

# SOUTH AFRICA:

OVERCOMING CHALLENGES TO CREATE OPPORTUNITY



## *About Pumela Salela*

Pumela Salela is a board member of the Global Sourcing Council and an ambassador for sustainable and socially responsible outsourcing in Africa. She sits on the executive committee of the Tri-Sister City Alliance, the first sister-city alliance between BRICS cities, in order to create jobs for knowledge workers. Recently, she was appointed to serve on the advisory council of the World BPO Forum. Salela also serves on the advisory board of the World Summit on Internet and Social Media. The Rockefeller Foundation acknowledged her contribution and innovation in formulating systems that address poverty by selecting Salela to be one of 18 global recipients of the foundation's inaugural Global Fellowship on Social Innovation, and she was the only South African to receive the honor.

**Q:** The 2013 Africa Competitiveness Report explores how Africa can connect its markets and communities through increased regional integration as a key to raising competitiveness, diversifying its economic base and creating jobs for its young, fast-urbanizing population. The report includes detailed competitiveness profiles for 38 African countries, providing a comprehensive summary of the drivers of productivity and competitiveness in countries across the continent. While South Africa's GDP way outstrips the rest of sub-Saharan Africa, data in the report suggests the country should be doing much better. How would you rate South Africa's performance since the political transition?

**A:** In South Africa, the GDP (on a dollarized basis) has grown 2.5 times during the 20-year period since democracy to around \$400 billion today. While unemployment has remained high—with a net 900,000 added to the number of unemployed in 20 years—those with employment have actually grown by 4.1 million in this



period. Employment has therefore grown, although at an insufficient rate to bring down the aggregate percentage of unemployment. The poor have benefited from cash and non-cash state transfers. Non-cash transfers by the state in the form of providing public sector goods and services to the poor are evident in areas such as education (functional illiteracy improved from 34 percent to 19 percent), access to electricity (improved from 58 percent to 85 percent), and access to water and sanitation facilities (both reaching an additional 13 percent of the population). Monthly social welfare grants are now afforded to more than 16 million people in need, which corresponds to the number of people living below the \$2/day poverty line in South Africa—a current annual cost of more than \$10 billion. The combination of these cash and non-cash transfers of value represents a vital safety net and cushion for the poor and supports their ability to meet their basic needs.

In the two decades since 1994, South Africa has made decisive structural advances in 10 key areas:

- Macro fiscal and monetary balances have improved.
- Government debt costs have trended lower, and foreign reserves have risen.
- The overall cost of capital has declined.
- Corporate valuations have improved relative to global peers.
- Real-asset ZAR (South African Rand) returns have compared favorably.
- Chinese and African trade increases have largely offset European trade decline.
- Disposable income of South Africans has risen.
- The rise of the middle class has led to a structural boost in spending.

- Wage inflation and government grants have supported this trend.
- Per-unit labor productivity has improved.

**Q:** South Africa is ranked 52 out of 144 in the “Global Competitive Index 2013,” which highlights a number of problematic factors for doing business in the country. Among those listed are an inadequately educated workforce, restrictive labor laws, inefficient government bureaucracy, inadequate supply of infrastructure, corruption and policy instability. Is this, in your view, a reasonable appraisal, and could you comment on these inhibiting factors?



**A:** South Africa is singing from the same hymn-book, so to speak, in the form of the “National Development Plan” (NDP). It’s a vision for 203—a document that promotes national policy coherence. The NDP provides policy direction with a long-term view, something that has hardly been done before.

At the core of the plan is a focus on capabilities, the capabilities of people in South Africa and increasing the opportunities for both. The capabilities differ but must include education and skills, decent accommodation, nutrition, safe communities, social security, transport and job opportunities. Part of the plan is to change the life chances of millions of people, particularly the youth.

The NDP has identified nine key challenges faced by South Africa:

- Too few people work.
- The standard of education for most black learners is of poor quality.
- Infrastructure is poorly located, under-maintained and insufficient to foster higher growth.
- Spatial patterns exclude the poor from the fruits of development.
- The economy is overly and unsustainably resource-intensive.
- A widespread disease burden is compounded by a failing public health system.
- Public services are uneven and often of poor quality.
- Corruption is widespread.
- South Africa remains a divided society.

The plan then outlines steps that must be followed in order to address each and every challenge listed above so that by 2030, there can be a different picture painted in the country.

