

South Africa Human Development Report 2003

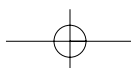
The Challenge of Sustainable Development in South Africa:
Unlocking People's Creativity



South Africa

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Introduction

Sustainable development reflects a process that meets the needs of the present without compromising the ability of future generations to meet their own needs. It is multidimensional and encompasses complex interactions between economic, social, political, and environmental issues. It represents a development framework that makes the conquest of poverty, the goal of full employment and the fostering of a stable, safe and just society the overriding objectives of development policy and interventions.

The primary responsibility for translating the sustainable development agenda into action lies at the national and local levels. This is because the sustainable development of any country can only be as effective as its people want it to be. It is fundamentally an endogenous process, generated and sustained by the energy of a society and its ability to learn creatively from its own and others' history. At the same time, there is a measure of consensus that the effectiveness of the state remains fundamental to the development process.

Since its transition to democracy ten years ago, South Africa has recorded impressive achievements. These achievements were analysed in the 2000 *National Human Development Report*. In the aftermath of the 2002 World Summit on Sustainable Development, the aim of *The South Africa Human Development Report 2003* is to identify the main challenges to sustainable development in South Africa, and to define a consistent strategy and policy direction that will help unlock the creativity of the country's stakeholders to meet those challenges.

Based on literature on sustainable development and relevant trends in socio-economic development and policy-making in South Africa, the Report has identified and analysed five central challenges facing sustainable development in South Africa. These are: the eradication of poverty and extreme income and wealth inequalities, the provision of access to quality and affordable basic services to all South Africans, the promotion of environmental sustainability, a sustained reduction in the unemployment rate, and the attainment of sustainable high growth rates.

Analyses in Chapters 4 to 8 of the Report identify specific factors that have historically engendered severe problems of poverty and inequality (Chapter 4), deprivation in terms of access to basic services (Chapter 5), environmental degradation (Chapter 6), a rise in the unemployment rate (Chapter 7), and an

inadequate and developmentally unfavourable growth path (Chapter 8). Significantly, these outcomes are found to be attributable to both the past and current structure of the economy, and to the strategy and policy framework that has informed public and private sector interventions in the economy. At the same time, the five challenges of sustainable development in South Africa are found to be highly interrelated.

The Report sets out a sustainable development strategy for South Africa. The strategy provides a broad framework for how the South African development process can begin to produce outcomes that are consistent with sustainable development. The strategy puts responsibility on bold reform initiatives by the government, a positive private sector response to new measures and support from labour and other civil society organisations. An important finding of this Report is that shifting decision-making closer to communities and their organisations can improve the connection between sustainable development policies and outcomes. Moreover, the Report argues that the real prospect for sustainable development in South Africa depends on confronting political challenges: that is, strategic political interventions that focus policies and support measures on achieving the goals of sustainable development.

Poverty and inequality

The eradication of income poverty is an indispensable requirement for sustainable development. At the same time, pronounced income and wealth inequality impedes sustainable development by contributing to a rise in poverty, distorting the utilisation of society's productive resources, frustrating the growth potential of a country and jeopardising the sustainability of its environmental well-being.

About 48.5 per cent of the South African population (21.9 million people) currently falls below the national poverty line (Figure 1). Income distribution remains highly unequal and has deteriorated in recent years. This is reflected in the high Gini-coefficient, which rose from 0.596 in 1995 to 0.635 in 2001 (Figure 2). The Human Development Index (HDI) for South Africa moved from 0.72 in 1990 to 0.73 in 1995 and declined to 0.67 in 2003 (Figure 3). Poverty and inequality continue to exhibit strong spatial and racial biases.

Chapter 4 of the Report analyses a number of proximate forces that have engendered poverty and inequality

in South Africa. These include a highly skewed distribution of wealth, extremely steep earning inequality, weak access to basic services by the poor, unemployment and underemployment, low economic growth rates and the weakening employment generation capacity of the current growth path, environmental degradation, HIV/AIDS and an inadequate social security system.

The chapter highlights a number of approaches to reduce wealth inequality. Clearly, policies that expand economic opportunities for the poor help to expand the domain of ownership of wealth in the country. Programmes aimed at land reform, housing, education, SMME development and black economic empowerment are specific measures offering the potential to bring about substantial changes in the pattern of wealth ownership. Other measures – such as access to credit – also contribute indirectly to the aim of reducing wealth inequality over time. However, much depends on whether and to what extent these important reforms significantly reduce the overall concentration of wealth across social classes. The Report’s recommendations in these areas are to ensure the deepening of the impacts of above reforms on reducing the wealth inequality in South Africa.

The problems of income poverty and inequality are, to a large extent, intractable unless labour market problems are resolved (Figure 4). Since employment

is the bridge between economic growth, poverty eradication, and opportunities for human development, sustained poverty reduction is not possible without sustained and rapid economic growth. Two basic channels link poverty reduction to growth. These are: (a) *the social provisioning channel*: that is, resources generated by growth (e.g., taxes) can potentially be used by a society to provide services to the poor; (b) *the personal income channel*: that is, the growth of the economy, through employment, potentially translates into higher personal income amongst the poor.

