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REPUBLIC OF SOUTH AFRICA

The New Growth Path

13 September 2011



The challenge

Economic growth since 1994 has equalled the average for middle-income countries

Emissions intensity is very high, mostly due smelting and refining of mining products

Employment and private investment dropped sharply in the downturn and have not recovered

BUT

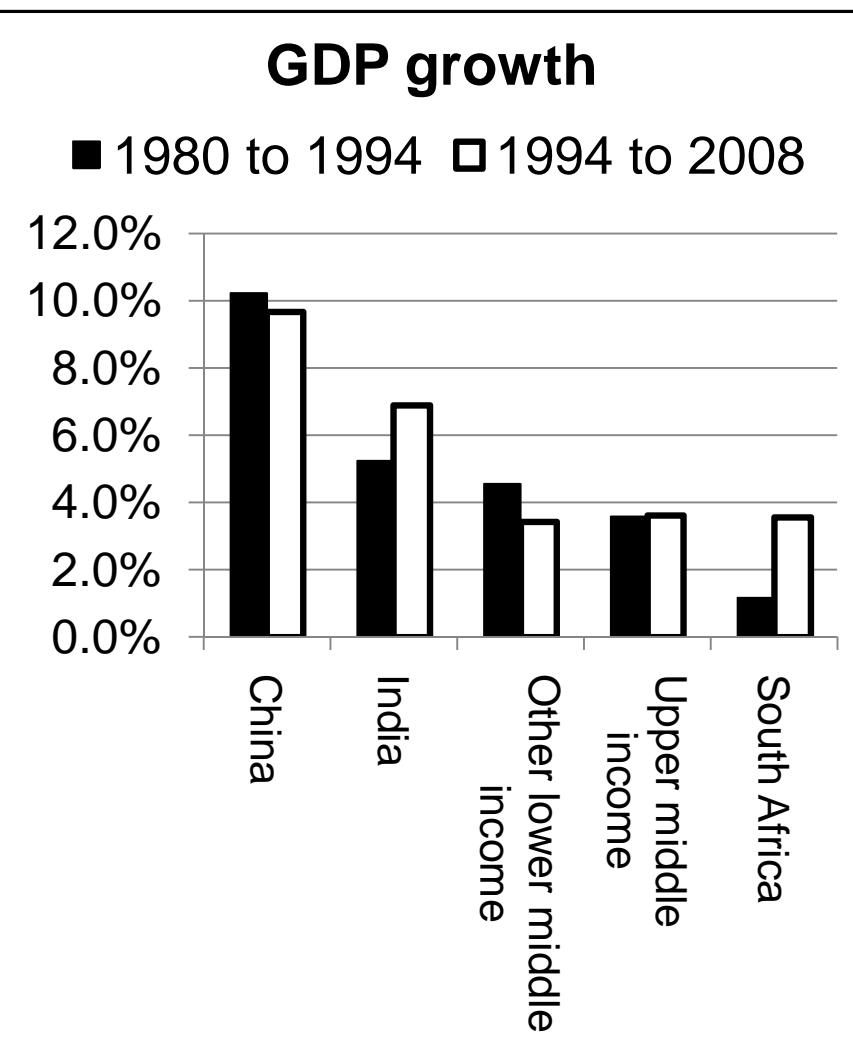
- SA remains one of the most inequitable countries in the world
- Unemployment is far higher than the norm
- Apartheid left deep inequalities in asset ownership and access to education

The problem is not slow growth...



