

South Africa 30 Years After Democracy: Economic Challenges and Opportunities

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Presentation to OV Workshop

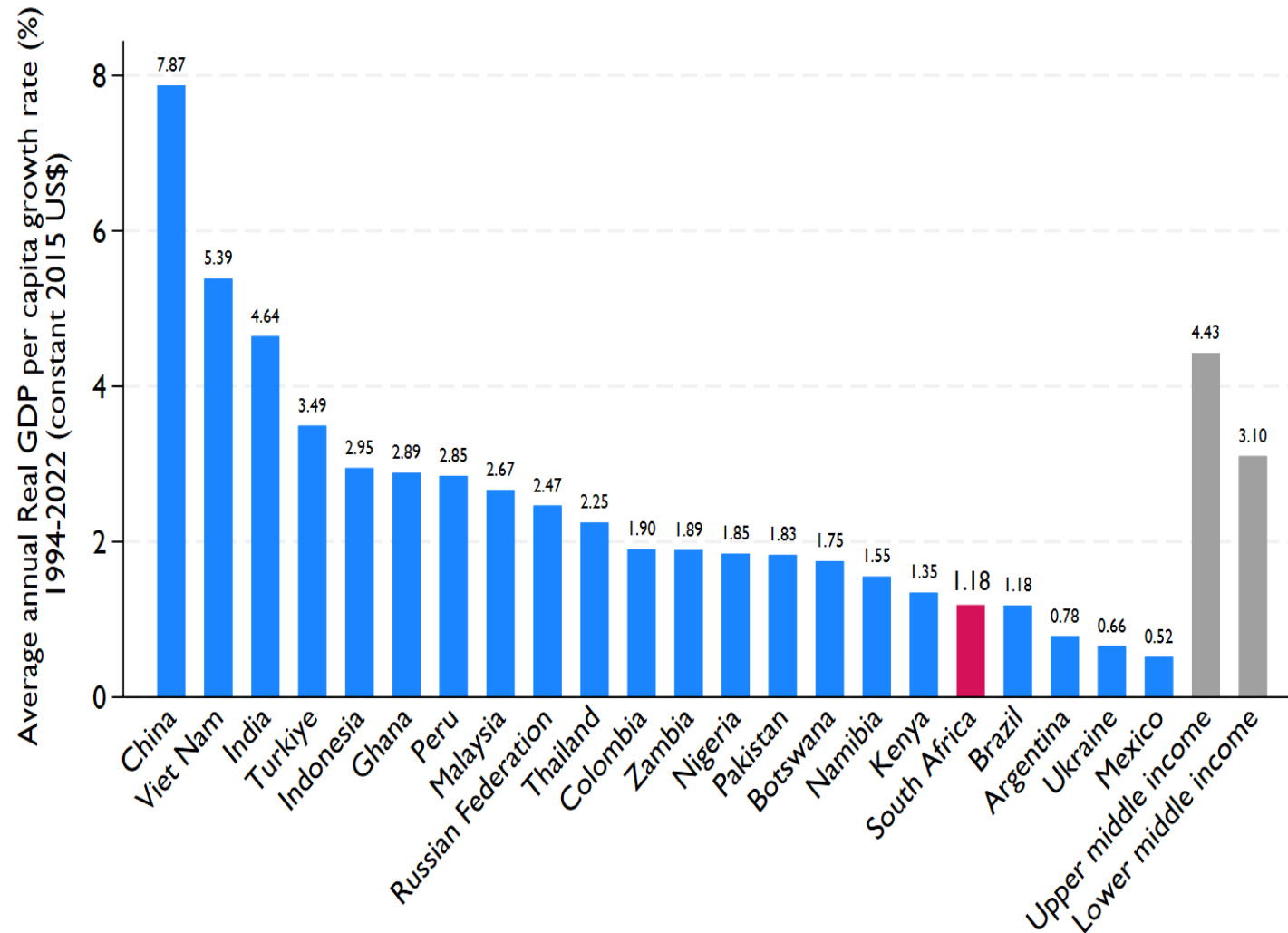
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- South Africa's Economic Growth Record: A Story in Three Charts
 - The Long-Run Growth Trap
 - A Political and Policy Cycle
 - State Capture & the Consequences for Growth
- The Outcomes from Economic Growth
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I: South Africa's Economic Growth Record: A Story in Three Charts

South Africa's Economic Growth Record: A Story in Three Charts: The Long-Run

Average Annual Real GDP Growth p.c.: 1994-2022



- For a nearly 30-year period, South African economy has grown by an average of just 1.2% per year.
- The average UMI has grown 3.75 times faster whilst the average LMI expanded at rate 2.6 times faster than SA.
- Persistently low real GDP growth rates means that South Africa is in a long-run middle-income economic growth trap.
- In addition, growth has disproportionately benefited those households at the top of the income distribution, resulting in an uneven, non-inclusive economic growth trajectory.

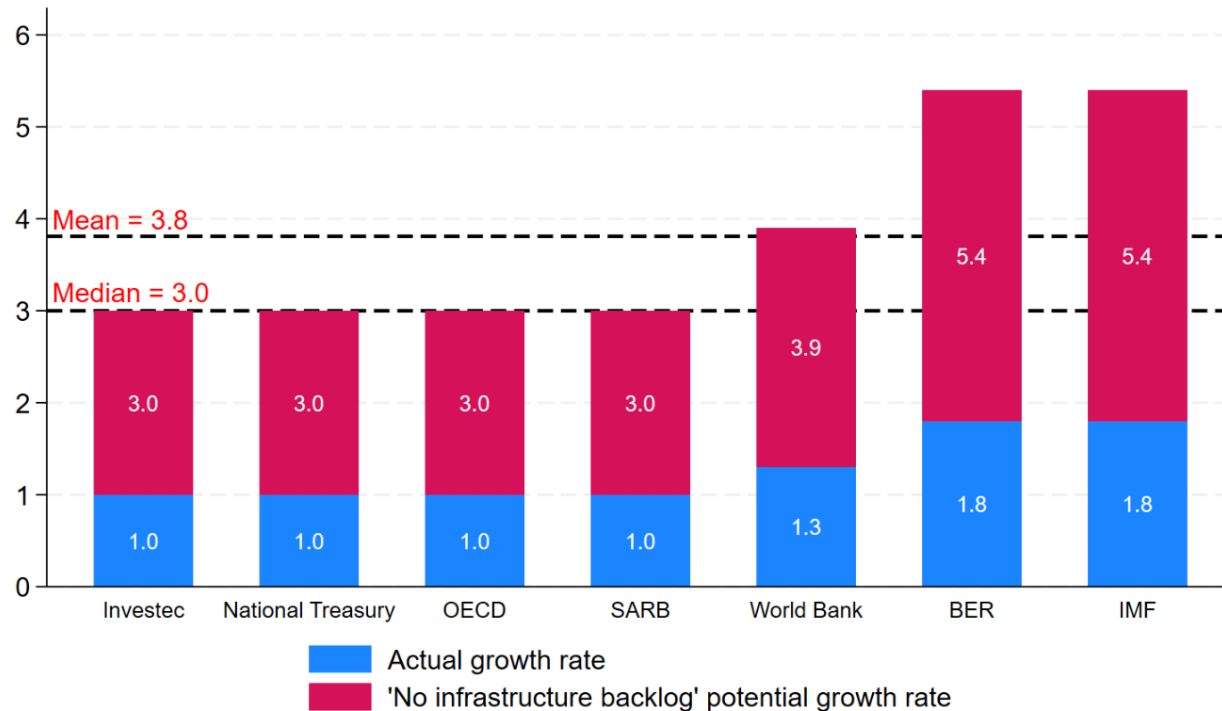
South Africa's Economic Growth Record: A Story in Three Charts: A Political & Policy Cycle



- Zuma Presidency Years: GDP growth av. of 1.45% p.a. Mbeki years = 4.22% p.a.
- 1994: Significant socio-economic backlogs. First 3 presidential terms, → Significant improvement in welfare (housing, energy, water and social assistance).
- Ground work laid to launch decisive 2nd phase of economic inclusion programme.
- Instead: Governance failures marked at high point by widespread state capture of key nodes of government.
- Impact: Forestall the reform and inclusive growth programme.