Without the social provisioning channel and the personal income channel, faster economic growth will not be accompanied by a faster rate of poverty reduction.

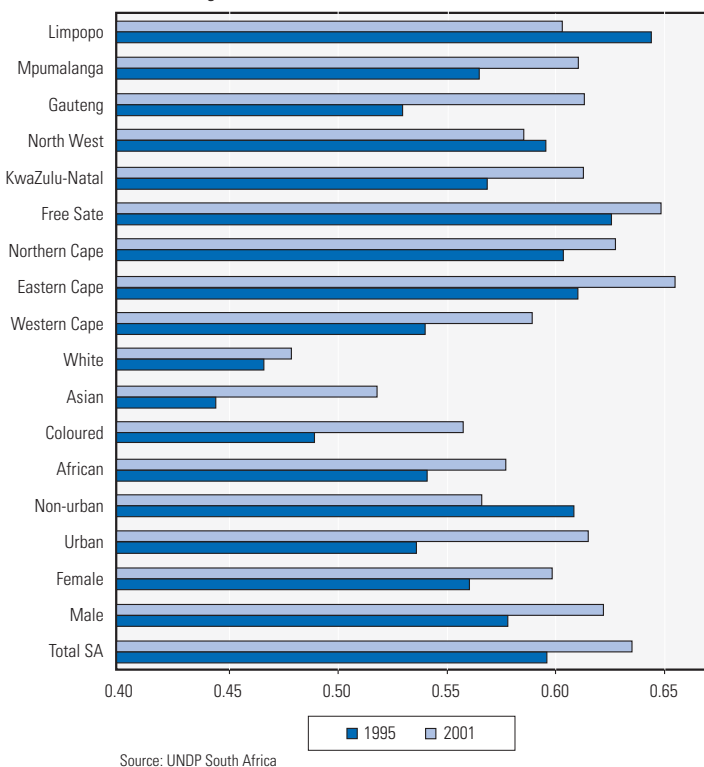
However, the current strategy and policies for achieving growth are objectively anti-poor as, on the one hand, the gap between economic growth and employment growth is widening and, on the other, given their capabilities, the poor are not able to integrate into the current processes of economic expansion. Moreover, the strategy has resulted in a gradual decline in the real per capita social provisioning. The Report (especially Chapters 7 and 8) elaborates on these issues and explains how the South African economy can be stirred towards achieving sustained growth with reductions in poverty, inequality, and the unemployment rate.

Figure 1: Poverty rate and poverty gap (2002)

	Rate ¹	Gap ²
South Africa	48.5%	18.0%
Male	45.9%	17.8%
Female	50.9%	18.2%
African	56.3%	21.5%
Coloured	36.1%	11.6%
White	6.9%	2.4%
Indian	14.7%	4.4%
Single	44.1%	24.3%
Couple with no children	26.6%	26.6%
Couple with children	48.6%	11.8%
Single parents	60.2%	20.7%
Western Cape	28.8%	8.5%
Eastern Cape	68.3%	27.9%
Northern Cape	54.4%	19.6%
Free State	59.9%	20.3%
KwaZulu-Natal	50.5%	18.9%
North West	56.5%	21.9%
Gauteng	20.0%	7.9%
Mpumalanga	54.8%	20.0%
Limpopo	60.7%	23.5%

Source: Adelman (2003a)
 Notes: (1) Rate is the percentage of the population below the national poverty line of R354 per month per adult equivalent in 2002. (2) Gap is the mean shortfall below the poverty line, expressed as a percentage of the national poverty line.

Figure 2: Gini coefficients for South Africa (1995, 2001)



Historical evidence suggests a strong link between redistributive land reform and a reduction in poverty. History also shows that the success of land reform programmes is closely linked to their integration with a broader package of basic services, such as water and electricity, and training and extension support for productive activities. For the land reform programme to succeed, the Report develops a number of recommendations, which include increasing support for land reform, advancing tenure reform, and increasing the pace of land redistribution.

Environmental conditions relate to three key dimensions of poverty: (a) *Livelihoods*: Poor people tend to be most directly dependent on natural resources, and are therefore the first to suffer when these resources are degraded; (b) *Health*: Poor people suffer most when water and air are polluted; and (c) *Vulnerability*: Poor people are most often exposed to environmental hazards and environment-related conflict, and are least capable of coping when they occur. Environmental policies to combat poverty are presented in Chapter 6 of the Report.