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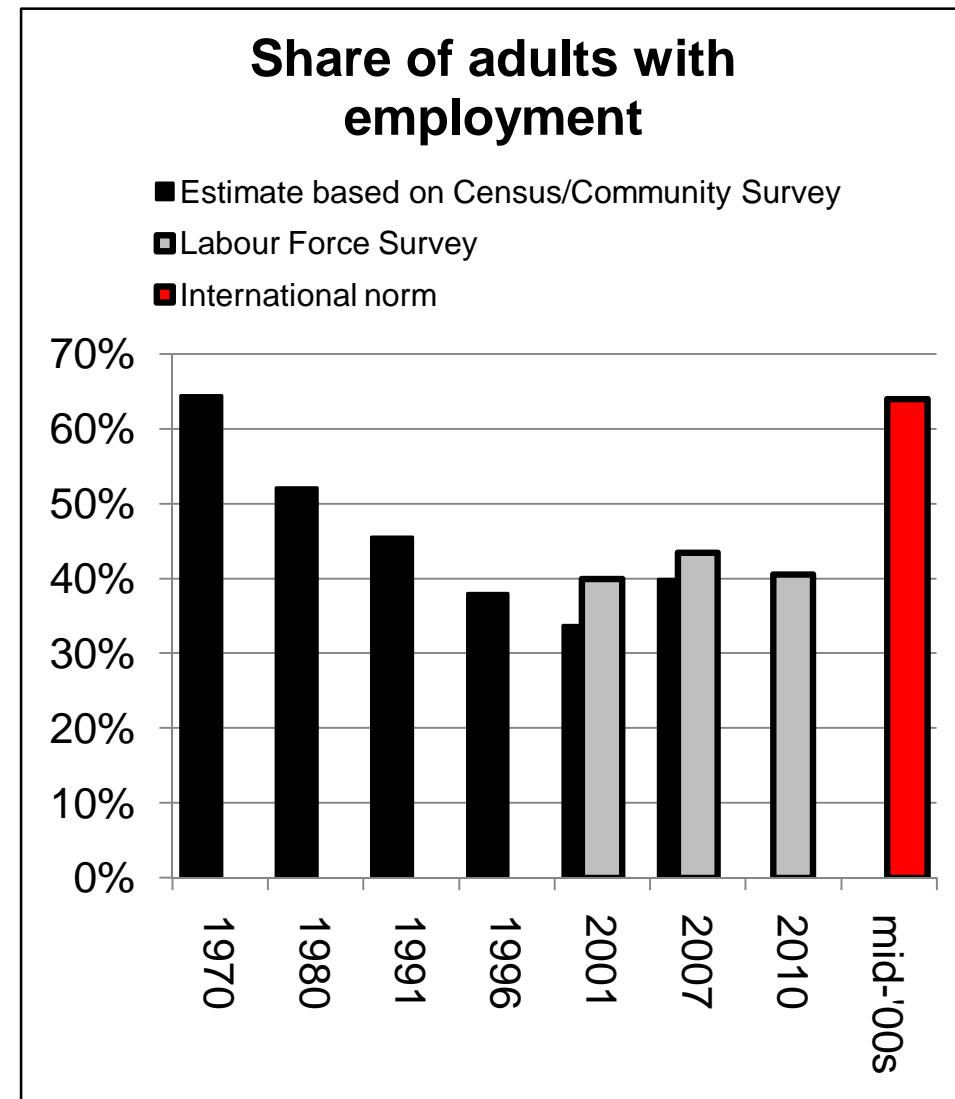


- GDP growth from the late 1970s until 1994 was well below the norm for middle-income economies
- From 1994 to 2008 it was just at the norm and faster than for instance Brazil



... But structural unemployment

- The share of working-age people with employment fell from the late 1970s to a low of under 40% in the mid-1990s
- Some improvement since then, but
 - Largely reversed with 2008 downturn
 - Even at high point in 2007, the employment ratio lagged far behind the international norm of over 60%





Low wages and inequality

- South Africa ranks amongst the most unequal countries in the world
- The richest 10% of households gets over 40% of household income – the poorest 20% gets under 2%
- At the end of 2010, the median monthly income for employees overall was R2800
- It was R1000 for domestic workers (20% of employed African women) and R1200 in agriculture
- Low pay and unemployment still align with race, gender and location

Why?

- Apartheid entrenched systems that marginalise the majority especially given a mining-based economy
- These systems have reproduced despite democracy:
 - Highly inequitable access to assets, including land, and to education and skills development
 - Apartheid residential patterns leave many working people far from employment centres both nationally and within towns