South Africa's Economic Growth Record: A Story in Three Charts: State Capture Consequences

*GDP Growth Projection, 2024: Actual & 'No Infrastructure Backlog', By
Macro Model*



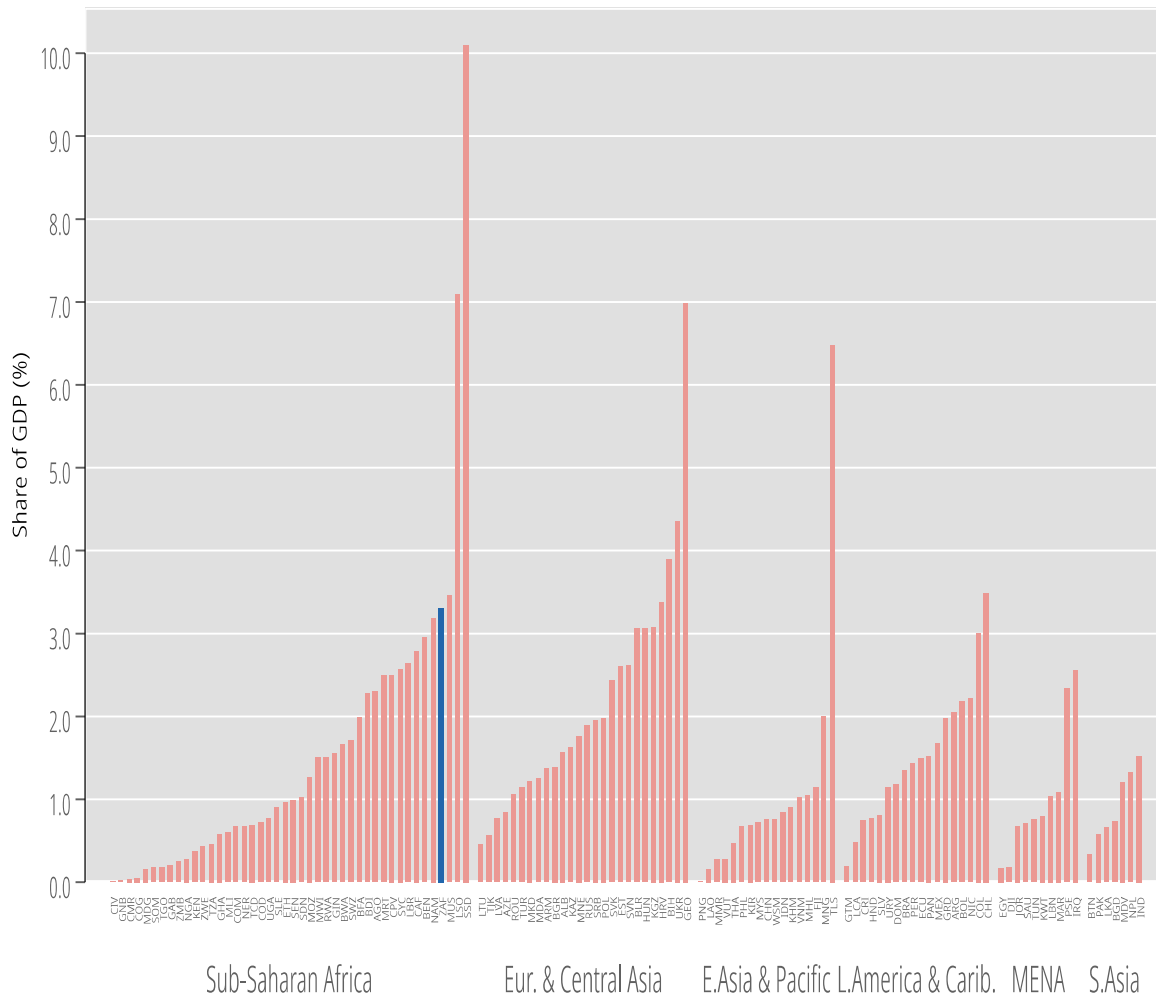
Source: National Treasury (2023), BER (2023), SARB (2023), IMF (2023), OECD (2023), Investec (2024), World Bank (2024)

- Consequence of state capture goes to heart of projected GDP growth for 2024 and 2025
- Growth rate projection 2024 on av.=1.3%.
 - Median consensus = 1% economic growth.
- IMF and BER much more positive projecting growth of 1.8% for the year.
- *BUT – if we took the relative growth rates of SA to EM/World before infrastructure collapse, our economic growth rates could have ranged anywhere from 3 to 5.4% for 2024.*

II: The Outcomes from Economic Growth

The Outcomes from Growth: Assets and Social Assistance

Spending on Social Assistance as Share of GDP, 2009-2016

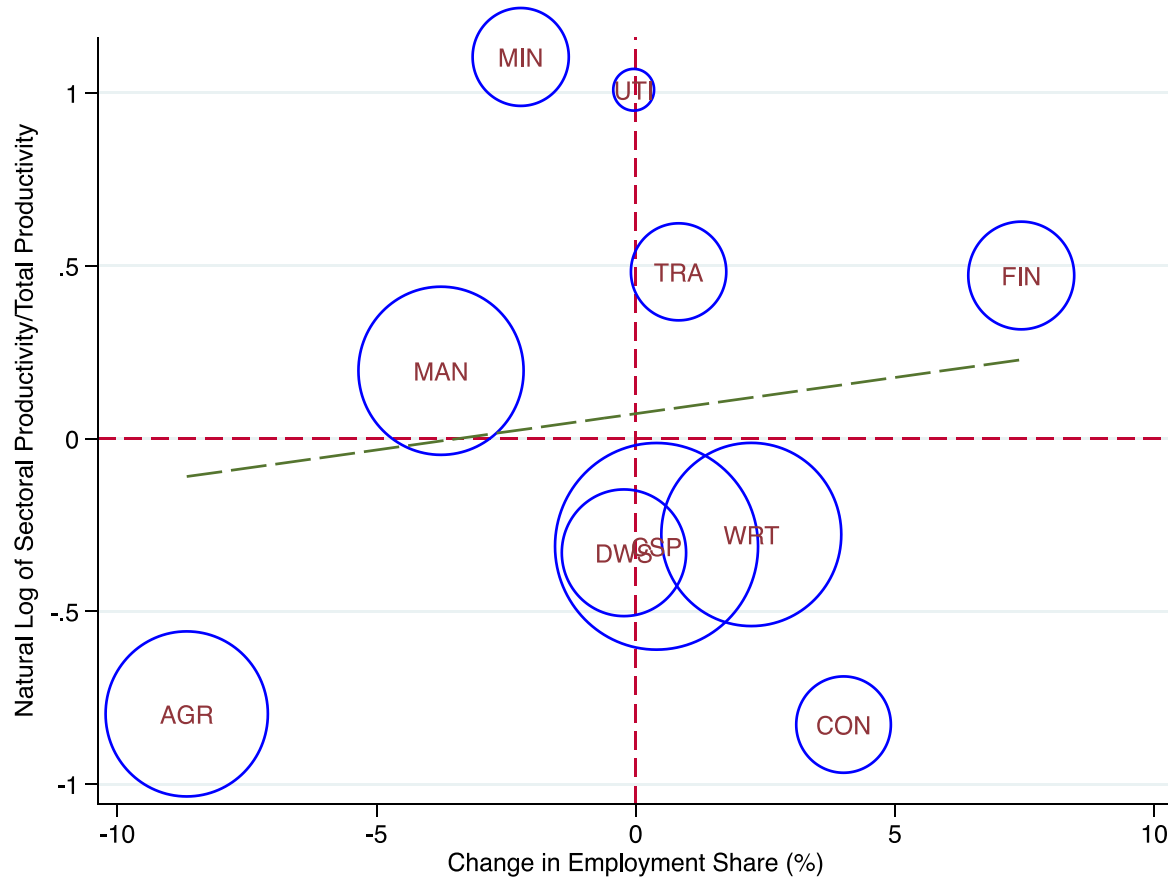


Source: World Bank (2020)

- Moderate declines in income poverty; stubbornly high inequality.
- Multi-dimensional poverty declined → now stalled.
- South Africa spends 3.3% of GDP on social assistance
 - *10th highest spender on social assistance in the world --> higher Argentina (2.1%), Mexico (1.7%), India (1.5%), Brazil (1.4%), China (0.8%).*
- Social Assistance spending: A pillar of poverty reduction strategy.
 - Contingent on revenue from growth to be sustainable.
 - When growth stalls, revenue declines → social assistance commitments remain

The Outcomes from Growth: Premature Deindustrialisation

Correlation between Sectoral Productivity and Change in Employment in South Africa (1995-2016)



- No evidence of manufacturing-led structural transformation, which would have been a driver of low-wage employment growth - and hence key to reducing poverty, inequality and exclusion.
- Shift from low-productivity agriculture (AGR) to services dominated by high-skilled financial services or the public sector.
- The upshot is a sectoral pattern of growth which favours skilled workers over the semi-skilled, favours high-wage work over medium or low-wage employees – thus effectively reproducing a pattern of income inequality in the society.
- Missing for South Africa is a low-wage, labour-intensive pattern of economic growth – which is key to attenuating inequality and exclusion in South Africa.

Source: Own calculations using SARB (2017).