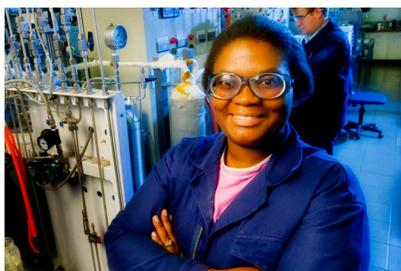
The National Planning Commission is of the view that, of these nine elements, two are critical and interrelated—namely, too few people work, and the quality of education available to the majority is poor. It further adds that while all nine challenges must be tackled in an integrated manner, increasing employment and improving the quality of education must be the highest priorities because failure to raise

employment and improve the quality of education would signal failure. Both require community involvement, better public service delivery and a higher degree of social cohesion that promotes cooperation between all sectors to support economic growth and job creation.

Thus, the story that the NDP proposes to write includes:

- Creating jobs and livelihoods
- Expanding infrastructure
- Transitioning to a low-carbon economy
- Transforming urban and rural spaces
- Improving education and training
- Providing quality health care
- Building a capable state
- Fighting corruption and enhancing accountability
- Transforming society and uniting the nation

On education, the first set of proposals involves households and communities wherein the homes must ensure proper nutrition and diet for sound physical and mental development of children. The second set of proposals relates to the management of the education system, removing layers of bureaucracy to make



more resources available to support schools and teachers. The third set of proposals aims to improve the competence and capacity of school principals since the common feature of a well-run school is leadership. The fourth set of proposals relates to teacher performance, covering training, remuneration, incentives, time on task, performance measurement and appropriate content and pedagogical support.

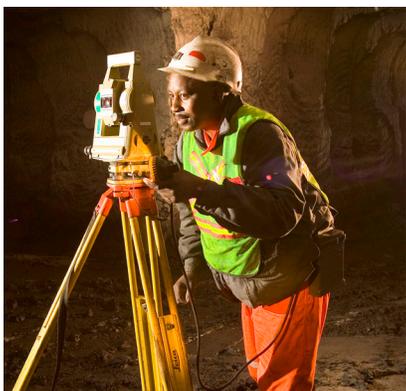


The NDP acknowledges that the current education and training system is not effective; it is too small and the output quality is poor. It proposes that the quality and relevance of courses need urgent attention. The result is that when quality starts to improve and the employability of graduates begins to increase, demand for these

educational services will rise automatically. In addition, a simultaneous focus on research and development and on the caliber of teaching would improve the quality of higher education.

In 2012—following the NPD, which was published in 2011—the government of South Africa came up with the National Infrastructure Plan and set up the Presidential Infrastructure Coordinating Commission (PICC) to plan and coordinate these efforts. The idea is to have a path of counter-cyclical spending driven by catalytic infrastructure investment in order to transform the economy, direct national growth and drive job creation by implementing a long-term, government-led infrastructure investment program. In the process, the government is

leveraging the investment and participation of business, labor and civil society. The PICC has done a spatial mapping of infrastructure gaps, which analyzes future population growth, projected economic growth and areas in the country not served



from an infrastructure point of view. Based on this work, 18 Strategic Integrated Projects (SIPs) have been developed and approved to support economic development. Short-term (five-year) and long-term (20-year) planning has been done so that it stretches beyond the current administration in order to avoid a stop-start pattern to infrastructure roll-out.

The labor laws in South Africa should be viewed in the context of South Africa's past, which was characterized by poor employment relations, human rights abuses, restrictions on workers and so on. The new dispensation has established the institutional and legislative mechanisms to ensure that what happened in the past can never happen again. The labor laws are not restrictive, per se. They encourage employers to be good citizens, demand that

they think twice before firing a person, and state that they must play a significant role in improving the lives of the workers. There are processes and procedures in place that, if followed by the employer, are not restrictive at all. Rather, it should be said that the country promotes fair labor practices.

**Q:** When you drill down into the data, a number of indicators stand out in the global competitiveness index. Among them are the burden of government regulation, the business cost of crime and violence, the impact of TB and HIV/AIDS, poor-quality education (the quality of math and science training ranks 143 out of 144 globally), and cooperation in labor relations (South Africa ranks lowest at 144). These are well known, but what about the opportunities? What are your views on the upside?