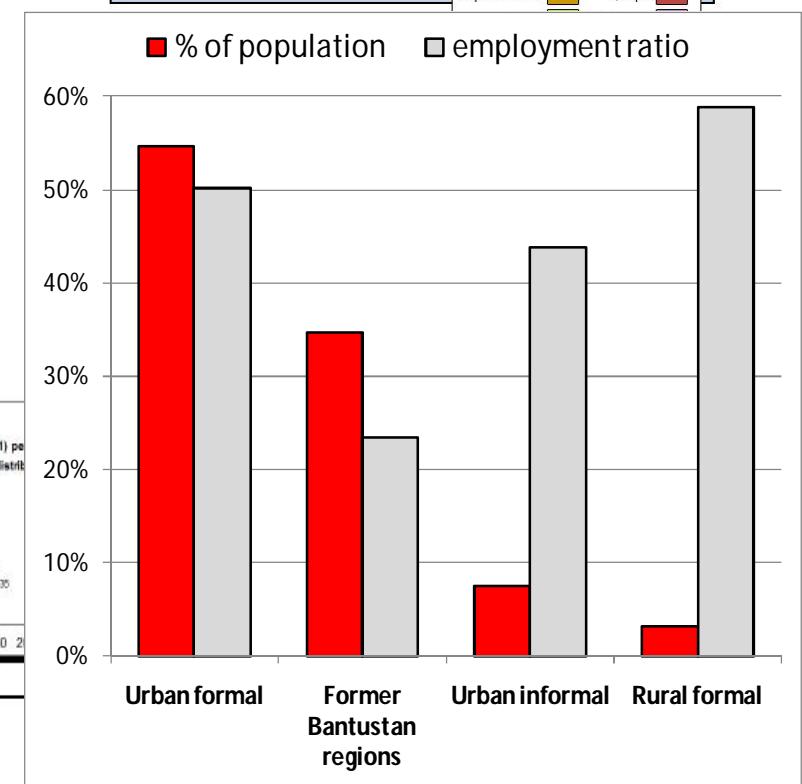
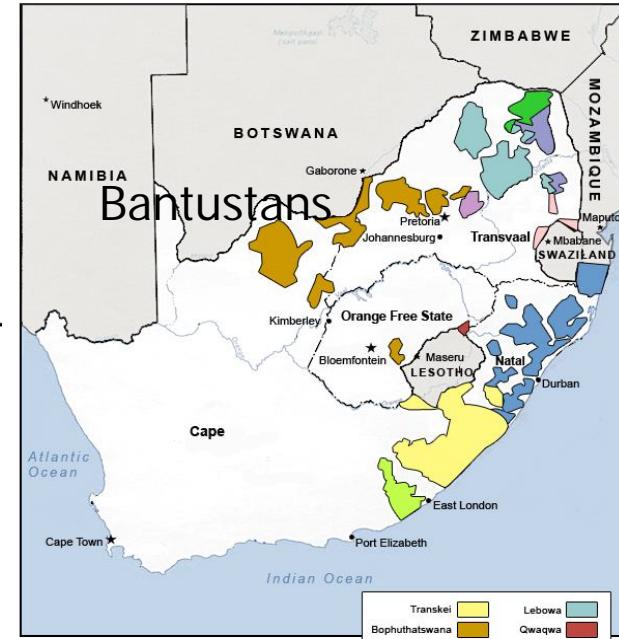
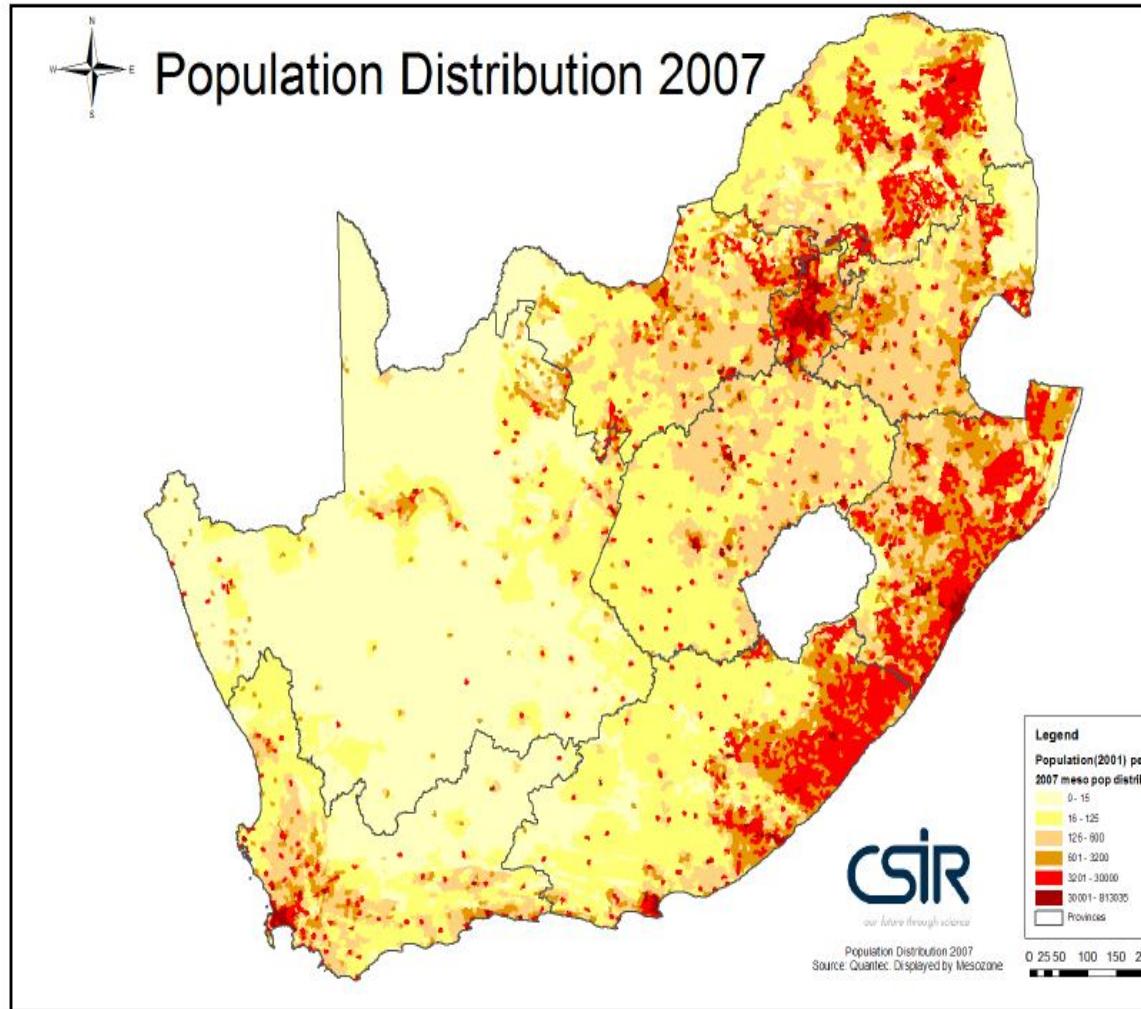