Many studies have clearly demonstrated that HIV/AIDS contributes to a rise in poverty, and that poverty reduces the ability of the poor living with HIV/AIDS to cope with the disease. Moreover, AIDS generates new poverty as people lose employment and housing tenure. Household incomes fall due to loss of wage earners and rising spending, particularly on medical care and funerals. The Report thus argues for a comprehensive response to the HIV/AIDS epidemic that includes the adoption of a multi-sectoral and multi-stakeholder approach encompassing prevention, treatment and care, and mitigation of the impact of HIV/AIDS.

Given the high percentage of the population living below the national poverty line, South Africa's social

assistance system of grants is an especially important aspect of addressing income poverty. Only about 30 per cent of the poor were eligible for receiving government grants in 2002. This implies that, even if there were to have been a full take-up of grants, more than 15 million poor people fell outside the social security support system. Thus, the current social assistance system of grants in South Africa has limited impact on reducing poverty. The system is not designed to lift all or the majority of the poor out of poverty. Nor is it appropriately financed to achieve such an objective, with the result that it is able to target only a fraction of the poor.

The Report thus supports the main conclusions and recommendations of the Report of the Committee of Inquiry into a Comprehensive System of Social Security for South Africa, especially its position that an appropriate social security system for South Africa must prioritise the needs of people without any incomes or with insufficient incomes, and must encompass those engaged in the informal sector. This, for example, implies the extension of the child support programme to poor children between 9–18 years. It also implies the extension of the social security system to provide income support to poor adults.

In addition, the real value of social grants (after adjustment for inflation) needs to increase in the medium term. The combination of both measures is needed to ensure that the government's social grant system effectively contributes to the fight against income poverty.

Chapter 4 also emphasises the importance of harnessing the participation of non-profit organisations, which are an important component in efforts to meet the challenges of poverty and inequality.

Figure 3: Human development index (HDI) by province (1990–2003)

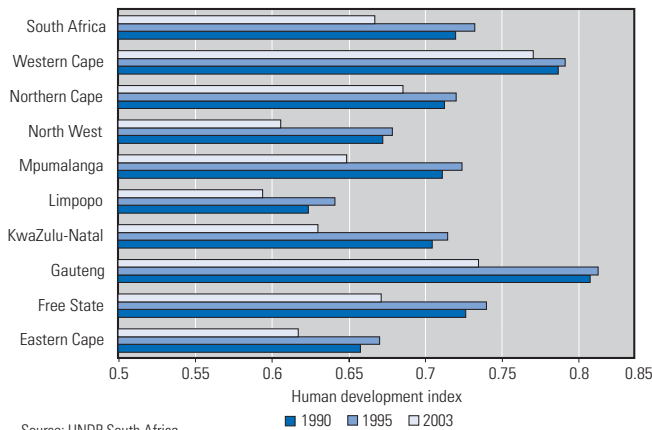
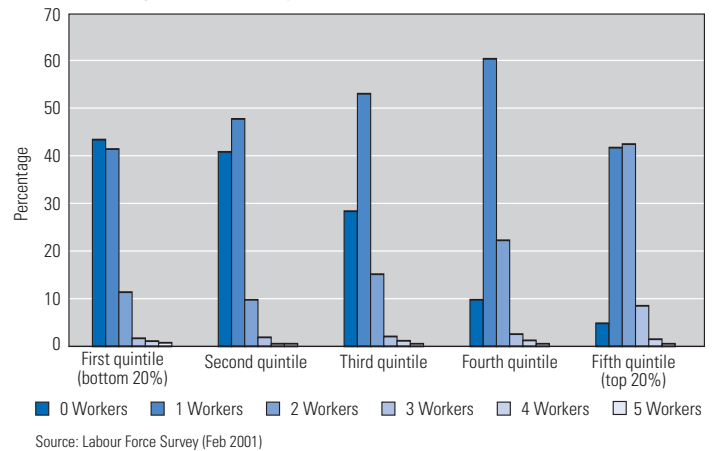


Figure 4: Quintile by number of workers: all households (2001)



Access to social services

The challenge of providing access to quality and affordable social services to all South Africans stems not only from the needs of a great many South Africans who are poor, but also from the fact that access to these services has become precarious for a variety of reasons discussed in the Report. Lack of access to basic services and the infrastructure necessary to sustain basic human capabilities is an indirect measure of human poverty. Inequality of access to social services (such as education) leads to a further widening of the gap between the capabilities and opportunities of social groups.

The *South Africa Human Development Report 2003* has developed and presented the Service Deprivation Index to measure the backlog of deprivation that still exists in several dimensions of basic services. The Index shows that the number of households that are considered deprived of access to 'good' quality basic services increased from 5.68 million to 7.24 million between the 1996 and 2001 censuses. Relative to the size of household population in 1996 and 2001, the percentage of population that is considered deprived of access to 'good' basic services has increased by 2 per cent, from 63 per cent to 65 per cent (Figure 5). However, the depth of service deprivation has slightly declined.

