



## INCLUSIVE SOCIETY INSTITUTE

**Op-ed**

### **Rejuvenating South Africa's economy – a retail sector perspective**

**By Daryl Swanepoel**

The recent riots and looting in KwaZulu-Natal and Gauteng have starkly illuminated both the strengths and vulnerabilities in the retail sector, and that South Africans, by and large, depend on the smooth running of these supply chains for not only putting bread on the table but also for the survival of the economy. Retail trade accounts for a big slice of South Africa's gross domestic product, at 15% of GDP, and employs 20% of the workforce. It has been targeted by the government as a pivotal component in the economy's recovery.

The predicted impact of the unrest on the economy is estimated at R50 billion, not to mention the likely greater long-term damage. According to the National Treasury, this devastating event will result in almost 1% being shaved off South Africa's GDP in 2021. Furthermore, in the biggest month-on-month drop since April 2020, July retail sales plunged 11.2%, resulting in spiralling insurance premiums for businesses and real concern about surviving through another riot.

This comes at a crucial time in the retail sector's – and the economy's – attempted recovery from the ravages of the Covid-19 pandemic and the continuing bottlenecks created by electricity outages, service delivery failures, legislative roadblocks and rampant corruption. Now compounded by the threat of a fourth wave on the doorstep, the future looks, frankly, frightening.

In order for the retail industry to remain buoyant, the key growth constraints need urgent resolution. And where better to begin than with the relationship between business and government. There is a growing lack of trust in government to deliver on their commitments and to implement policies. It is not that government is unwilling to engage, but rather that career civil servants do not understand how business operates. This negatively affects government's role in creating an enabling environment.

The State, too, is uncoordinated – operating in silos that puts sectoral interests above the big picture national interests – lacks capacity, and rather paradoxically, while their personnel bill is quite huge, it coexists with too little skills, and often vacancies in critical positions. This is reflected in failing municipal service delivery, becoming a blight on business productivity and a deterrent to investors.

There have been dire consequences from this ongoing malaise, for the country and for the environment: Businesses are having to close their doors due to a lack of basic services, with the knock-on effect of adding to the latest outrageous unemployment figure of 34.9%, and South Africa is now regarded as being one of the biggest polluters in the world, with Eskom being the main culprit.

South Africa needs level-headed and bold leadership that will take a principled stand and act, rather than just spout policy rhetoric. Political parties need to ensure that they build capacity in local government, appointing people on merit, irrespective of their political stripes, who can ensure real delivery. The country also needs to move away from a monopoly energy/electricity provider and embrace new technologies and independent electricity provision.

Another related issue which continues to be a knife in the back of the South African economy, bleeding it dry, is corruption. The news is filled with new cases every day, implicating high-profile officials and management personnel at every level within government and state-owned entities (SOEs), and with the lack of punishment in the majority of these instances.

The truth is, corruption is a two-way street – businesses also play their part by accepting the bribes and dirty deals – and in South Africa it is deeply rooted in the past, created over centuries. Reducing it is going to take more than some high-profile convictions and continuous public railing; it will need thorough solutions that strike at the root causes. And plenty of time.

One of the ramifications of allowing corruption and bribery to continue unchecked is continuously rising taxation and uncertainty with regards to what the efficiency and impact of this spending is. Evidenced in the accelerated exodus of so-called high net worth individuals out of South Africa of late in response to the exorbitant tax rate and fear that the trend will continue unabated.

South Africa cannot tax its way out of an economic crisis. Instead, it should focus on increasing ease of doing business in the country. There is now so much red tape that it has become prohibitive, especially for small businesses, which simply do not have the capital to weather the excessive regulations. This one-size-fits-all approach leaves small enterprises between a rock and a hard place: stick to the legal route and wait it out, risking liquidation in the process, or continue illegally – without certification or by greasing palms – until the resources are available.

New policies and legislation need to go through rigorous rational assessments and streamlining before being implemented, looking at the implications across the value chain, to avoid unintended consequences – including putting off investors.

A regulation that requires immediate action is mandatory vaccination requirements within businesses, to speed up economic recovery from the pandemic. Although not a popular solution to many, it would be well advised, considering Covid-19 has put down roots. South Africa needs to rapidly up the pace of vaccination, otherwise economic recovery will remain a distant target. In President Cyril Ramaphosa's latest address on South Africa's response to the coronavirus pandemic, in November, he stated that only 35.6% of adult South Africans are fully vaccinated against Covid-19. He also said that while this is welcome progress, it is not enough to enable the country to reduce infections, prevent illness and death and restore the economy.

With the Covid-19 fourth wave looming large as the busiest season of the year for the retail industry is about to kick off, there is no silver bullet to ensure businesses, or the economy, will not be affected. Retailers can take heart though that the supply chain and stock level challenges from last year will be less harrowing this time around.

Although there is an indication that customer spending will not be what it was prior to Covid-19, there is still hope within the retail industry that this season will see a more free-handed customer base than the last and a real uptick in its contribution to the economy.

***Daryl Swanepoel is Chief Executive Officer of the Inclusive Society Institute, an autonomous and independent research institute. This article captures the essence of the retail sector's contribution towards the development of the institutes blueprint for the rejuvenation of the South African economy.***

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