Notes: 1. Size of circle indicates employment share in 2016. 2. $\beta = 0.02$ (T-stat: 0.37, p-value: 0.72) 3. AGR = Agriculture; MIN = Mining; MAN = Manufacturing; UTI = Utilities; CON = Construction; WRT = Trade Services; TRA = Transport Services; BUS = Business Services; CSP = Community, Social and Personal Services; DWS = Domestic Worker Services.

The Outcomes from Growth: A Nation in Search of Jobs

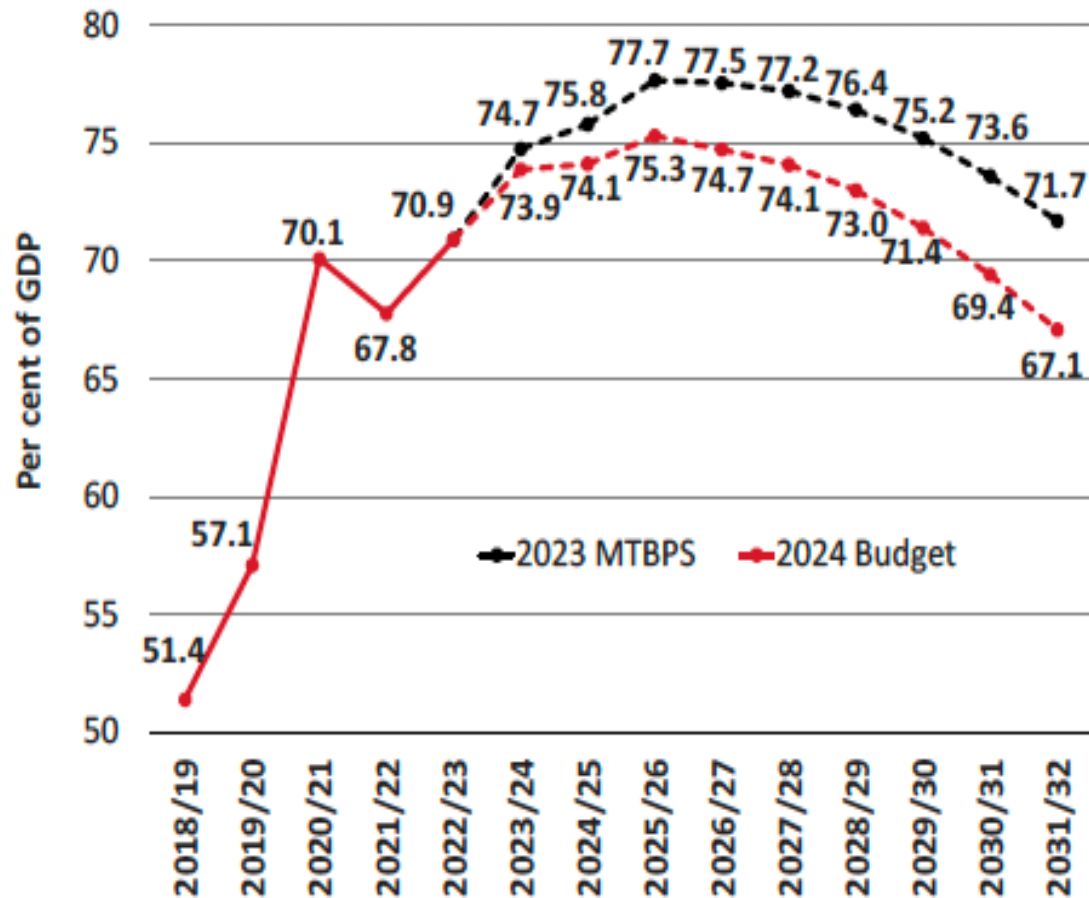
The South African Labour Market: Stylised Facts, 1994-2023

Indicator	1994	2023	Absolute change	Annualised % change
Employment	9 516	16 552	7 036	1.9
Narrow Unemployment	2 436	7 901	5 465	4.1
Narrow Labour Force	11 952	24 453	12 502	2.5
Discouraged workseekers	2 204	3 167	963	1.3
Target Growth Rate (TGR) (%)			131.4	
Employment Absorption Rate (%)			56.3	

- Narrow labour force increased more rapidly than employment → LF gre at 2.5% p.a. whilst employment exapnded by 1.9% p.a.
- TGR for employment was 131.4%, but employment grew by only 73.9%.
- Implies employment absorption rate of 56.3% or that for the democratic period SA only creates jobs for 56 out of 100 individuals in labour force.

The Outcomes from Growth: Debt and Debt Costs

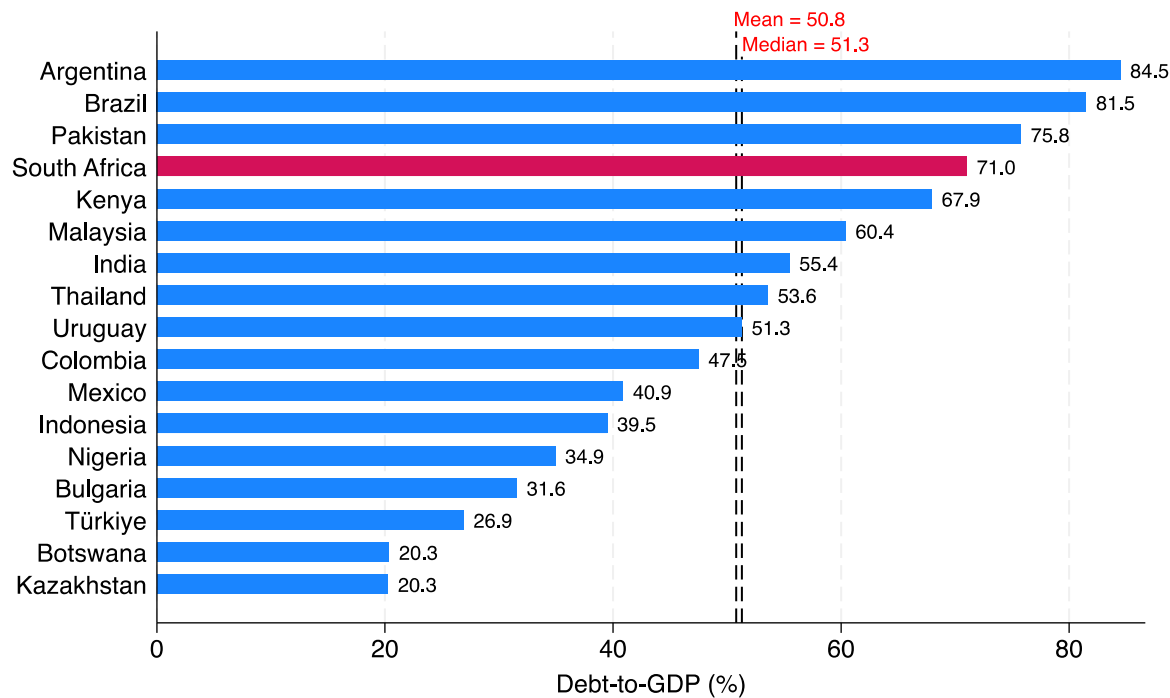
Gross Debt to GDP Ratio, 2018-2032



- Key negative consequence of state capture: Deterioration in SA’s fiscal position.
 - Reflected in historical evolution of SA debt-to-GDP ratio:
 - Debt:GDP Ratio risen dramatically: Increasing by a 20 perc. points over a 5-year fiscal year period.
- ‘Government gross loan debt as a percentage of GDP at its highest point since 1947’ (NT, 2024).
- Stock of debt due for payment based on historical (excessive and irresponsible) spending is now 4 times what it has been in the previous decade.
- Deficit-financing capital and consumption expenditure?
- Limited role in near future for state as an instrument for economic development – or more careful use of state resources to impact economic development