While acknowledging significant progress towards the goal of sustainable and affordable social services, Chapter 5 shows that far-reaching changes are still

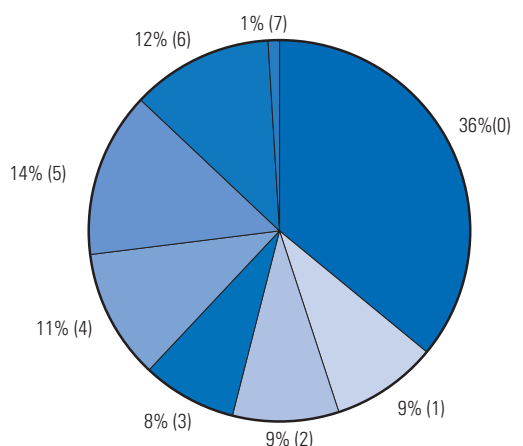
needed. At one level, the challenges facing service delivery can be viewed as technical in nature. In areas where reforms have not 'taken root', multiple weaknesses may be identified in the *conceptual adequacy* of the proposed reforms, the *resource commitments* to ensure their delivery and the *strategic actions* taken during their implementation.

At another level, the challenges to achieving sustainable change are political in nature. This includes the need for a strategic political intervention that focuses policies on the provision of coherent, comprehensive and sustained support for the objective of delivering sustainable access to quality and affordable social services for all. Thus the technical problems are inextricably connected with political strategy.

The Report shows how the conceptual adequacy of some service delivery reforms relates to their underlying assumptions, sustainability concerns, policy clarity and targeting. Moreover, service delivery has been negatively affected by insufficient allocation of finances for the upkeep of strategic public assets, and the prioritisation of cost recovery (financial considerations) over the developmental objectives of service provision and the socio-economic conditions (realities) of the poor (Table 1). Finally, the quality of decisions made has suffered due to shortcomings in involving stakeholders directly in the process of designing service delivery programmes, deficiencies in data collection, and poor systems for interpreting, correlating and making use of information.

The Report argues that the South African economy continues to have at its disposal the resources and insti-

Figure 5: Deprivation of access to quality basic services (% of households, 2001)



Source: Adelzadeh (2003a). Date source: Census 2001.

Note: Values in parentheses mean: 0 = not deprived, 1 = deprived of one of the seven basic services, and 7 = deprived of all seven basic services. The seven basic services are: housing; water; energy for lighting, cooking and heating; toilet facility; and sanitation.

Table 1: Evolution of general government real per capita expenditure (Rand constant 1995 prices)

	current expenditure		capital expenditure	
	1995	2002	1995	2002
General administration	346	422	57	45
Defence	270	210	0	8
Law and order	344	376	23	19
Education	789	715	73	60
Health	366	373	22	18
Social security and welfare	184	214	74	64
Economic services	245	227	85	71
Total	2,544	2,537	334	287

Source: South African Reserve Bank, Quarterly Bulletin, 2003 q1; National Treasury, Overview of the 2003 Budget.

tutional structure to adopt a more aggressive approach towards the provision of support to the relevant service sectors. Such support requires a lot of 'thinking outside of the box', and must include the commitment of much greater financial and human resources than is the case at present. The Report also makes suggestions for improving the effectiveness of the political centre's high-level support for cross-cutting issues – including the reform of social services.

Environmentally sustainable development

A key theme in the Report relates to the complex relationships between the environment, inequality and economic development. South Africa inherited a devastating legacy of environmental degradation and poverty. The brutal features of apartheid – forced removals, overcrowding in the so-called 'homelands', discriminatory urban policies and the migratory labour system – alienated people from their land and resources and contributed to inefficient resource flows, inequitable access to environmental services, unjust land-use practices and environmental degradation. The environments in which people were forced to live were extremely inhospitable. The natural assets needed to sustain livelihoods and generate economic development activities were undermined by corrupt land allocation and administration.

More generally, however, apartheid economic development was based on an unsustainable dependence on extractive activities, cheap electricity from coal power, and old and/or inefficient use of capital stock. The vicious circle created by these factors has left a devastating legacy of unsustainable development and environmental havoc. Similarly, agricultural production has been resource intensive and environmentally degrading as a result of various policies, such as the use of subsidies for chemicals and fuel, access to cheap water for irrigation (resulting in soil degradation, pollution of waterways and underground water sources), the loss of biodiversity, and the inefficient use of scarce resources.

Like other developing countries, South Africa faces the considerable challenge of achieving economic growth and poverty alleviation without environmental degradation. The delivery of services, a fundamental goal of sustainable development, is crit-

ical to urban and rural black settlements. Access to water, energy, proper sanitation and waste removal not only diminishes health and environmental risks, but is critical to development. These needs were recognised in the Reconstruction and Development Programme (RDP) as part of a people-centred approach to development that embraced the importance of using resources sustainably to achieve socio-economic goals. Unfortunately, this view of the environment as integral to socio-economic goals was not preserved in the Growth, Employment, and Redistribution (GEAR) strategy, which carries an underlying assumption of a contradiction between environmental integrity and economic progress.

