INCLUSIVE SOCIETY INSTITUTE

Op-Ed

Back to Basics to Better Economy

Getting fundamentals right will reverse economic woes

By Daryl Swanepoel

Hope for reviving the South African economy roams the halls of National Treasury. In his recent budget speech, Finance Minister Enoch Godongwana, announced they are expecting a budget surplus, where revenue exceeds non-interest payments by 2023/2024. If realised, it will be the first time in 16 years. The last time being in 2007/2008 with Trevor Manuel at the helm. It was a different time.

In 2007, the unemployment rate was hovering around the 22% mark. It's debt-to-GDP ratio stabilized at 27% with government able to buy back some of its debt. On the eve of the 2008 financial crisis, South Africans could still purchase one dollar for just over R7 and load shedding was barely a whisper.

In comparison, 2022's figures look dismal. Unemployment has hit a record high of 34,4% (narrow definition). The country's debt-to-GDP ratio has blown through the roof and is expected to stabilise at 76% over the next three years. The Rand has lost its strength against the major currencies and electricity blackouts has wreaked havoc across the economy.

This is the base from which the economy must be revitalised. It's a momentous task, but not impossible to achieve. Through engagements with different sectors, the Inclusive Society Institute (ISI) attempts to gage what the impediments to economic growth are and how they can be overcome.

Government can start by decluttering the paperwork. Hefty regulations and complicated legislation strangles businesses. To construct a R4-million warehouse in Johannesburg, for example, takes an applicant 20 procedures and 155 days to obtain the required licenses and permits. While in the mining sector, unresolved licensing applications is hampering R30 billion from flowing into the industry. These sectors specifically are large-scale employers and contribute significantly to the fiscus, yet they are hamstrung by red tape. Rolling back excessive regulations will free up time, human resources and funds to be applied more productively elsewhere. This in turn will promote growth.

Policy certainty is another key component that government needs to streamline. Investors have indicated that South Africa's investment climate is uncompetitive as they have no guarantee that laws won't change in the short term. This is particularly concerning in the energy and mining sectors. Furthermore, there is a call for a re-evaluation of the country's transformation policies. While most participants agree that these may have been implemented with good intent, they say the policies have become prohibitive and a breeding ground for corruption.

Once the paperwork is in order, government must clean up its house. Appointing skilled individuals in all spheres in government, especially at local level, should be done urgently. Many municipalities across the country have crumbled due to insufficient and unskilled leadership with weak to non-existent service delivery as a result. A business owner told ISI that his local fire brigade was unable to attend to a fire at his store as they were on strike. When the brigade from the closest town 40km away finally arrived and plugged in their hosepipes, there was no water. The store was burnt to the ground.

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The dairy producer, Clover, relocated its biggest cheese factory after flailing service delivery at the hands of the Ditsobotla local municipality. These anecdotes are a dime a dozen and proves inadequate leadership kills business, and with that, job opportunities.

Tackling crime and corruption is another urgent matter to attend to. Not only does it erode confidence but businesses are forking out increasingly more money for private security and insurance, and with good reason. According to one report, the disruptions caused by the 'construction mafia' has cost the sector upwards of R40-billion. These wasted funds could've bankrolled more productive measures.

Another wasted cost burning a hole in the wallets of businesses is electricity blackouts. It's been more than decade and the problem is a persistent hurdle to economic growth. According to a report by the Council for Scientific and Industrial Research, the blackouts are estimated to have cost the economy between R60-billion and R120-billion in 2019 alone. It further states the economic damages between 2010 and 2020 caused by Eskom's inability to keep the lights on could be as high as R338-billion The economic damages caused by Eskom's inability to keep the lights on could be as high as R338-billion. Even if government is able to address all other impediments to the economy, it will be meaningless unless it can supply adequate electricity.

Government is also urged to rework the education system. Young matriculants are simply not equipped for the labour market. Despite an uptick in the number of graduates, the country still faces an extensive skills deficit. The latest Critical Skills Survey conducted by Xpatweb reveals that 77% of organisations are struggling to obtain critical skills, forcing them to employ individuals from outside the country. In a rapidly evolving environment, businesses simply can't remain competitive if their staff is not properly skilled. Again, if business is hampered, so is economic growth.

This is where collaboration between government and the private sector becomes imperative. As President Ramaphosa said in his recent State of the Nation address: "We all know that government does not create jobs, businesses create jobs." Working together to equip the youth could go a long way in addressing the shortage of employable South Africans. It is a good example that both parties require each other to move forward in their respective ways. Rebuilding trust between the private sector and government will be a cornerstone in rebuilding the economy. Public-private partnerships can be constructed to resolve some of the country's most pressing issues.

These types of collaborative efforts can be utilised to lure investors looking for opportunities brought about by new technologies. South Africa has already secured a $8,5 billion fund to invest in renewable energy, green hydrogen and electric vehicles. As the global call for a just-transition to a greener economy grows, so do the pool of funds made available to reach this target. Another sector with budding opportunities, is e-commerce. According to projections, the market in South Africa will expand from its current $4,5-billion to $7,9-billion by 2027. These are the type of growth enhancing opportunities both business and government can capitalise on to stimulate growth.

It's not just a pipe dream. The economy can be revitalized. Easing regulations, streamlining policies, fixing government together with greater collaboration between the private sector and the state, and seizing new opportunities, could bring this about. If implemented correctly, it may put the country on the necessary trajectory for Godongwana to claim his surplus-prize in 2024.

Daryl Swanepoel is the Chief Executive Officer of the Inclusive Society Institute (ISI). The ISI has just completed a series of sectoral engagements as input into its blueprint to rejuvenate the South African economy. This article captures the main sentiments expressed during the extensive consultations.

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