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- Production structures are not friendly to employment creation
 - Mining and agriculture have been shedding jobs for 30 years, yet mining still accounts for over half of total exports
 - The fastest growing sector has been finance, which does not generate much employment
 - Most new jobs in the '00s in services for households – retail, construction and business services
- Need to revitalise core productive sectors

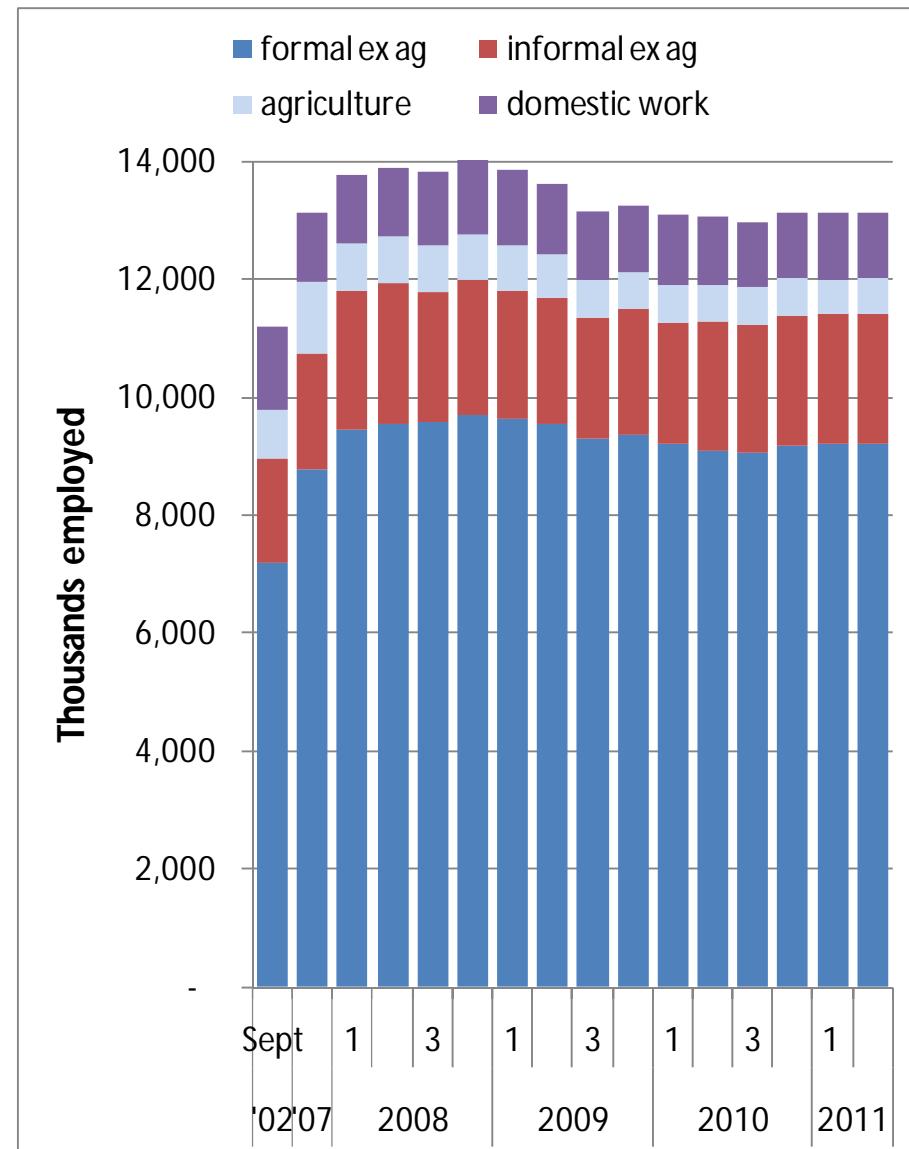
Settlement patterns





The downturn

- The downturn from late 2008 wiped out over a million jobs, returning joblessness to levels of early '00s
- Employment creation returned only at the start of 2011 – after around two years of economic growth