The Outcomes From Growth: Debt and Debt Costs

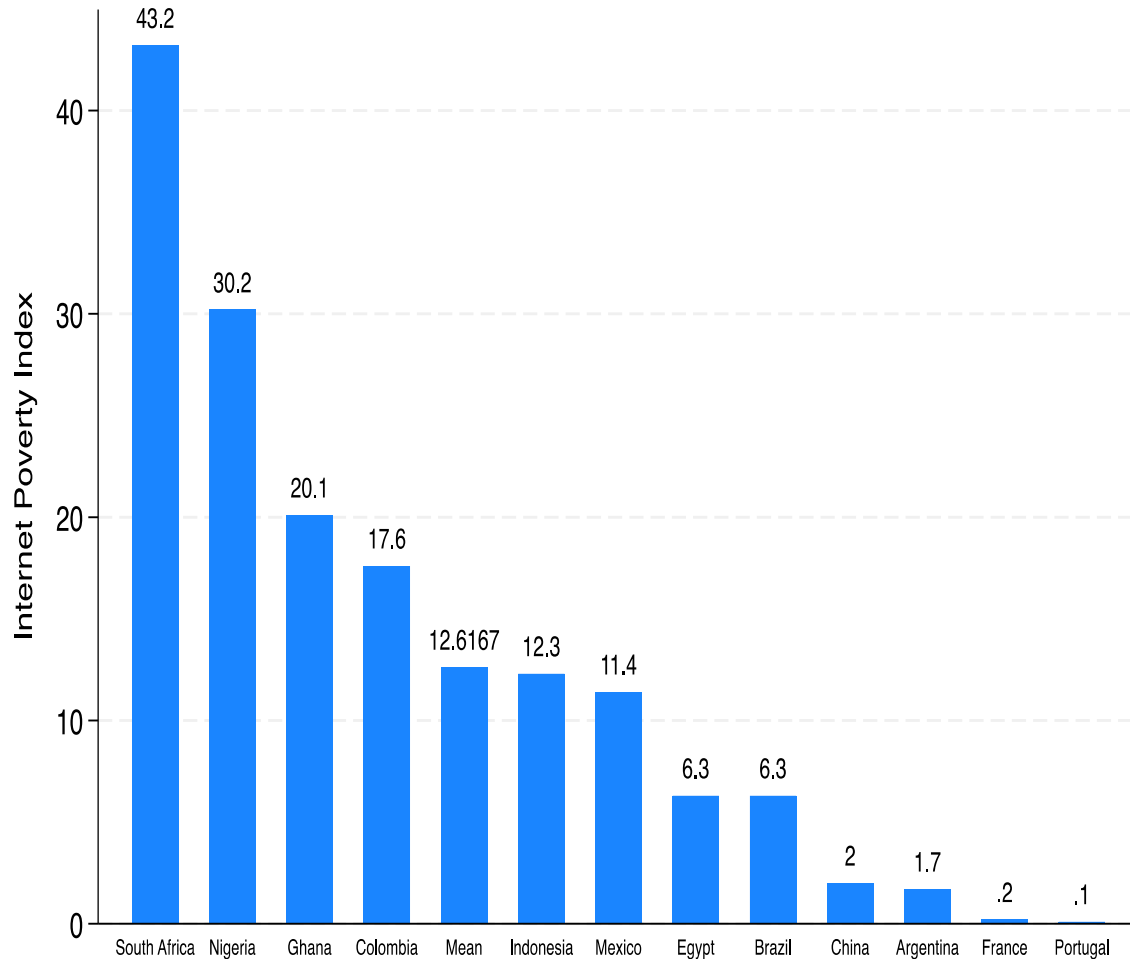
Debt-to-GDP Ratios, Latest Year: By Country



- Comparison with other middle income countries: South Africa's debt levels are significantly elevated.
- South Africa about 20 perc. pts. above mean & median of debt-to-GDP ratios in EM sample.
- Fiscal journey to placing our economy onto a much more manageable debt trajectory is a medium to long-run one.
- Options for economic policy
 - Higher levels of GDP to reduce ratio (& increased revenues)
 - Improved efficiency of spending
 - Capital vs. Consumption expenditure

The Outcomes From Growth: Second-Order Challenges – Two Examples

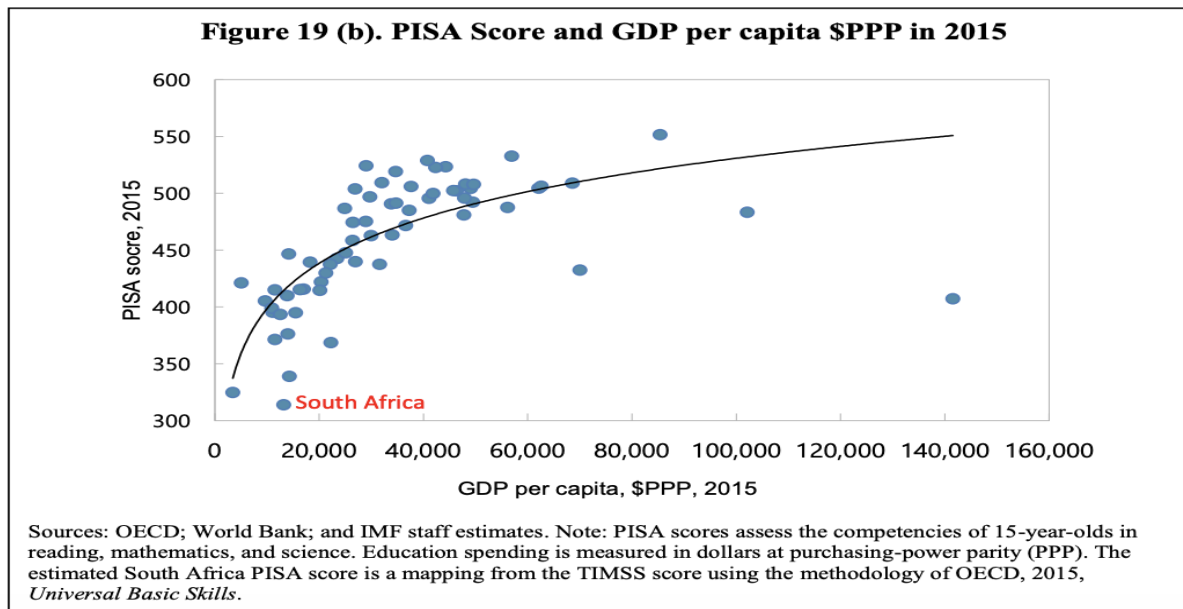
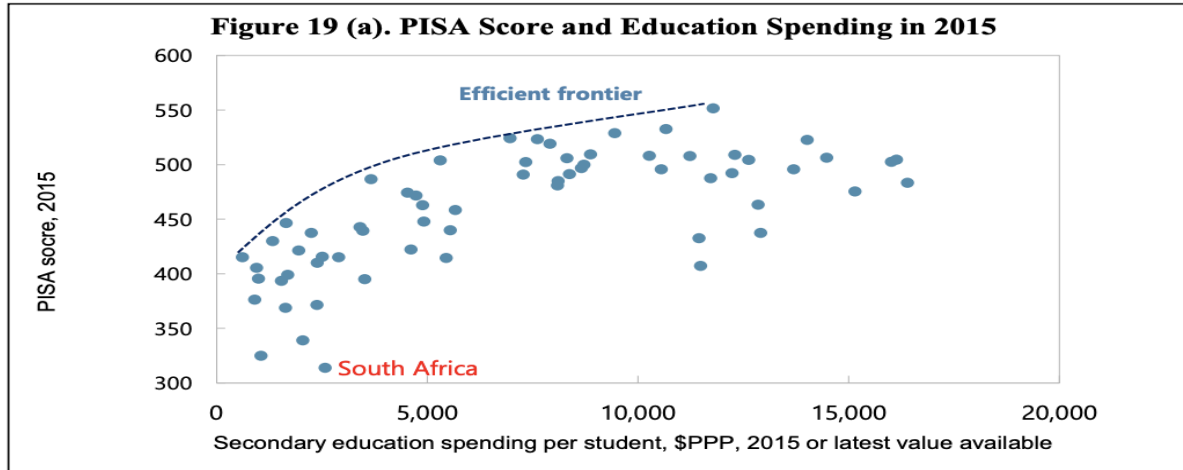
Internet Poverty Index, By Country, 2023



Source: World Data Lab (2024).

- Notion is here that is insufficient to increase for example primary school enrollment only – one needs to ensure increased quality of schooling.
 - Access to cellphones may be high, but price of broadband may mean reduced internet connectivity.
 - Many similar examples of ‘second-order’ policy challenges.
- **Internet Poverty Index** from World Data Lab measured by individual’s ability to afford basket of mobile internet = 1 GB per mth. at min. downl. Speed=10 Mb p.sec.
- South Africa 29th highest internet poverty ranking as 43% of the population are classified as *internet poor* – similar to Gambia, Benin and Mali.
 - Nigeria=30.2%; Ghana=20.1%; Colombia=17.6%

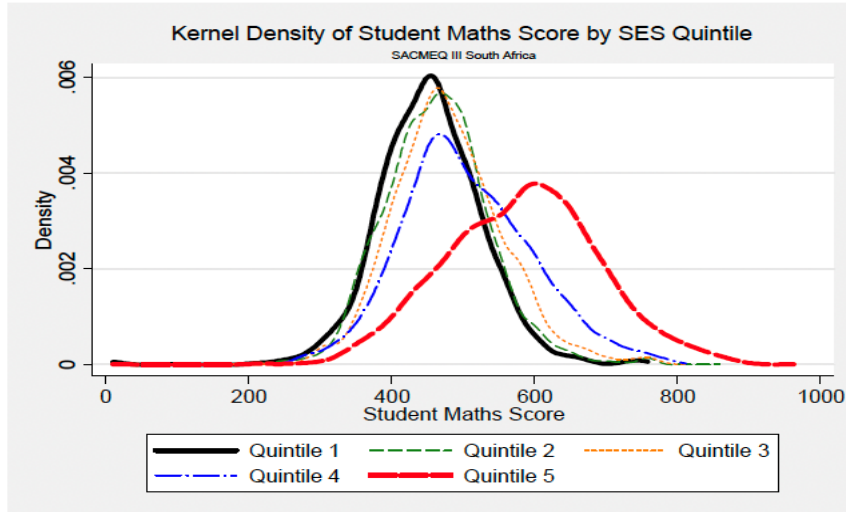
The Outcomes From Growth: Second-Order Challenges – Two Examples



- PISA (Progr. For Intern. Student Assessment) Scores low for SA, but suggests more importantly that return on spending relative to other countries is very low.
- Specifically South Africa scored the lowest average PISA score for countries at similar GDP per capita levels and also similar levels of spending on education-GDP ratios.
- Very low returns to spending relative to comparable economies.
- Spending more on education is not necessary – focus should be on the 2nd order policy – namely to spend better to ensure improved outcomes.