**A:** An estimated 4.6 million people in South Africa live with HIV. The expansion of the current antiretroviral (ARV) programs and the lowering rate of infection are positive signs of the effects of the rising attack by South Africans against the disease. An example of an opportunity that arises from the HIV/AIDS challenge that South Africa faces is that in 2012, South Africa announced that it would build a R1,6 billion pharmaceutical plant to produce the ingredients for ARV medicines used in the treatment of HIV/AIDS. The plant, which will be established near Pelindaba in Gauteng Province, is a joint venture between the South African government, through Pelchem, and Swiss chemicals and biotechnology company Lonza Ltd. This will be the first pharmaceutical plant to manufacture active pharmaceutical ingredients (APIs) for antiretroviral medicines in South Africa. South Africa currently imports the APIs needed to manufacture ARVs.

Similar opportunities can be seen across other sectors of the economy. For example, the poor-quality education has resulted in the rise of private education facilities and innovative ways of learning, such as eLearning, private tutorship (particularly in math and science), and programs aimed at augmenting what the learners learn at school. The Kumon tutorship can be cited as an example that helps learners improve their math skills outside the classroom.



The rise in crime has resulted in a rise in security companies, which has resulted in the increased contribution of services to the GDP of the country's economy.

This calls for innovation and foresight so that the challenges the country faces can be turned into opportunities, which could create new industries and boost the economy of the country.

On labor, private labor practices are being set up at a minimal fee to the worker.

It should be noted that on education, South Africa received the highest pass rate in 10 years in 2013. Between 2003 and 2013, the pass rate has been as follows: **2003** (75 percent), **2004** (70.7 percent), **2005** (68.3 percent), **2006** (66.5 percent), **2007** (65.2 percent), **2008** (62.2 percent), **2009** (60.7 percent), **2010** (67.8 percent), **2011** (70.2 percent), **2012** (73.9 percent), **2013** (78.2 percent).



**Q:** In your view, what should the country be doing to improve the business environment and its competitive advantage?

**A:** The institutional and legislative mechanisms are in place. What remains is effective implementation, and this requires cooperation from the government, private sector, labor force and civil society.



The National Industrial Participation Programme's (NIPP) main objectives are attracting investments, promoting export products and services, supporting technology transfer and encouraging job creation. These are in line with the Industrial Policy Action Plan (IPAP) and the New Growth Path (NGP).

The Industrial Policy Action Plan 2012/2013–2014/2015 identifies three clusters that are critical to the industrial development of the South African economy and are structured as follows:

*Cluster 1: Qualitatively New Areas of Focus*

- Realizing the potential of metals fabrication, capital and transport equipment sectors, particularly arising from large public investments
- Upstream oil and gas
- Green and energy-saving industries
- Agro-processing, linked to food securities and food pricing imperatives
- Boatbuilding

*Cluster 2: Scaled-up and Broadened Interventions in Existing IPAP Sectors*

- Automotive products and components; medium and heavy commercial vehicles
- Chemicals, cosmetics, pharmaceuticals and plastics
- Clothing, textiles, footwear and leather
- Biofuels
- Forestry, paper, pulp and furniture
- Creative and cultural industries
- Business process services

*Cluster 3: Sectors With Potential for the Development of Long-Term Advanced Capabilities*

- Nuclear
- Advanced materials
- Aerospace and defense
- Electro technical and ICT

The New Growth Path starts by identifying where employment creation is possible, both within the economic sectors as conventionally defined and in cross-cutting activities. It then analyzes the policies and institutional developments required to take advantage of the opportunities. Job drivers have been identified in the following key sectors: infrastructure, the agricultural value chain, the mining value chain, the green economy, manufacturing sectors (which are included in IPAP2 and tourism), and certain high-level services. These will be augmented by regional integration in Africa and the knowledge and social economies.

In summary the key jobs drivers are:

- Infrastructure for employment and development
- Improving job creation in economic sectors
- Seizing the potential of new economies
- Investing in social capital
- Spatial development

**Q:** The Rand has taken a battering over the past year. Some economists have been calling for a weaker currency in the hope that this would boost local manufacturing and ignite export-led growth, but that doesn't appear to be happening. What are the inhibiting factors on the export front, and what needs to be done to take advantage of the export opportunities provided by a weak Rand?