- Young adults comprise a third of employed people but accounted for 60% of job losses





The New Growth Path

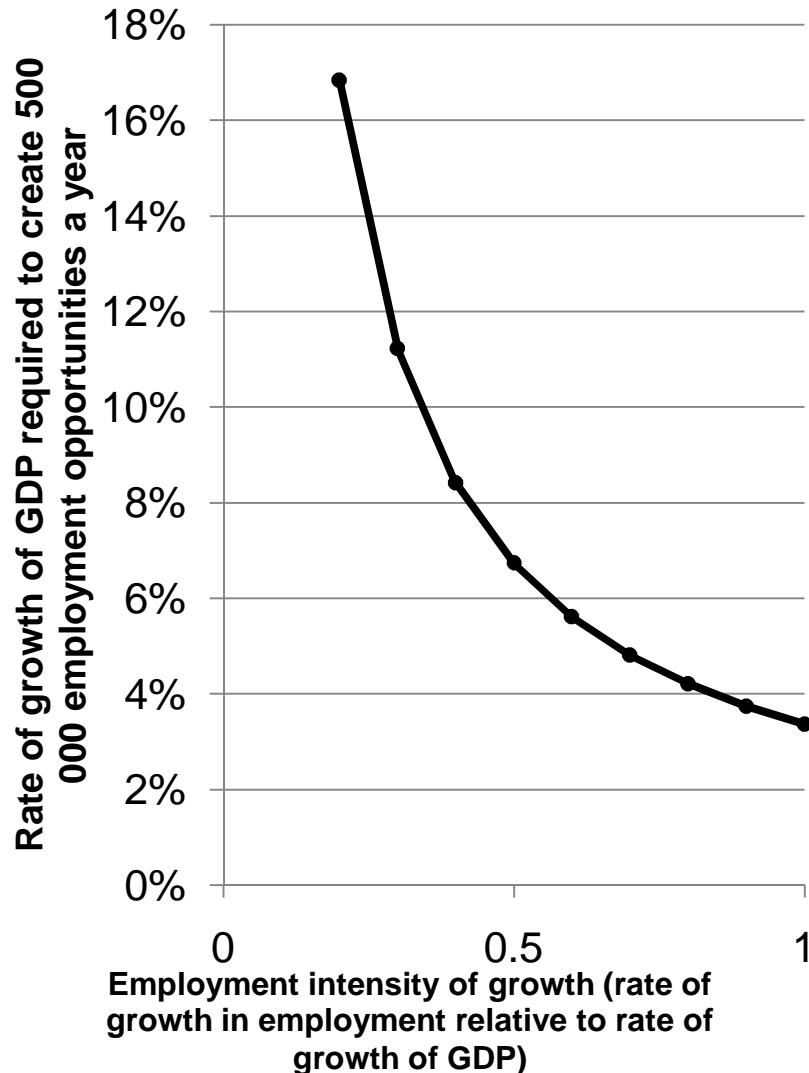
- Target: Create five million new jobs over the next ten years
- Fine-tune macro and micro policies to support more equitable and employment-intensive growth through:
 - Measures to make the economy as a whole more competitive, including the value of the currency, infrastructure, skills, and intermediate and wage goods
 - Systematically encouraging more labour-intensive and green activities with a greater focus on domestic and regional markets
 - Support broad-based ownership and more equitable education and skills as basis for long-term equity
 - Social dialogue and solidarity as central to change
- Monitor impact of state actions of all kinds on employment as basis for improvement