Other aspects of governance since 1994, however, support sustainable development in which the environment is given due consideration. The Constitution contains principles and clauses that support socio-economic goals, and the environmental clause in the Bill of Rights is linked to the provision of basic services. There are other possibilities for incorporating the environment into the development process. Examples of a people-centred, integrated and participatory approach to development within an ecological framework can be found in the framework legislation for environmental governance as well as other government development programmes. However, the relationship between socio-economic goals and the environment is not fully understood at all levels of government.

The explanation of challenges to environmental sustainability in Chapter 6 leads to a number of recommendations, among them the 'mainstreaming' of environmental and biodiversity considerations through the employment of a broad array of approaches and tools. These include raising awareness; capacity-building; garnering political commitment for, and the reflection of, environmental considerations in sectoral budgets; promoting sustainable livelihoods and generating economic opportunities through the clarification of land ownership and resource rights, particularly in the communal areas; strengthening institutions and developing environmental capacity enhancement programmes; shifting accounting procedures so that the real costs of degradation are included in expenditure decisions; and embracing the principles of co-management in order to devolve power and management responsibilities to resource users.

Creating jobs

Sustainable development seeks to enlarge the choices available to people in order that they live long, healthy and creative lives. It is well recognised that productive work and employment are central elements of development as well as decisive elements of human identity.

However, access to jobs that are appropriately remunerated and provide decent work is not only an important means of improving living standards; it is also a means to exercising skills, creativity, making productive contributions to society, and enjoying self-respect, dignity and empowerment.

In South Africa, unemployment continues to rise unabated. The economy provided only 11.56 million jobs for 16.81 million economically active South Africans in March 2003, resulting in 5.25 million unemployed, or an official unemployment rate of 31.2 per cent, which is substantially higher than the 19.3 per cent unemployment rate in 1996 (Table 2).

Two important challenges must be addressed if the South African economy is to produce a gradual but substantial decline in the rate of unemployment. These are the achievements of the inclusive re-orientation of the economy and a sustainable high growth rate.

South Africa must put employment and an employment policy at the centre of its development vision. Thus the growth and employment strategies should really be one and the same thing, with the aim of effecting economic development that is broad-based, equitable and sustainable over time.

This reorientation of the economy implies that the future growth of the economy needs to be associated with a larger shift in employment – that is, one that is more employment-elastic – and the poor need to be

able to integrate into the processes of economic expansion. Chapter 7 of the Report elaborates on these two issues and the various challenges that need to be overcome in each case.

Job-creating growth

During the apartheid era, the generally low responsiveness of employment to investment and output growth in the formal sector was the consequence of various built-in biases (including government's incentive programmes) in favour of capital-intensive methods of production. These measures contrived a distorted comparative advantage in the export of capital-intensive manufactures, resulting in high unemployment.

The particularly severe impact on employment was compounded by the regime's failure to invest in a supportive policy and institutional framework to enhance the relationship between new technologies, human resource development and employment.

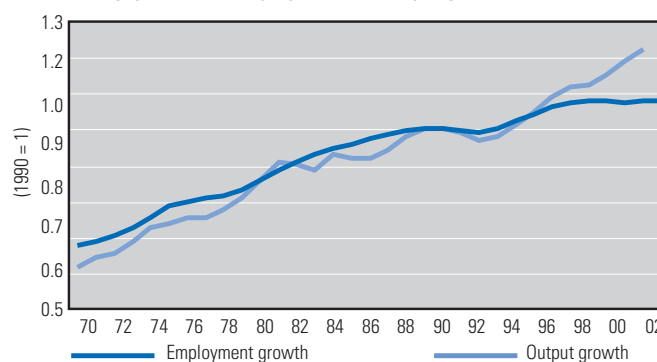
Since 1994 the government has pursued the objective of restructuring the economy through export-promotion in an increasingly liberalised environment. In doing so, it has used a host of incentives that have continued to foster the capital intensity of production at the expense of encouraging employment potential. As a result, the mainstream of the economy, i.e., the private sector, has remained on the same comparative advantage path as before, resulting in increasing capitalisation of production activities and corresponding direct job losses. The restrictive macroeconomic policy has also resulted in inadequate institutional and policy support to enhance the economy-wide net employ-

Table 2: International comparison of unemployment rates (%) (2000–2002)

	2000	2001	2002
Asia and the Pacific	3.8	4.1	4.2
East Asia	3.2	3.6	4
South-East Asia	6	6.8	6.5
South Asia	3.4	3.5	3.4
Industrialised countries	6.1	6.4	6.9
Latin America and the Caribbean	9.7	9.6	9.9
Middle East and North Africa	17.9	18.9	18
Sub-Saharan Africa	13.7	14	14.4
Transition economies	13.5	12.6	13.5
South Africa (official) ¹	25.8	29.5	30.5
South Africa (expanded) ¹	35.9	41.5	41.8

Source: ILO's Global Employment Trends (2003) and Statistics South Africa's Statistical Release (P0210), September 2002.
Note: (1) South African unemployment rates are from Labour Force Surveys of September 2000, 2001, and 2002.