III: Whither the Next Decade: A Few Policy Considerations

Policy Shift I: Harnessing The Past For the Future?



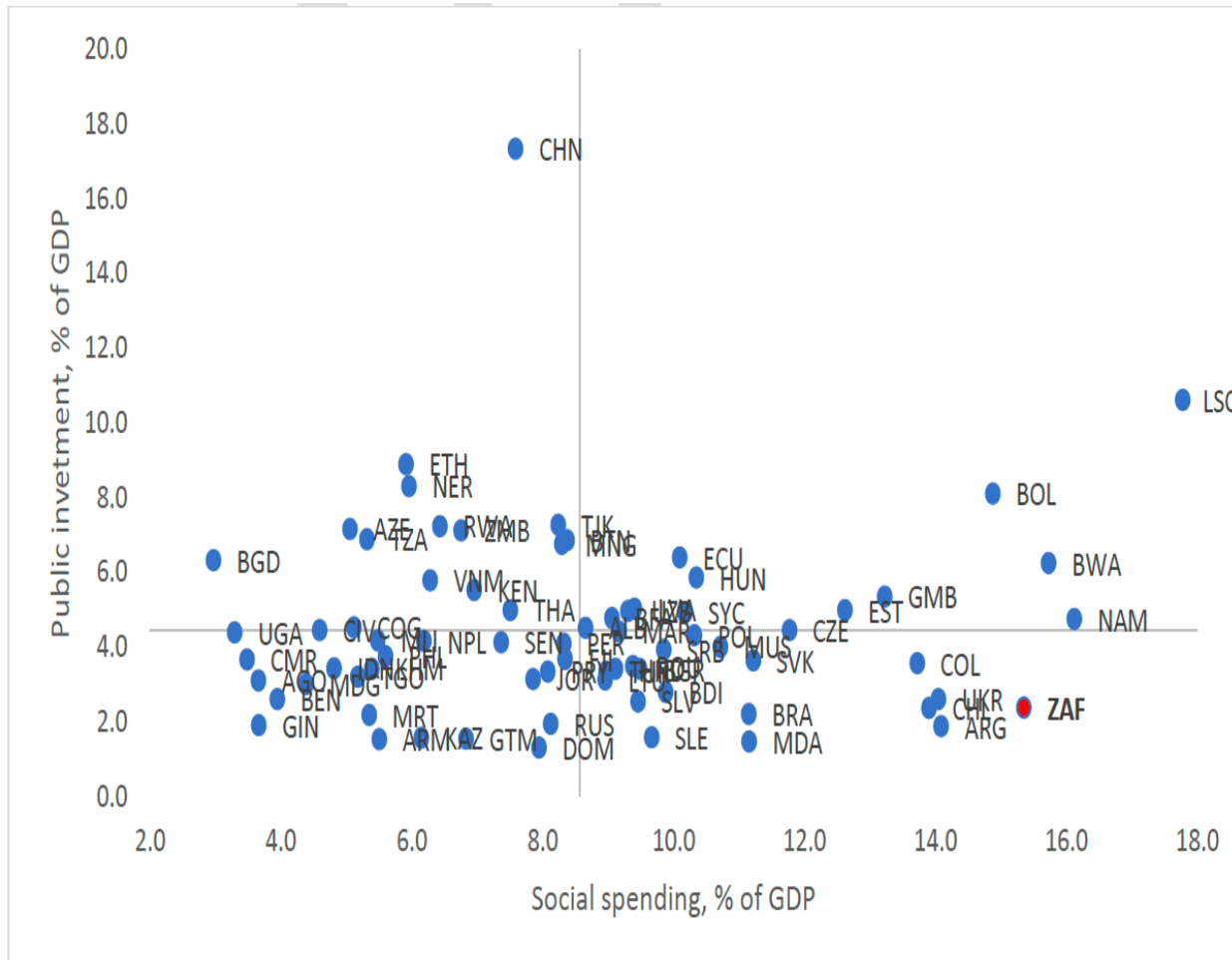
Forbes Top 2000 Global Companies

RANK ^	NAME	COUNTRY	SALES	PROFIT	ASSETS	MARKET VALUE
488	FirstRand	South Africa	10.84 B	2.19 B	125.95 B	19.28 B
503	Standard Bank Group	South Africa	12.18 B	2.18 B	169.49 B	14.68 B
511	Naspers	South Africa	7.57 B	3.76 B	62.16 B	35.64 B
795	Sasol	South Africa	18.78 B	2.35 B	24.8 B	7.95 B
812	Absa Group	South Africa	9.74 B	1.26 B	105.39 B	7.39 B
894	MTN Group	South Africa	12.64 B	1.18 B	23.03 B	11.58 B
1,136	Nedbank	South Africa	7.08 B	878.2 M	73.64 B	5.53 B
1,373	Impala Platinum Holdings	South Africa	7.36 B	1.97 B	9.69 B	8.36 B
1,375	Sanlam	South Africa	5.54 B	766.5 M	58.21 B	6.11 B
1,522	Old Mutual	South Africa	6.91 B	447.3 M	62 B	3.07 B
1,559	Sibanye Stillwater	South Africa	8.45 B	1.12 B	9.79 B	6.85 B
1,663	Gold Fields	South Africa	4.27 B	692.7 M	7.34 B	14.39 B

- Unintended consequence of a highly unequal society is that large pockets of high quality exist in all walks of society:
 - Highly skilled individuals in all areas of technical competence.
 - Innovation in core areas of the economy from financial services to mining & telecommunications.
 - Globally leading companies respected in business environment.
 - Locally leading companies and private sector elites that are globally competitive.
- Overall idea is to harness these centres of skill and competitiveness to assist - in a structured and collaborative manner – the state to increase effectiveness of socio-economic development strategies. For example:
 - Partnerships with skilled retirees who can be brought in for technical assistance on short-term projects and delivery.
 - Carefully managed public-private partnerships which retain state oversight in areas as diverse as education and labour market information services.

Policy Shift II: From Households To Firms

*Public Investment and Social Spending as % of GDP,
By Country, Latest Year*



Source: World Bank and IMF.

- Historical policy emphasis: Support **households** through variety of social assistance instruments, including the OAP, CSG etc.
 - Social assistance key to reducing poverty & inequality, but cannot be viewed as part of sustainable growth and employment strategy.
- Current growth policy: Utilise revenues from tax base to disproportionately spend on social assistance and social services.
 - Very little spending on supply-side measures, capital expenditure and public investment
- *Yet...close to 90% of all jobs created in the developing world, emanate from the private sector.*
 - Means that growth and jobs will be derived from firms.
- The policy moment requires that this distinct shift in all areas of government policy – should be towards *supporting and incentivizing firms to grow and create employment.*
- ‘Supply-Side Economics of a good type’ which attempts to unleash the potential of all types of firms to grow and engender employment.