**A:** A number of factors could explain the lack of response of exports to a weaker rand, including:

- Lack of demand from abroad. This itself is due to several factors, such as lack of consumer confidence because some think that the future of South Africa is bleak. The slow growth in important parts of the globe, such as China and the Euro zone, is another contributing factor. Some of what South Africa sells goes into producing goods that get sold globally. Thus, if the global demand for cars falls, the demand for platinum to produce catalytic converters, for example, will also fall.

- South Africa has had intermittent disruptions in supply in mining, car manufacturing, vehicle parts and so on. These occurred in the last half of 2013, around the same time that the currency depreciated. As a result, the country did not produce enough to sell.
- Some of what South Africa sells to the world is big/lumpy/bulky and, thus, tied to contracts that are less price-sensitive in the short term, both up and down. It should also be noted that the South African Rand is one of the most liquid and tradable currencies globally and serves as the shock absorber for market forces.

**Q:** Prophecy is a dangerous business, but looking into your crystal ball, how do you see the country doing over the next decade? Is South Africa still a land of opportunity, or as the Afro-pessimists would have us believe, is the country moving inexorably backward?

**A:** In the next decade, the country should:

- Address the need for youth empowerment and job creation through internships and job placements
- Create 6 million work opportunities by 2019
- Investigate the introduction of a national minimum wage as one of the ways to reduce income inequality
- Introduce compulsory community service for all graduates and expand the further education and college training sector
- Pursue action against companies involved in bid-rigging and price-fixing in current and past infrastructure programs and other sectors of the economy



**Q:** How about South Africa and the rest of the continent? Countries such as Nigeria and Ghana seem to be doing all of the running at present. What role should South Africa adopt in promoting competitiveness regionally and across the continent?

**A:** Africa's growth and development increases the size of the continent's economy. This can also provide Africa with a greater voice in global political and economic institutions.

While it is true that over the past 13 years, people in Namibia, Nigeria, Zambia, Ethiopia, Ghana and Botswana have been getting richer than South Africans, when it comes to economic growth in Africa, Angola showed the most growth between 2000 and 2012. However, on paper, South Africans are the wealthiest people in Africa, with \$11,310 (approximately R121,941) in wealth per person. Oil-rich Libya is second, with a wealth per capita of \$11,040, while Namibia ranks third, with a wealth per capita of \$10,500. Wealth per capita is a snapshot of the net asset value of individuals, such as cash and other holdings, distributed among its population.

Strong growth on the continent has opened up major opportunities for South African firms and industries, which have contributed to development by investing in telecommunications, banking, mining, construction and retail. One of the biggest South African exports since 1994 has been management skills, which are deployed in settings that are common to South Africa but less familiar to competitors from developed countries.

Several structural weaknesses must be overcome if South African firms are to increase the benefits they can derive from and the contributions they can make to the growth and development of Africa. Crucially, poor transport links and infrastructure networks across the continent, as well as tariff and non-tariff barriers, raise the cost of doing business and hobble both investment and internal trade. Weak legal institutions—and in some cases, poor governance—heighten the risks of investing. The picture is improving steadily, but challenges remain. The Southern African Development Community (SADC) faces significant challenges on many fronts, including infrastructure, trade barriers and governance.

Trade is always a two-way street. While South Africa is a water-scarce country, many of its neighbors have an abundant supply. Securing adequate supplies of water and food must be considered in a regional context. South Africa should invest in and help exploit the wide range of opportunities for low-carbon energy from hydroelectric and other natural sources in southern Africa.

### ***About the SABLE Accelerator***

The SABLE Accelerator is a trusted knowledge network of global South Africans providing mentoring and consulting services to South African companies, entrepreneurs and institutions seeking to fund or commercialize innovation, as well as enter, grow and partner in worldwide markets. The SABLE Accelerator aims to further South Africa's economic interests through global knowledge transfer and the creation of a trusted expert network of expatriate South Africans willing to contribute back to their country of birth through coaching, mentoring, consulting, advising, teaching, training, funding or donating. The international partnership group, The Sable Accelerator LLC (SABLE), is dedicated to helping South African entrepreneurs, new venture start-ups, academic institutions and companies commercialize technology innovations, promote and protect intellectual property, fund new business concepts, finance growth, as well as expand into global markets. Learn more at [www.sablenetwork.com](http://www.sablenetwork.com).