Figure 6: Employment intensity of growth
(gap between employment and output growth) (1970–2002)



Data source: Real GDP from Reserve Bank dataset and employment from Quantec dataset
Note: Employment data includes the informal sector.

ment effects of using high capital-intensive technologies in the mainstream of the economy. Consequently, employment growth has seriously lagged behind output growth since 1995 (Figure 6).

Thus, compared to 1995, a much smaller number of jobs is being created for every one-percentage growth in total production. Unless the future growth potential of the economy is associated with a larger growth in employment – that is, one that is more employment-elastic – problems of unemployment and underemployment will continue. This constitutes one of the central challenges and conditions for South Africa's sustainable development path.

Matching skills to job opportunities

At the same time, greater employment opportunities do not necessarily mean opportunities for 'poor workers' or the unemployed poor. Much depends on the correspondence between the structure of the opportunities that are opened up and the structure of skills possessed by the poor (i.e., the 'integrability factor').

For a variety of reasons, the poor may not be able to integrate fully into economic processes so as to take advantage of an expansion in employment opportunities created by economic growth. The Report argues that the sharp rise in the unemployment rate during the past nine years cannot be satisfactorily explained by skills gaps in the labour supply (Figure 7). An effective safeguard requires institutional and policy support to enhance the relationship between technology, human resource development and employment.

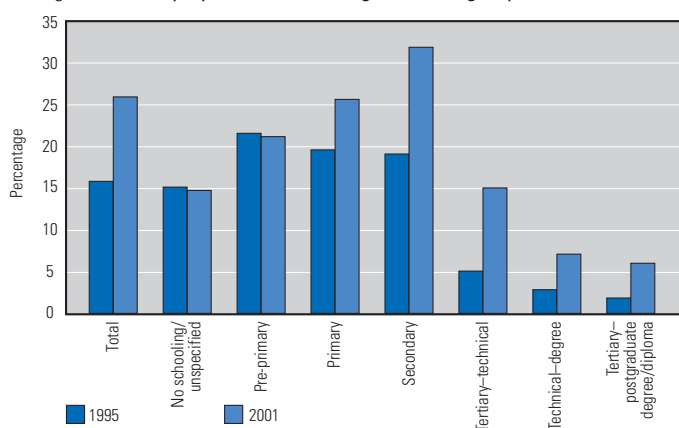
Government policies (e.g., investment incentives, education policies, labour legislation), private sector

decisions (e.g., choosing among available technologies, work organisation and in-house training programmes) and labour (e.g., applying efforts to realise maximum productivity from new technologies) play important and complementary roles in the establishment and operation of supportive institutions and policies. Thus consensus among them with respect to the goals and means of achieving technological progress is essential. In the context of sustainable development, the policy challenge is to build and use social institutions capable of supporting a specific technology choice. This technology choice should aim to maximise human resource development and employment creation, should be conducive to the realisation of the technology's maximum productivity, and should translate the extra wealth created by more productive technologies into new jobs.

This strategy has important policy implications. Proactive and bold measures are needed to steer the economy towards generating the above outcomes, while bearing in mind the imperatives of the global economic situation. Measures to ensure that growth actively generates employment, while integrating the poor into the process, require government intervention of one sort or another. They also necessarily imply 'interference' with the market, even if only for a particular duration. Such proactive measures require consideration of general policies to ensure that an employment generating and labour absorbing growth path is initiated and maintained. They also demand specific employment policies to overcome problems associated with the low employment intensity of growth and the weak integrability of the unemployed, especially the poor, in the growth path.

Chapter 7 makes recommendations on specific employment policies aimed at raising both the employment intensity of growth (production) and the integrability of the unemployed in the country's growth process. These include policies to increase the labour intensity of production, such as the withdrawal of explicit or implicit subsidies which favour capital-intensive and/or large-scale enterprises; sector-specific strategies aimed at promoting labour absorption; policies to reduce the cost of living; the extension of the Labour Relations Act to the informal economy; the promotion of micro-enterprises; and the extension of social protection mechanisms to those who work informally.

Figure 7: Unemployment rates among educated groups (1995 and 2001)



Source: October Household Survey (1995) and Labour Force Survey (Feb 2001)

Sustainable growth

Clearly, without growth, there can be no sustained poverty reduction and expansion of employment opportunities. At the same time, even though economic growth can be viewed as essential to sustainable development, it is the quality of that growth that determines whether it genuinely serves human needs and whether the required rates of growth are achievable. The quality of economic growth is defined by the extent to which it is accompanied by improvements in the distribution of income and wealth, reductions of poverty and the provision of equal opportunities.