Policy Shift II

Supply-Side Economics of A Good Type

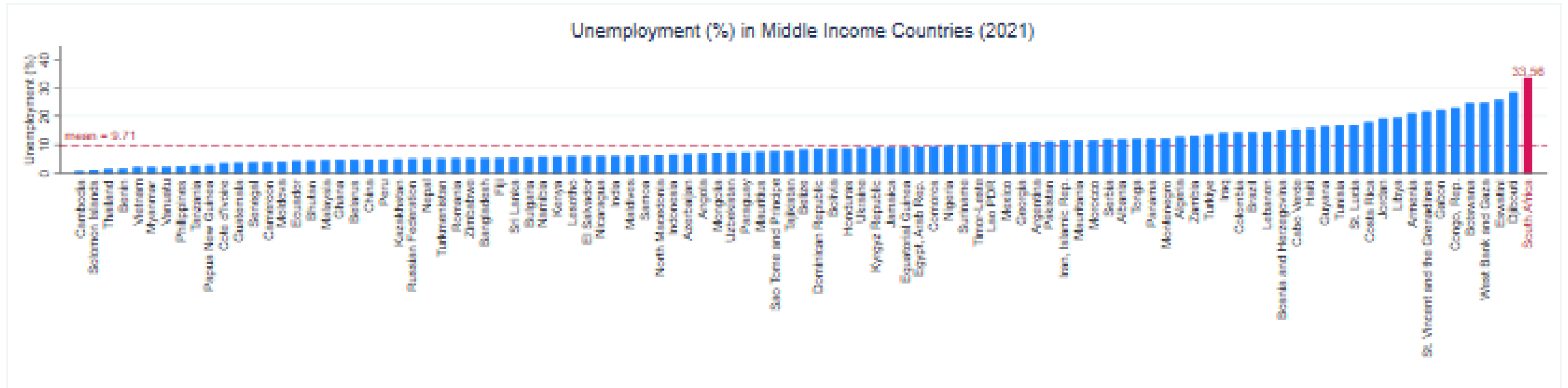
A Firm Support Package Matrix: A Primer

Intervention Area/Firm Size	Own-Account	Micro (1-4)	Small (5-9)	Medium (10-49)	Large (50+)
Regulation-Related Constraints	Zoning	Zoning	Business Licensing; Extension To Non-Parties; Red Tape;	Tax, Customs & Trade Regs; Extension To Non-Parties; Comp. Policy; Tax Exemptions;	Tax, Customs And Trade Regulations; Stronger Bee Legislation Across All Sectors
Infrastructure	Internet; Storage Space To Operate; Transportation And Access To Land; Security	Internet ; Storage Space To Operate; Transportation Access To Land; Security	Internet Access & Cost; Electricity Cost; Improved Security	Internet Access & Cost; Electricity Cost; Improved Security	Regular, Quality Supply Of Energy, Water, Transport Infrastructure.
Supply-Side Incentives	Zero-Rate Hawkers' Licences; Wage Subsidy To Survivalist Firms; Transport subsidy	Zero-Rate Hawkers' Licences; Wage Subsidy To Survivalist Firms; Capital Grants; Transport subsidy	ETI- Increase Wage To SMEs; Subsidized Credit; Tax Exemptions; Capital Grants	ETI – Increase Pc Wage To SMEs; Subsidized Credit; Tax Exemptions; Capital Grants	EPZs; Stronger Legislation; SME-BEE Supply Chains; Target Specific Labour-Intensive Sectors With Incentives
Human Capital	Basic Financial Skills to owners.	Basic Financial Skills to owners & employees.	Intermediate Financial Skills to owners & employees.	Policy alignment between SETAs, DHET, DHA and firms' skills needs.	Policy alignment between SETAs, DHET, DHA and firms' skills needs.
Number Of Firms	1 281 678	482 336	121 561	132 708	19 461
Fiscal Outlays	Zero-Rate Hawkers Licence; Wage Subsidy; Storage Costs	Zero-Rate Hawkers Licence; Wage Subsidy; Storage Costs	ETI; Tax Exemptions; State Subsidised Credit	ETI; EPZs; Tax Exemptions; State Subsidised Credit	EPZs; Labour-Intensive Sector Support

- Support Package to Firms designed in form of matrix: Different blocks of support are organized and provided explicitly according to firm size.
- Reasoning: Clear that on the firm size continuum firms are at different stages of growth, require alternative mixes of policy support and incentivization and furthermore face very different constraints.
 - Think of the one-person survivalist enterprise which is urgently in need of storage facilities versus the formal medium enterprise requiring access of subsidised finance to grow their business.
 - Or the medium formal firm that may be in need of less onerous regulation
 - Or large firms where port and rail infrastructure are critical.
 - Support should be size-based and organized according to three or four broad areas – which in turn are dynamic over time.

Innovation in Policy I : Rethinking the Informal Sector

Figure 2: Unemployment rates, middle-income country sample: 2021

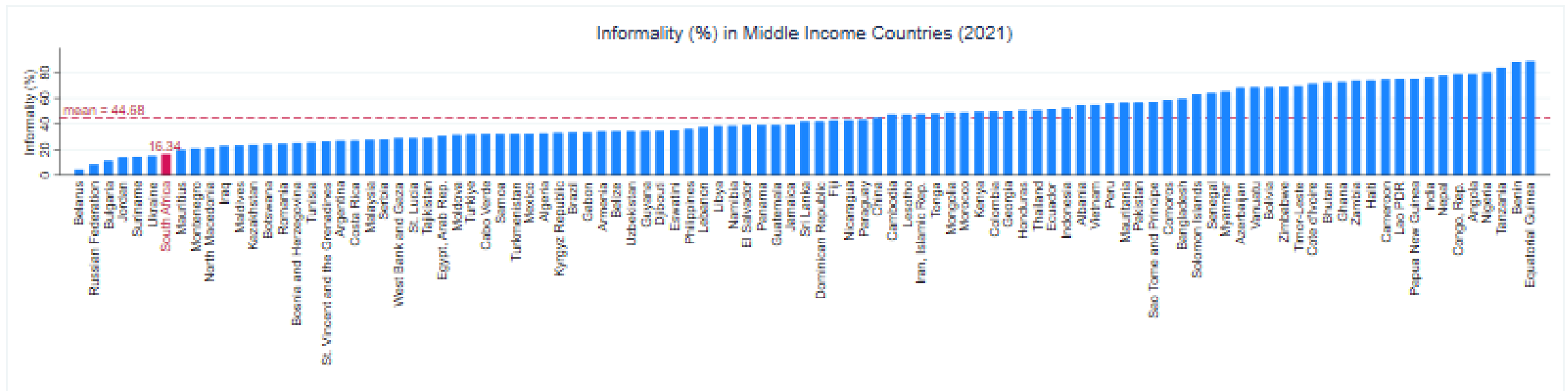


Source: World Bank (2022)

Note: Unemployment based on official ILO definitions

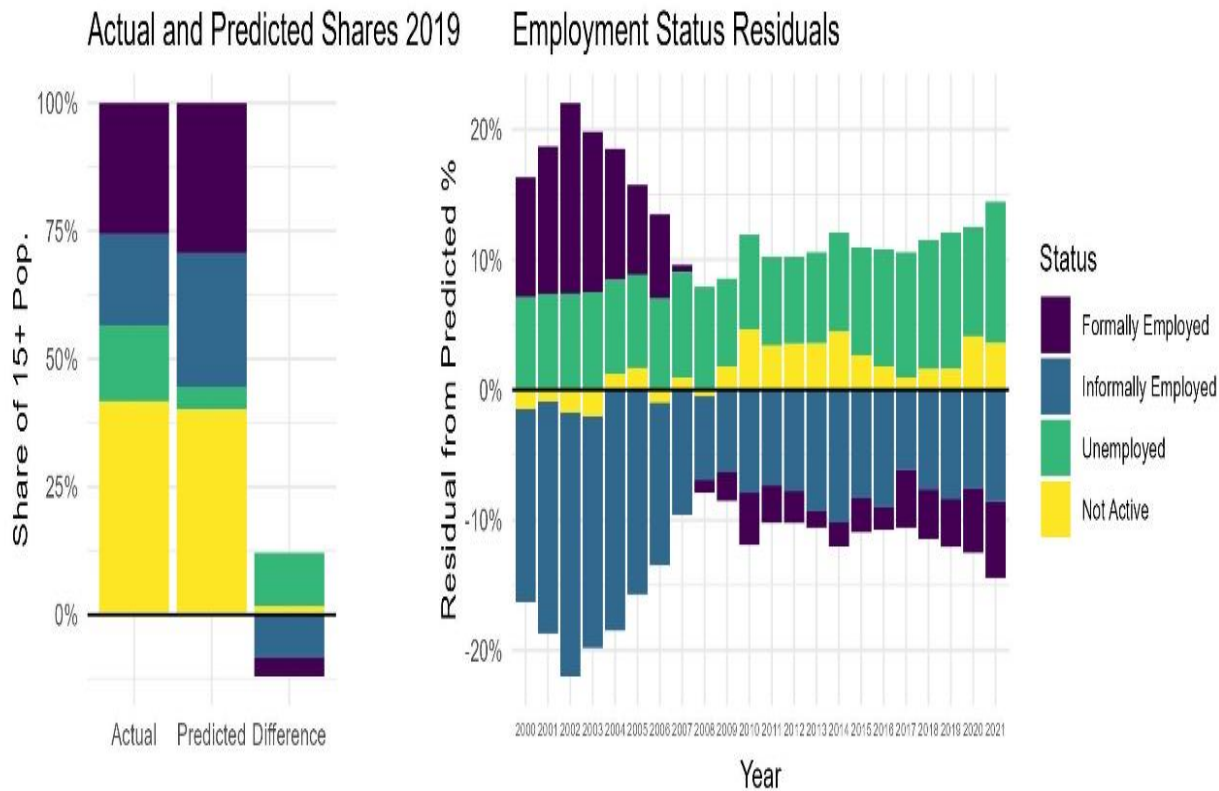
Innovation in Policy I : Rethinking the Informal Sector

