Transformation Audit

TA2016

OPPORTUNITY FOR CHANGE

The private sector's role in inclusive development

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Edited by
Mzukisi Qobo and Jan Hofmeyr

THE INSTITUTE FOR JUSTICE AND RECONCILIATION

Institute for Justice and Reconciliation
www.ijr.org.za

2016 Transformation Audit
www.transformationaudit.org

Published by the Institute for Justice and Reconciliation
105 Hatfield Street, Gardens, Cape Town 8001, South Africa
www.ijr.org.za

ISBN: 978-1-928332-24-4

Copy-edited by Laurie Rose-Innes
Scorecards by Tiaan Meiring
Designed and produced by COMPRESS.dsl | www.compressdsl.com

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The Institute for Justice and Reconciliation's Inclusive Economies Project would like to thank the authors for their valuable contributions to this edition of the Transformation Audit. At a time that requires in-depth reflection on ways to escape South Africa's developmental conundrum, these contributions offer new and interesting perspectives. The thematic focus of this publication has been a product of consultation within and outside of the IJR. We would like express our gratitude to colleagues within the organisation for their insightful comments, and the generous initial feedback and suggestions for the outside expertise that we consulted. In this regard, a special word of thanks should go to Prof. Mills Soko, Executive Director of the University of Cape Town's Graduate School of Business for his critical comments and suggestions during the initial conceptualisation phase of the publication. We are truly grateful to IJR research intern, Tiaan Meiring, for his tireless work in the project management of this publication, the compilation of its scorecards, and thoughtful comments with regard to the content. Last but not least, a special word of thanks for the funding support of the Open Society Foundation for South Africa (OSF-SA), which has made this publication possible, and which continues to play a pivotal role in ensuring that civil society's contribution to the national development discourse gets heard. The IJR is extremely grateful for this longstanding partnership with the Foundation.

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VII/ ACRONYMS AND ABBREVIATIONS

AMCU	Association of Mineworkers and Construction Union
AfDB	African Development Bank
ANC	African National Congress
ASUF	Agri-Sector Unity Forum
BBBEE	broad-based black economic empowerment
BEE	black economic empowerment
CODESA	Convention for a Democratic South Africa
COSATU	Congress of South African Trade Unions
CSI	corporate social investment
CSP	concentrated solar power
CSR	corporate social responsibility
DFI	Development Finance Institution
ESOPS	Employee Share Ownership Scheme/s
GDP	gross domestic product
GEAR	Growth, Employment and Redistribution
GNU	Government of National Unity
HDI	Human Development Index
HDSAs	historically disadvantaged South Africans
IDC	Industrial Development Corporation
IFC	International Finance Corporation
IMF	International Monetary Fund
kWh	kilowatt-hour
LRA	Labour Relations Act 66 of 1995
MFI	microfinance institution
MIGDETT	Mineral Industry Growth, Development and Employment Task Team
MPRDA	Mineral and Petroleum Resources Development Act 28 of 2002
MW	Megawatt
NDP	National Development Plan
NEDLAC	National Economic Development and Labour Council
NEF	National Economic Forum
NERSA	National Energy Regulator of South Africa
NPC	National Planning Commission
NUM	National Union of Mineworkers
OECD	Organisation for Economic Co-operation and Development
PAMIGA	Participatory Microfinance Group for Africa
PE	private equity
PPP	public–private partnership
PPP	purchasing power parity
PV	photovoltaic
RDP	Reconstruction and Development Programme
REFIT	Renewable Energy Feed-in Tariff
REIPPP	Renewable Energy Independent Power Producer Programme
SDG	Sustainable Development Goal
SRCC	Sundays River Citrus Company
SSA	sub-Saharan Africa
UK	United Kingdom
UN	United Nations
US	United States of America
USAID	United States Agency for International Development
UNESCO	United Nations Educational, Scientific and Cultural Organization

VIII/ PREFACE

South Africa finds itself at a crossroads. The challenges we face as a nation are many and complex, and affect the way we see each other and ourselves. The so-called 'born-free' generation is asking profound questions about the disconnect between the promises that were made at the dawn of democracy 23 years ago and their present-day reality, which still poses the challenges that their parents faced. The political freedom yielded some changes, but the apartheid hallmarks of exclusion and economic deprivation persist, representing everything but the 'better life for all' that was promised.

Part of the thinking in 1994 was that the country would create opportunities for a new generation of young, especially black, South Africans that would fundamentally change the trajectory of their lives, break cycles of poverty and ultimately create a more equal society. Two decades later, we are seeing a generation of young people, many of whom are 'under-schooled', unemployed and angry at their parents for what they see as a betrayal of their future. The development of South Africa has not been to the benefit of all. Policies to address persistent poverty levels have largely been ineffective and, in some instances, have even undermined the dignity of their intended recipients. It has to be acknowledged that the government created a social grant 'safety net' that has saved the country from developmental collapse. The social grants system, as good as it has been in keeping the wolf from the door of millions of South Africans, is not sustainable when the country is facing close to zero growth, relegation to junk status by rating agencies, and growing unemployment that will put it under further pressure.