The apartheid-era dual strategy of export promotion in the mining sector to support an industrial strategy based on import-substitution within a protective environment is gradually being succeeded by a new strategy of import-dependent and export-oriented industrialisation, evolving within an increasingly open market environment. This new growth strategy is supported by a host of policy interventions. These have been analysed in more detail in Chapter 8.

Neither past nor present growth strategies were articulated from the perspective and requirements of a pro-poor growth strategy. While the apartheid-era macroeconomic structure and policies were blatantly anti-poor, the overriding objective of the present strategy is growth. Other parallel initiatives have been 'added on' to the above core reform in order to respond to the developmental needs of the country. However, despite their contributions, it has become evident that the enormity of the developmental challenges facing the country cannot be satisfactorily addressed by using a 'two-track' approach. Growth on the one track is not pro-poor while, on the other, social development (that is, social services, welfare programmes and support for the SMME sector) is assigned the burden of directly addressing poverty and unemployment. In practice, the two tracks hardly ever converge, mainly because some elements of the core economic policy and outcomes (e.g. high interest rate, cuts in the budget, low investment, low growth rates and high unemployment rate) dominate and condition the scope of success for the majority of parallel reforms. Table 3 together with the previous tables and figures highlight the poor development quality of the current South African growth path.

The reorientation of the economy, discussed earlier, thus depends, among other things, on the ability to achieve and sustain high growth rates that simultaneously reduce unemployment, poverty and income and wealth inequality, while supporting environmental sustainability and macroeconomic balances. The Report provides an analytical framework that captures the above requirements of a sustainable development process within an integrated and consistent system of relationships between factors that influence the main sustainable development challenges facing South Africa's growth path. An important feature of the approach is that it provides measurable criteria to assess whether the overall working of the economy, and not just the public sector, is beginning to become pro-poor.

To produce such an outcome, the growth process needs to embody simultaneous gradual reductions in (a) income inequality and (b) the unemployment rate. To satisfy the former (i.e., the redistributive condition), the share of national income secured by

Table 3: Growth and investment: developing countries' performance

Region and country	Annual GDP growth rate 1995–2001	Gross investment (% of GDP) 2001
Latin America		
Brazil	2.5	21
Argentina	1.3	16
Chile	5.6	23
Mexico	3.2	21
East Asia¹		
China	8.6	39
Korea, Rep.	5.6	27
South East Asia		
Indonesia	2.4	17
Malaysia	5.0	24
Singapore	6.7	31
Vietnam	7.2	27
South Asia¹		
India	6.5	24
Bangladesh	5.1	22
Sub-Saharan Africa		
Botswana	5.2	20
Kenya	2.2	13
Mauritius	5.6	26
Namibia	3.9	24
Nigeria	2.7	23
Senegal	5.3	20
Tanzania	4.0	19
Zambia	2.3	21
South Africa	2.7	15

Source: ILO's Global Employment Trends (2003) and the Reserve Bank of South Africa
 Note: (1) The rate is for 1995–2000. (2) The reported growth rates in ILO (2003) are mainly from World Bank (2002b).

property owners as profits, interests and rents (i.e., profit share) needs to decline until a more equitable pattern of income distribution is established. To satisfy the latter condition (i.e., the employment generation condition), the growth rate of employment must be greater than the growth rate of the labour force. The main question is: under what conditions and policy measures can these pre-requisites be met without undermining the necessary macroeconomic and environmental balances?

For a gradual narrowing in income inequality, the report shows that the after-tax average rate of return on investment needs to grow more slowly than average capital productivity. For a gradual reduction of the unemployment rate, the economy needs to experience growth rates that are greater than the sum of the growth rates of labour productivity and the labour force.

Using the above framework, [Figure 8](#) underlines the reasons why the South Africa's economic transformation during the last nine years has worsened income distribution (demonstrated by the average annual decline in the 'wage share') and resulted in a substantial increase in the unemployment rate. The average annual increase in capital productivity has significantly been lower than the average annual rise in the profit rate, leading to an overall worsening of the income distribution pattern. At the same time, the unemployment rate has increased since the average annual growth rate of the economy (2.8%) has been significantly lower than the 4.1 per cent (which

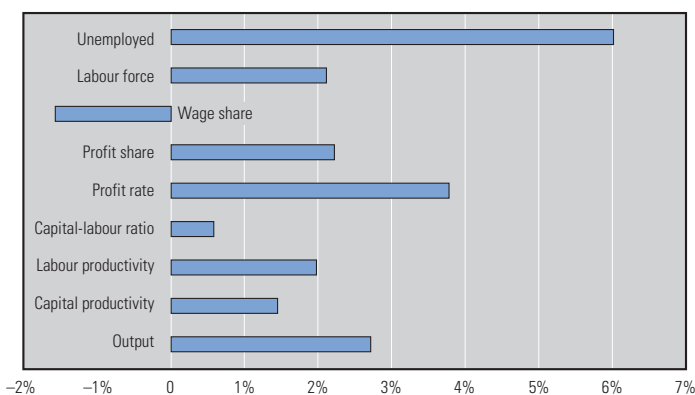
is the sum of the average annual growth rates for labour productivity and the labour force) needed to prevent a rise in the unemployment rate during this period.