Figure I: Percentage share of workers in the informal sector, middle-income country sample: 2021



- Average Middle Income Country **45:45:10** ratio of [wage employed: informally employed: unemployed],
- South Africa: This ratio is **50:16:34**

Actual, Predicted, and Residual Employment Status for South



- Running Regression:

$$E_{it} = \beta_0 + \alpha D_i + \gamma_t + \beta_1 \ln(y_{it}) + \varepsilon_{it} \quad (2)$$

- Where: E_{it} is the rate of formal, informal, unemployed, or inactive as a share of LF; αD_i country specific fixed effect; γ_t is year fixed effect; y_{it} is GDP per capita in 2017 PPP dollars; ε_{it} is error term clustered at country level; β_0 and β_1 are parameters.
- Estimate predicted values of South Africa's formal, informal, unemployed, and inactive adult populations given level of income. And measure residual value of how far off South Africa's actual values for these metrics are relative to the prediction.
- For 2019: Almost entire difference between South Africa and its predicted values arises from having more unemployment and less informality.
- If South Africa had informality rates closer to that predicted by its level of income: Implied unemployment rate for 2019 change from actual of 26% to instead about 7% of the labour force.
- With a higher informal workforce, South Africa would look much more "normal" in terms of unemployment from a global perspective.

Licence Fees for Informal Traders, City Of Cape Town

Activity	Mean (R)	Share of SRD	Median (R)	Share of SRD
Sell non-foodstuffs from bay	272.32	0.78	209.3	0.60
Sell meals from bay	935.32	2.67	872.3	2.49
Hawk* non-foodstuffs	107.2	0.31	107.2	0.31
Hawk meals	745.2	2.13	745.2	2.13
Total	515.01	1.47	477.25	1.36

- Constraints facing the informal sector in South Africa include:
 - Regulatory Over-Reach in the Businesses Amendment Act 186 of 1993
 - Licensing Fees and Conditions
 - Lack Of Infrastructure
 - Spatial Dislocation
 - Incidence of Crime
- Most of these obstacles do **not** exist in the average developing country.

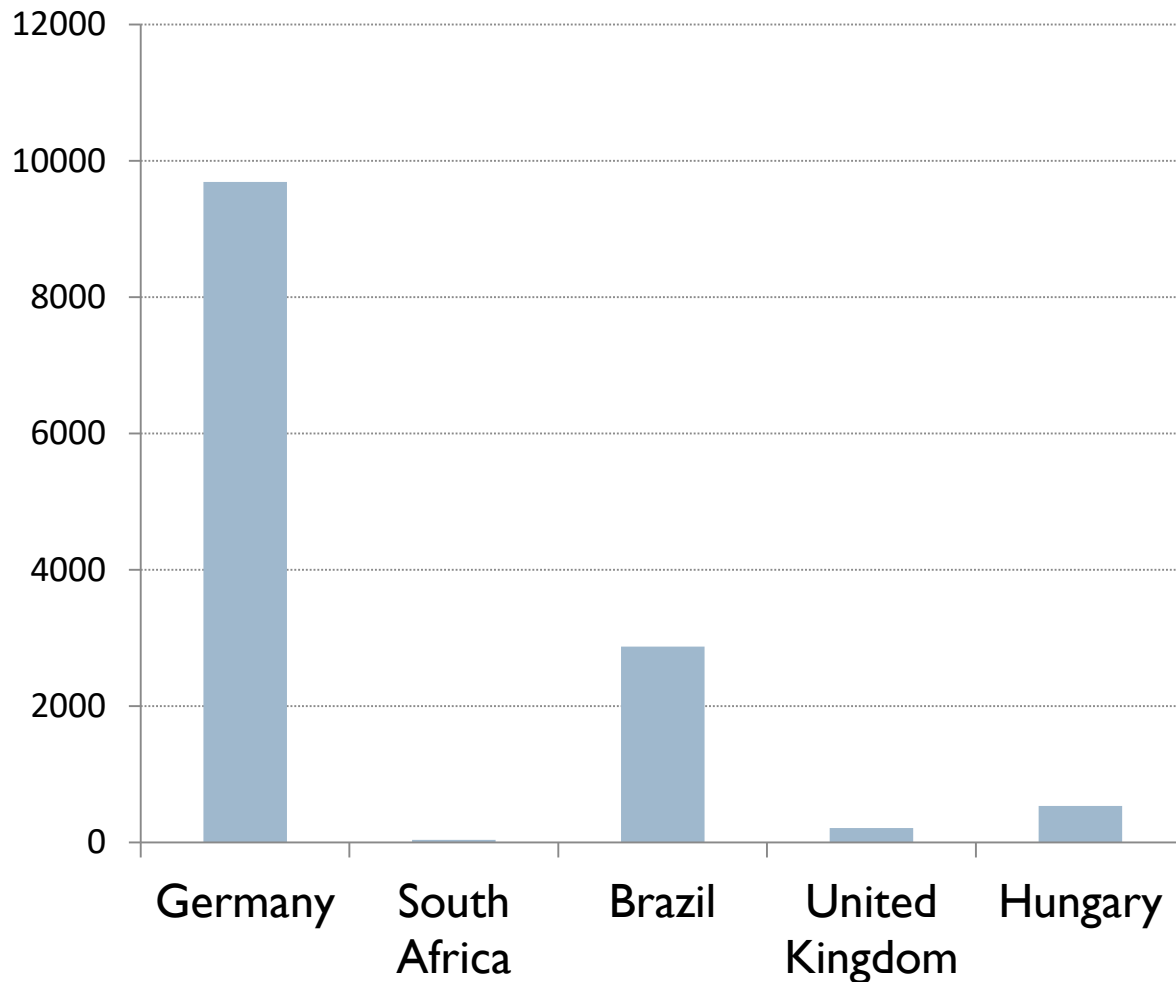
Innovation in Policy II: A TERS Pivot?

Impact of the TERS on Employment Retention, 2020:Q1-2020:Q2

	DV: Probability of Employment Retention		
	(1)	(2)	(3)
TERS	0.000*** (0.000)	-0.010*** (0.003)	-0.061*** (0.010)
Post	-0.321*** (0.021)	-0.322*** (0.021)	-0.275*** (0.021)
TERS x Post	0.175*** (0.022)	0.178*** (0.022)	0.155*** (0.022)
Controls:			
Demographic	N	Y	Y
Labour market	N	N	Y
PS	N	N	N
Individual FE	N	N	N
Constant	1.000*** (0.000)	0.720*** (0.075)	0.849*** (0.075)

- Evidence of a **statistically significant and positive effect of the TERS policy on job retention in the short-term.**
- Suggests: **TERS policy successful in primary aim of mitigating job losses in the short-term.**
- **33% of TERS recipients would have lost their jobs had they not received the subsidy** during April and May 2020.
 - Translation: **TERS saved 2.7 million jobs during the period.**
- Average job saved cost = R13 200 per month, whilst median wage of eligible workers = R5 315.
- **TERS Pivot:** Supply-side intervention for jobs and firms at risk. Can the TERS be used in a more reduced-form manner to assist sectors and firms in need?

