructure budget will be addressed, particularly with regard to project management capacity, long term planning and monitoring and evaluation of both expenditure patterns and construction work.
- The civil construction and the supplier industries will be supported in their export efforts – with the establishment of a Financial Centre for Africa, and more support in commercial diplomatic relations.
- Support to supplier industries such as building supplies, steel, glass and cement will be intensified.
- Conditions will be created for a less cyclically volatile industry by emphasising numerous, smaller scale, regionally dispersed projects to address backlogs that are more accessible to smaller firms and new entrants.
- Public funding will be expanded 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 about shifting to a more sustainable economic growth and development path in the long term and therefore has implications for the choices we make about the structure of our 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 onto 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 dramatically expand renewable energy sources and to promote energy saving is quite 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 between social partners will help drive forward this agenda.

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.

Finance sector output tripled since 1994, while the rest of the economy expanded by 67 percent, 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 a 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, in the short-term insurance field; alternative, lower cost technology platforms such as the Internet and mobile networks will make it easier for insurers to offer reduced premiums (for commensurately lower levels of cover), which should help to expand access.

It is concerning that South Africa’s banks do not extend sufficient credit to businesses, especially small, medium and micro enterprises. Greater access to credit for firms would lead to higher levels of business investment and jobs. Several countries, most notably India,

have specific quotas for credit to the business sector. To reduce lending risks, public-private partnerships in providing advisory and support services should be considered.

South Africa has not used its sophisticated financial services industry sufficiently to foster growth and create employment. With government support, these sectors can expand more aggressively on the continent, with strong linkages to the South African economy. Key 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.

The finance sector

Areas that should be prioritised include:

- Continuously broadening access to banking services to poorer people and lowering costs through a combination of competitive pressures and other reducing other infrastructure costs.
- Strengthening 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.
- Provision of small business advisory and support services financed partly by the state.
- Conclude discussion to identify and deploy investible capital for productive purposes 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.
- Implementing the notion of a financial centre for the continent to support project finance.

Retail and business services

Retail and business services are together the biggest employers in most middle and high income economies. In South Africa, the formal retail sector accounts for almost 2 million jobs in the formal sector and another 3 million 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 effectively located in the region, and this generates export opportunities for fast moving consumer goods producers if effectively leveraged.

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

Information technology-enabled services transacted locally and across borders have become firmly established over the past decade, and could be seen as a new industry growing very rapidly. It is therefore essential that substantially more effort be invested in drawing this business to our shores.

Retail and business

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 for the stimulation of 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 within South Africa and the region should stimulate retail employment, and demand for supplier industries.

Tourism cluster

The tourism cluster encompasses the range of activities and associated incomes that accompany people visiting our shores. 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 wealthy consumers, but we have several comparative advantages including natural beauty, well managed national and other parks, the domestic aviation sector, hotel capacity and personal services industry. South Africa has positioned itself as a key conference and sports event destination.

The tourism industry is labour intensive, stimulating of the growth of small businesses. It can develop other spin-offs, such as foreign direct investment and the crafts industry. Further competition in the airlines industry would help lower costs of travel.

Key policy issues include:

- Emphasis will be placed on increasing the total number of tourists entering the country, and an increase in the average amount of money spent by each tourist, or both.
- The ease of doing business, as well as availability of appropriate levels of tourism infrastructure (particularly transport and accommodation), will play an important role in attracting different types of tourists.
- Foreign business tourists arriving by air generate the most significant multipliers. Among others, South Africa will be positioned as 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 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.

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 difficult 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.

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

Public employment schemes

Public employment schemes will be an essential part of an employment plan to 2030. The main opportunities will lie in community-based services. Realistically, it will be essential to plan and budget for a minimum of 2 million opportunities annually.

It should always be recognised that the emphasis should be placed on generating market-based opportunities where possible.

The problem of unemployment and under-employment has become too big for market-based solutions to solve in the next 10 to 20 years. The problem includes both severe unemployment and very low levels of remuneration from market-based employment. 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 enable the achievement of this scale. Few programmes have succeeded. The Community Works Programme, which decentralises decision making to the ward level, holds this promise. It is probable that most opportunities will be found in community-based care such as early childhood development. These employment schemes should therefore complement social delivery programmes to strengthen community reach.

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 avoids seeking to address all the challenges all at the same time. Firm and focused leadership by government will be critical in this regard. 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.

While the outcomes process has helped to foster a degree of integration, South Africa has not yet seen the fruits of this initiative.

The country also needs to clarify its mind, and develop a firm and consistent view on the issue of 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 critical.

Specific proposals include:

- Strengthen 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.
- Ensure a clear system of hierarchy and decision-making across economic line function departments and spheres of government.
- Responsiveness on the part of the state to anticipate possible crises and respond to them rapidly and appropriately.
- Ensure that there are significant consequences for not reaching targeted impacts, whether in social or economic areas of delivery.
- Measure performance in economic services departments on the basis of success or otherwise in facilitating investment and building partnerships among the economic actors.
- Improve trust between the public and private sectors, and ensure that private actors are treated as partners in policy design and implementation and that the private sector in turn responds to and facilitates the realisation of national objectives.
- Urgently address constraints to public-private partnerships – including the institutional arrangements for regulation and execution of such partnerships as well as relevant capacity in government departments and spheres.
- 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.

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 our current path dependency. It requires a commitment by all sectors of society to contribute to the efforts required to meet our common objectives. There will be moments when difficult choices will have to be made.

Trade-offs and choices

Achieving full employment, decent work and sustainable livelihoods will depend on choices that have to be made 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.

At given moments, some may have to carry the heavier part of the load. At other moments, it would be the turn of others.

Given the fact that many of the proposals in this plan will take some time to register any meaningful impact, it is critically urgently to 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 a strategic approach to negotiations on the part of, and building trust between, business and labour.

Role of the state

The state not only has 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. It is these frameworks and interventions that determine the social and economic climate that we live in, and therefore the level of economic growth and employment.

Among others, the state must enhance regulation of market participation, identify and resolve market failures, provide appropriate public infrastructure and services and help in lowering 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 take into consideration 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 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. Urgent investments in rail, water and energy infrastructure, alongside regulatory reforms that provide policy certainty are needed. 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 the price of 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 the prioritisation of actions that lift key constraints to economic expansion. While government's responsibility is necessarily broader, there will be an understanding that these actions will receive more priority than others. In the first five years, the commitment will be to:

- Doubling the annual expansion in high skills supply and improving education throughput in primary and secondary levels.
 - Improving the labour relations environment.
 - Interventions to improve labour market matching.
 - Ensuring the supply of energy and water is ensured and sufficient for a growing economy, and that the responsibility of municipal maintenance of distribution systems are appropriately allocated and funded.
 - Intensify R&D spending, emphasising opportunities linked to existing industries.
-

- Develop the arrangements for a Financial Centre for Africa.
- Implement the commitment by government to promote industrial diversification through its procurement programme.
- Change the approach to land tenure systems that stimulates production and economic opportunity, thereby reducing uncertainty.
- Expand public employment programmes rapidly.

The second phase (2018 – 2023)

Subsequent to this, focus should be 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 basis must be laid to ensure 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 public service improvements 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 across the board, with skilled labour becoming the predominant feature of the labour force, with levels of inequality greatly reduced.