Increasing employment intensity is central



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- To achieve jobs target requires growth **AND** greater employment intensity of growth (the increase in employment relative to growth in the GDP)
- Employment intensity of 0,2% would require a growth rate of over 15%; employment intensity of 0,8 would require a growth rate of 4%
- The reality is that very few middle-income economies have grown faster than 5% a year for long periods – China and India are exceptions
- South Africa saw very employment-intensive growth in the '00s – challenge is to make return to jobs growth while improving security

Jobs drivers

Infrastructure

Energy, transport,
communications,
water,
housing.

Main economic sectors:

Agriculture &
agroprocessing
Mining and beneficiation
Manufacturing (IPAP2)
Tourism/other services

**Look for employment opportunities in
“jobs drivers” and implement policies
to take advantage of them**

New economies:

Green economy
Knowledge
economy

Social capital:

The social economy
The public sector

Spatial opportunities:

Rural
development
African regional
development



Innovations around “jobs drivers” include...

- Sustained high public investment in infrastructure with stronger local procurement
- Ambitious targets for smallholders in agriculture linked to restructured land reform, comprehensive rural development and expanded agro-processing
- Mining to incentivise output growth plus beneficiation at stage 4, not smelting and refining – focus on priority sectors starting with steel
- The green economy – from recycling to installation of solar water heaters to manufacture of inputs for renewable energy – as a major new opportunity for growth
- African regional development centred on driving improved infrastructure and economic value-chains



Micro-economic policy – priorities for 2011/12

- Maintain public investment at around 9% of GDP, backed by commission in the Presidency
- Accelerate jobs schemes, especially the Community Work Programme and Jobs Fund, as best way to expand employment in the very short run
- Taskteam to identify and address unnecessary blockages to private projects, such as regulatory hindrances and difficulties in getting infrastructure
- More vigorous strategy to moderate prices for key industrial and agricultural inputs and wage goods – steel, fertilisers and electricity; healthcare; food; logistics and commuter transport
- New regulations for local procurement and enforcement of 30 days' payment by all state agencies
- Reform of Broad-Based BEE to increase incentives for supporting SMEs, skills development, local procurement and employment creation
- Mobilise and target investment in African regional infrastructure, building on DFI and SOE investments

A new way to work in government



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- An agile, responsive, learning state
- Align around core priorities across the state
- Close work with stakeholders to ensure policies respect realities and enjoy broad support

The New Growth Path:

- Prioritise employment-creating growth
- As the basis for alignment, consistently assess the impact of state policies, programmes and projects on
 - Employment
 - Equity
 - Economic growth
 - Emissions
- Facilitate social dialogue through improvements in structures and procedures
- Improve engagement between spheres with agreement on spatial perspective
- Consistent contingency planning to identify and manage local and global risks

Social dialogue and the NGP



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- Messy, time-consuming – but crucial
- Given deep economic and social inequalities, risk that the society will simply exhaust itself on policy polarisation, while the developmental crisis grows
- Deepen dialogue at sector and workplace levels
- Strengthen institutions for social dialogue at all levels, with NEDLAC at apex

- Meetings under NEDLAC
 - High-level representatives of all constituencies
 - Agreement to start with “low-hanging fruit”
 - Agreements on skills and HRD; local procurement and enterprise development amongst others
- Also supported Presidential Business and Labour Summits