Reorienting the economy towards a sustainable development growth path depends on bold reform initiatives by the government, a positive private sector response to new measures, and support from labour and other civil society organisations. The required initiatives include, first, the adoption of a proactive growth-oriented macroeconomic policy framework. This includes changes in the current aims and utilisation of fiscal and monetary policy tools to ensure that they promote growth, redistribution, poverty reduction and the creation of employment. This also enables the South African government to enhance its role in reducing poverty through increased investment in education, social infrastructure, land reform, provisions of other social services, and the expansion of the social security system.

The second complementary initiative involves the adoption of specific measures for sustainable productivity growth, which in turn helps to increase the profitability of investment. This includes firm-level changes that help resolve the difficult relationship between owners and workers, and enhancing the profitability of the private sector by incorporating the critical role of public capital goods and services in private sector production.

The third complementary initiative involves the adoption of additional policies that help increase total investment through higher levels of public investment and/or by policies that induce higher levels of private sector investment. This includes the development of an incentive system that rewards investment by businesses whose activities reflect support for a more broadly based transformation of ownership, improved income distribution and reduced unemployment. This builds on the recent Brenthurst Initiative which emphasises the importance of providing differential rates of corporate tax to encourage businesses to 'transform' and increase investment. More specifically, businesses can be given differential tax incentives, access to subsidies and access to government procurement depending on the extent to which (a) they have restructured, or are going through an ownership restructuring process, that results in a broad based distribution of company ownership amongst their employees and

Figure 8: Growth, distribution, and employment
(% average annual real growth rates, 1994–2002)



Note: (1) Wage share refers to the share of remuneration of employees in GDP; profit share refers to the share of gross operating surplus in total GDP; profit rate refers to the gross operating surplus relative to the value of capital stock. (2) The employment data used for calculating labour productivity and capital-labour ratio includes employment in the informal sector. For the formal sector, the growth rates of the two variables were larger during 1994–2002 (see Chapter 7).

Data source: South African Reserve Bank

the public as a whole; (b) their capital productivity growth rates exceed increases in their after tax rates of profit, and (c) their real output grows faster than their labour productivity growth rates.

The above measures should specifically target changes in leading firms in sectors of the economy. Transformation related to ownership patterns, technology use and employee-employer relationships in these firms would help internalise the main objective of a sustainable development strategy among other firms in diverse sectors of the economy.

Conclusion

The main forward-looking conclusion of this Report is that South Africa's sustainable development prospects depends on a successful re-orientation of the economic structure and policies – such that the economy becomes inclusive (broad-based), equitable and sustainable over time. As a framework, sustainable development captures the above requirements within an integrated and consistent system of relationships among factors that influence the main sustainable development challenges facing South Africa. At the same time, the Report's policy framework and recommendations are consistent with the goals of creating enduring macroeconomic and environmental balances and sustainability.

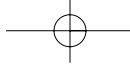
The Report also recognises that overcoming the challenges of sustainable development depends on confronting the political challenges. Furthermore, the Report emphasises the unlocking of society's creativity as an important pre-requisite to achieving sustainable development in South Africa. This is reflected, on the one hand, in the fact that overcoming specific challenges depends on unleashing the creative involvement of stakeholders in the formula-

tion and implementation of initiatives. On the other hand, and in broader terms, the Report argues that the formulation and adoption of an appropriate sustainable development strategy is the corner stone to unlocking the creativity of the public. A focus on inclusive policy-making processes and the embodiment of the major concerns of the various stakeholders in the country's sustainable development strategy will produce a suitable environment in which they can unleash their creative involvement in the development process.

In this context, inferences have been made in various chapters of the Report about ways in which government, business, and civil society organisations can interact more effectively in the sustainable development process. The Report emphasises the importance of engendering processes that are inclusive, transparent and democratic, and that empower the poorest sections of the population.

The Report argues that communities are critical to planning and decision-making processes for social infrastructure delivery. Besides being the target users of infrastructure and services, they have the local knowledge and experience to support and even direct the policy, planning and delivery processes. From the ground, they are also in a position to play crucial roles in diligence and monitoring. The Report, thus, makes recommendations on improving mechanisms for the involvement of civil society and resource users in management activities and decision making.

The political economy of South Africa's transformation embodies the necessary pre-requisites for a sustainable development process to take root. This Report's analysis of the challenges facing such a prospect is intended to contribute to the debate on how to realise such objectives.



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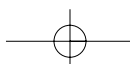
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