Public Employment Services Funding per Unemployed Individual, By Country



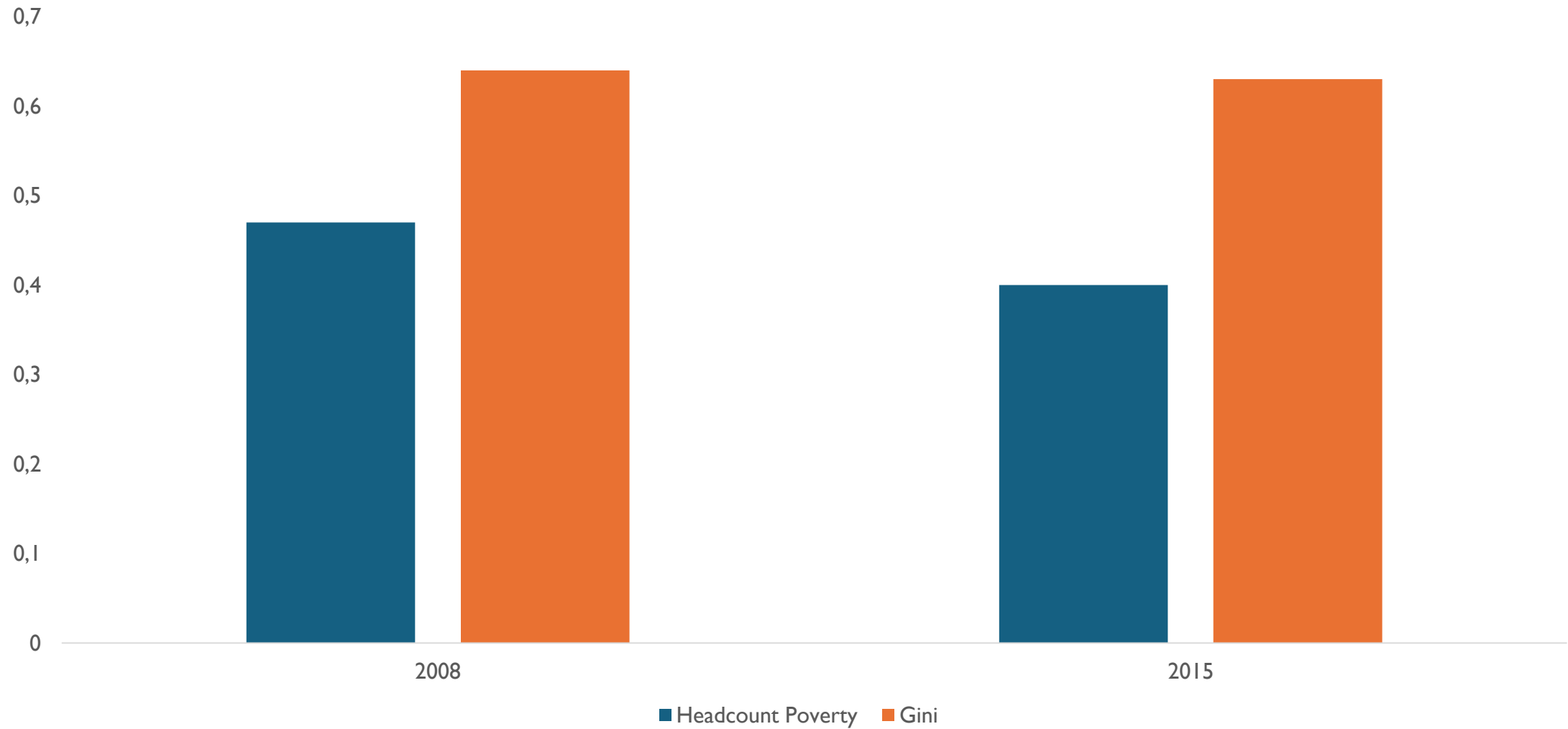
- Under-emphasis on directing incentives and other support to the Unemployed:
 - Germany spends just over €9500 per unemployed individual on PES. Brazil - 2900 pesos. UK - £212 per unemployed worker.
 - Figure for South Africa - R37.39.
 - South Africa spends in relative terms 76 times less on public employment services, than its middle-income country counterpart – Brazil.
- Is there a bias away from active labour market policies designed to narrow gap between labour supply and demand?
- Very little comparative emphasis on encouraging labour market search, engagement with firms on placements etc.

Conclusions

- Clear that South Africa is at an economic growth crossroads: Brought on by a perfect storm of long-run and short-run factors.
 - Result is an economy not growing fast enough, but requiring significant revenue base to meet the needs of comprehensive social assistance and services system.
 - And an economy beset with insufficient employment generation, high debt levels & servicing costs and longer run challenge of premature deindustrialization.
 - All overlaid with the 2nd order challenges which have gone unchecked for too long.
- Key need to enhance economic growth to meet socio-economic objectives in order to win the battle against poverty and inequality.
- This requires a change from the past, a creative destruction of sorts. Arguably this involves a new framework that:
 - Harnesses the Past to Navigate the Future through involving the private sector
 - Shift the Policy Lens from Households to Firms as the core unit of focus.
- Innovation in policy which reflects this shift can be found in for example the informal sector, TERS scheme and support for the unemployed

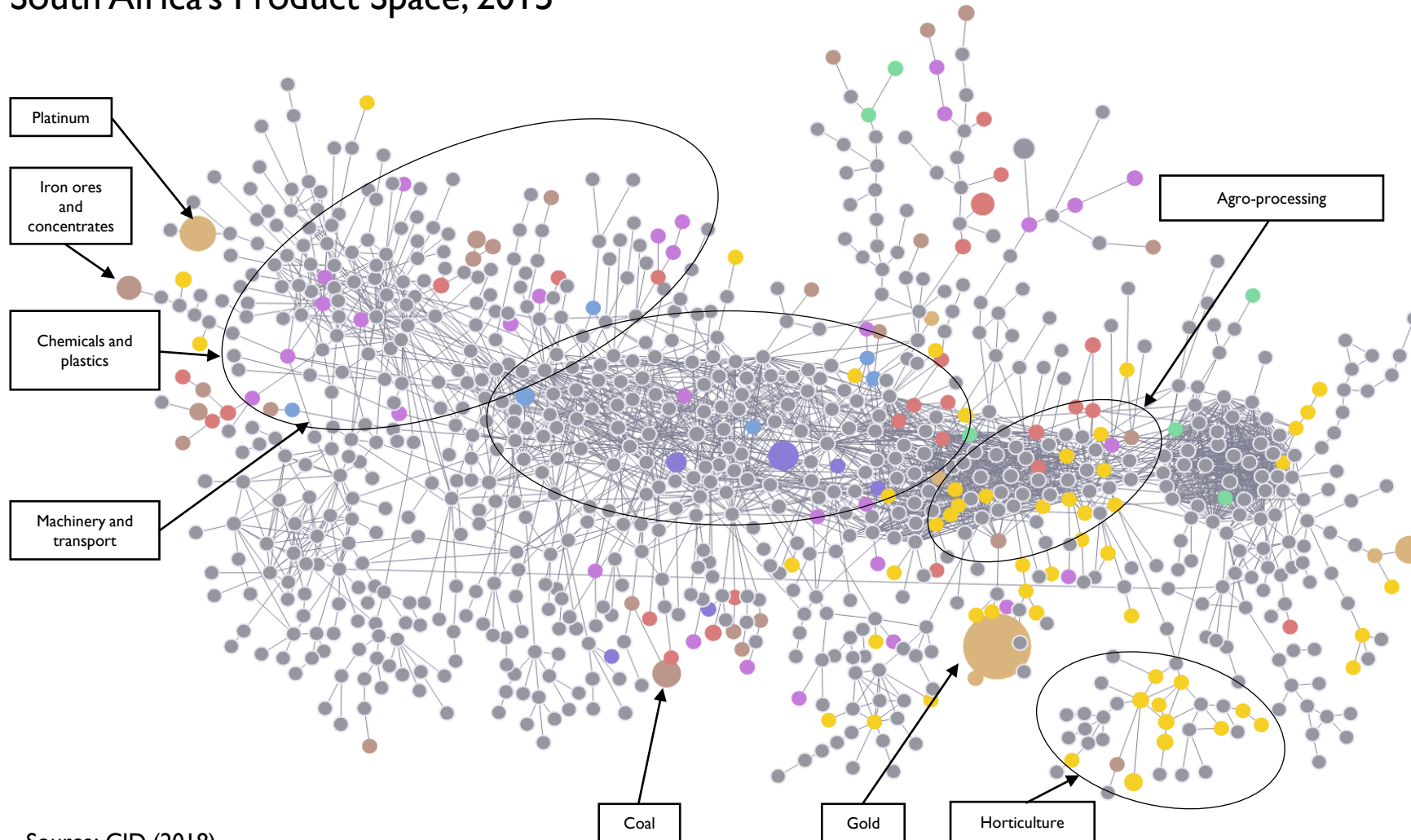
DATA APPENDIX

Incidence of Poverty and Gini Coefficient, South Africa: 2008 & 2015



South Africa Has Deindustrialised

South Africa's Product Space, 2015



Source: CID (2018)

Notes: Product groupings or clusters are represented by the following colours: Textiles & Furniture (light green); Vegetables, Foodstuffs & Wood (yellow); Stone & Glass (light brown); Minerals (dark brown); Metals (red); Chemicals & Plastics (light purple); Transport Vehicles (dark purple); Machinery (blue); Electronics (turquoise); Other (dark blue).

- Mining was 15.5% of GDP in 1994, now only 8.1%.
- Agriculture down by 28%.
- Manuf. has declined by 13%.

Historical and Future Bond Redemptions