Implications of the NGP for the labour market



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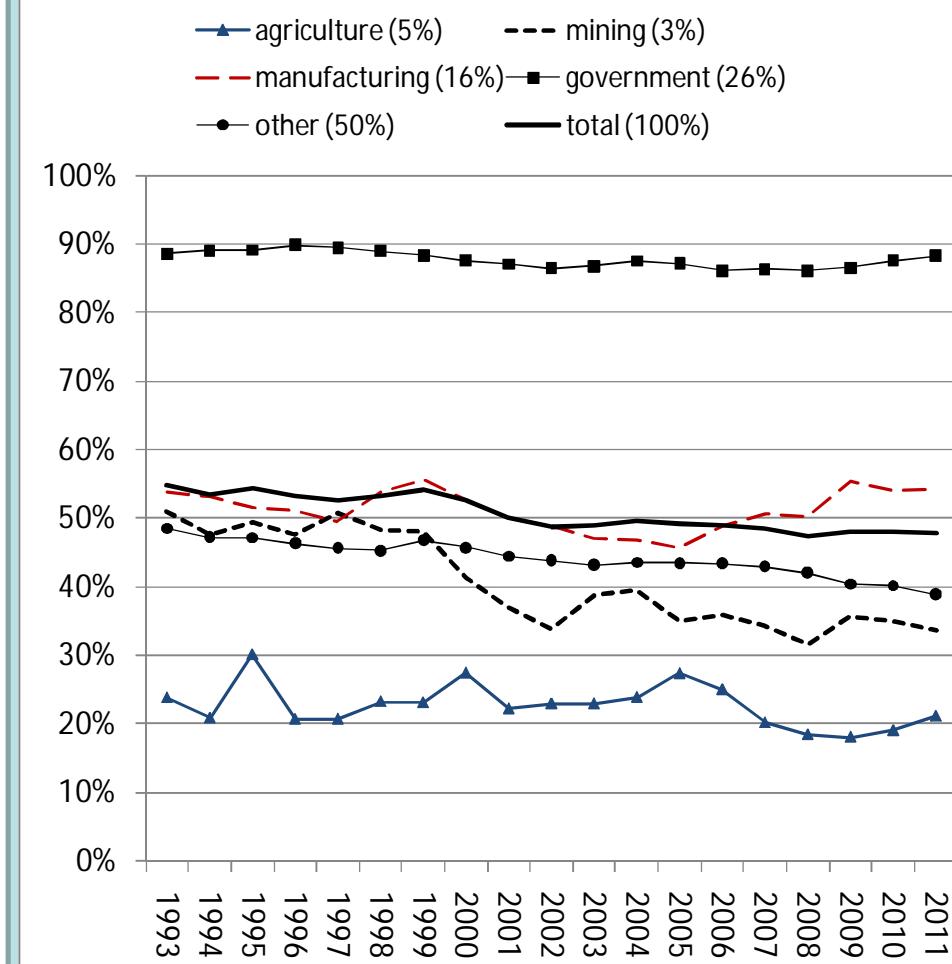
- Improving the quality of employment for the majority requires strong laws, support for workers' voice, skills development and higher employment levels
- Specific proposals on labour-market regulation include:
 - Greater protection for workers on short-term contracts or in outsourced positions
 - Limiting the access to easier dispute-settlement procedures for very senior managers, who can afford legal support to abuse the system
 - Support for sectoral and workplace-based productivity accords that ensure both growth and a fair share in benefits
 - Support for farmworker organisation



Are wages too high?

- International benchmarking is difficult given exchange-rate problems and unusually large inequalities linked to race, sector and skills
- The total share of remuneration in the GDP declined until the late '00s, but has stabilised since then
- Manufacturing and government have seen a rise in the share of labour in value added, but mining has seen a sharp fall
- NGP proposes moderation at top but improvements for worst off

Remuneration as % of value added, second quarter (figures in brackets = share of sector in total employment)





Youth unemployment

- In most countries, youth unemployment is around twice the average unemployment rate
- In South Africa, the unemployment rate for youth under 30 is 42%, compared to 17% for older workers
- Cannot solve youth joblessness without growing overall employment levels – otherwise end up with displacement and divisions

Developing a multi-pronged strategy centred on:

- Substantial upscaling of the Community Work Programme (CWP)
- Targets for youth in the expansion in employment targeted by the New Growth Path
- Driving rural development, since youth are disproportionately located in the former Bantustans
- Improving education, training and healthcare especially in poor communities
- Expansion in internships and apprenticeships under the Skills Accord – targeting 3% of public service

HRD and the New Growth Path



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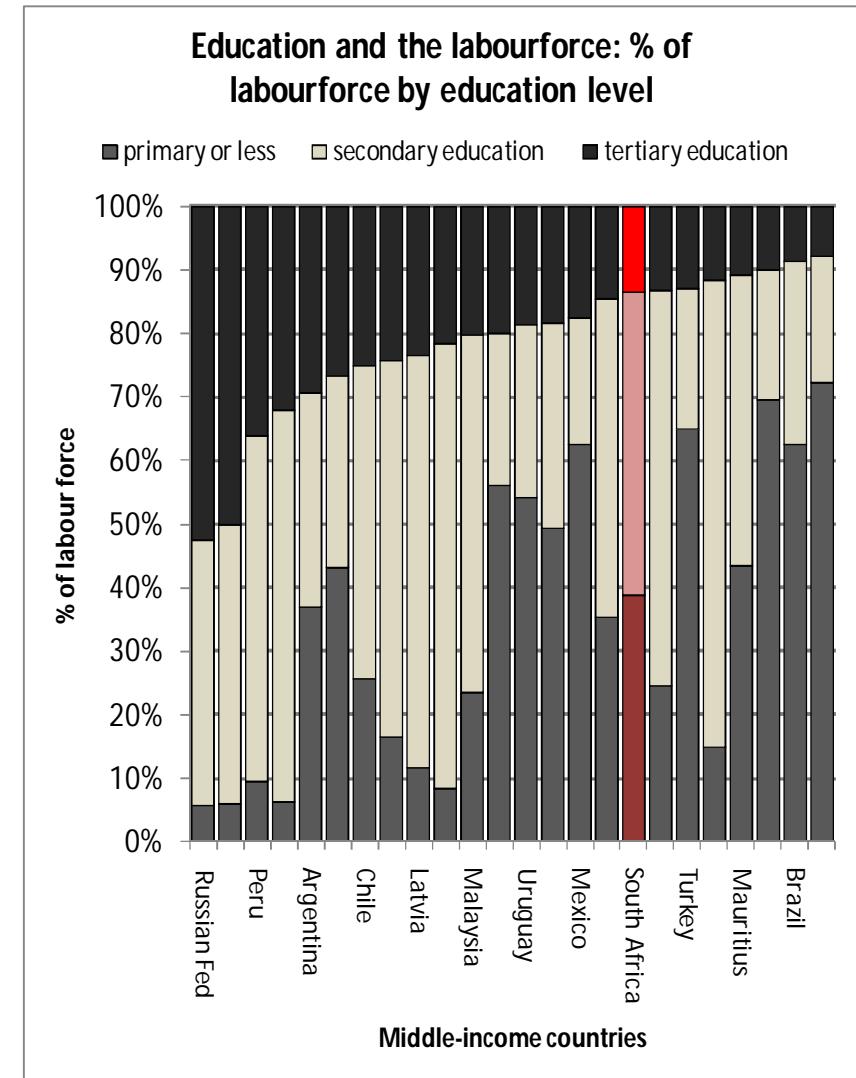
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- Education and skills are necessary but not sufficient to increase employment levels
 - 33% of adults with less than matric are employed
 - 48% of adults with matric
 - 79% of adults with post-matric
- Inequalities in skills mean inequitable economic outcomes – shortages at top lead to higher incomes while lack of jobs for lower skilled depress pay for ordinary workers



Education and skills development

- South Africans have more or less the same number of years of schooling as workers in other middle-income countries
- But we lag behind due to
 - Deep inequalities which lead to unacceptable quality in most black communities, especially around maths and science and especially in the rural areas and informal settlements
 - The share of the labour force with tertiary education – and universities are still highly unrepresentative
 - Weak vocational training systems that lead to a shortage of artisans in particular





Skills bottlenecks

- Artisans, tertiary, project management, design
- Targets:
 - 30 000 engineers and 50 000 artisans by 2014/5
 - Increase intake of FET to a million by 2014 – but need to deal with severe throughput problems
 - Computer skills in all secondary schools, ABET and for public servants
- Although initial targets agreed with DHET, findings on throughput problems in FET mean they need to be reviewed carefully



Overcoming inequality

- HRD and inequality
 - Inequitable education systems based on race and location are central to an inequality of opportunity
 - In late 1990s, government established systems to ensure skills development supports social mobility, but not implemented strongly (SETAs, SAQA)
- Proposals:
 - Target 1,2 million workers to receive certified workplace skills development a year from 2013
 - Target 10% of workers in sector every year
 - Improve SETA governance, accountability and administrative systems with focus on identifying sector skill needs
 - Review FET, HET and apprenticeships to ensure greater access for learners from disadvantaged schools



The skills accord

- SETAs to refocus on supporting the jobs vision in the New Growth Path
- Employers to train more than their own companies need – and labour to recognise the special status of trainees
- Employers to increase training spend to between 3% and 5% of payroll
- Business and government to make internship places available to students from FET colleges, universities of technology and lecturers
- Government to set training targets in every SOE²³



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The NGP is...

**...a comprehensive response to the
structural crises of
poverty, unemployment and inequality...**

...based on solidarity across society



Can we do it?

- There is no silver bullet – have to transform deep-rooted and complex systems
- Fragmentation of the state is a major problem
- A critical first step is clear prioritisation – how to ensure all government programmes support a more inclusive economy especially through employment creation?
- Will require tough decisions, open minds and consistency in all our work



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