At a time when it is needed most, the country suffers from a dearth of political leadership. The ruling party has been hurtling from one scandal to another, ranging from endemically corrupt procurement practices in the government and parastatals to allegations of 'state capture' and ineffective legislative and executive oversight. The level of discontent among ordinary South Africans is higher than it has ever been in the post-apartheid era and, as a result, tens of thousands of people have been mobilised by opposition parties and civil society actors to march on Parliament, the Union Building and other seats of power. All of this points to a faltering state that is increasingly resorting to desperate pronouncements, which include the opportunistic invocation of legitimate concerns around the slow pace of economic transformation, land expropriation and the inequitable distribution of wealth, for short-term political gain. While these are important markers of our inability to achieve the dividends of freedom, it has to be said that they could create more harm than good if the intention is to mask failures of government. If this happens, it will deliver the revolution we escaped, but it will not address the enormous challenges facing our society.

Where do we begin to build the trust that will make our society hopeful again? Wherever we find ourselves in society, we all have a role to play. The private sector, with its wealth of material and intellectual resources, is one of the critical role-players in this regard. This issue of the *Transformation Audit* grapples with the contribution that the private sector can make in restoring public confidence in the future of this country. One of the ideas advanced in this publication is the need for business to rethink the nature of its relationship with and contribution to broader society. Rather than the employment of tick-box corporate social responsibility programmes, it argues for reflection not only on the sustainability of the physical investments made by commercial enterprises, but also the impact of their business models on the well-being of customers and workers. Instead of handing the responsibility to intermediaries, which reflects an 'I should' attitude, corporates should adopt an 'I choose' mentality that will enhance sustainability and improve relationships between them and the recipients. The private sector is under significant pressure to create more jobs and to become an active driver of inclusive development. The sector's objective to make a profit is universally accepted, but we have to challenge the captains of industry to align their long-term visions with global developmental agendas, such as the United Nations' Sustainable Development Goals, and our own National Development Plan.

The Institute for Justice and Reconciliation's SA Reconciliation Barometer Survey has shown over a number of years that rampant inequality remains the biggest impediment to reconciliation. While we need a capable state to fulfil its role, we also need a business community that is sensitive and responsive to this reality. Such a partnership must be strengthened and include other role-players, such as labour and civil society. While reimagining how the economic cake should be divided is laudable, we must become more radical in our thinking. We have to become much more intentional about sharing ownership of the bakery. Instead of seeing government targets as a threat, the private sector would do well to use these as an incentive to make society more equal. South Africa finds itself on the proverbial 'burning platform'. Remaining where we are will certainly guarantee our collective demise. Our salvation lies in taking the risk of plunging into the cold and uncertain water below, which is the only alternative at this point. We need to risk becoming pioneers of a new paradigm that will see stronger cooperation, a more inclusive economic reality and a society that is able to put the interests of the nation before political expediency and economic self-interest.

We need to reimagine the social compact between government, business, labour and civil society by consciously building trust between them and restoring the confidence of ordinary South Africans who want to live dignified and fulfilling lives.

I would like to congratulate the editors, Mzukisi Qobo and Jan Hofmeyr, for the creation of yet another thought-provoking edition of the *Transformation Audit*. Special thanks should also go to editorial assistant, Tiaan Meiring, for his contribution to the success of the publication.

It is our hope that the publication will be widely read, and elicit further debate on the creation of a more equitable and inclusive society.

Stanley Henkeman
Executive Director
Institute for Justice and Reconciliation

X/ EXECUTIVE SUMMARY

This report is divided into two parts that examine the question of the private sector's potential contribution to inclusive economic development models from a global, continental and domestic perspective. Part One (Chapters One and Two) focuses on global and continental trends regarding the role of business in creating inclusive economic environments, and the lessons that can be learned from these experiences. Part Two (Chapters Three, Four, Five and Six) focuses on the South African case, highlighting the challenges faced and opportunities available in creating a sustainable social pact between business and the government, homing in on the role of the private sector in making the agricultural and mining sectors more inclusive, and looking at a case study of a public–private partnership in the form of the Renewable Energy Independent Power Producer Programme (REIPPP).

In Chapter One, 'The global role of business in leading social change: Working with governments, social entrepreneurs and civil society', Mzukisi Qobo contends that challenges such as energy deficiency, poor healthcare systems, weaknesses in education, water challenges and social inequalities can no longer be solved by governments alone. In a globalised world where power and resources are becoming more diffused and laterally organised towards non-state role-players, solutions lie in collaboration and coordination between all stakeholders controlling significant resources. Although corporate social responsibility (CSR) measures and government regulations have been helpful in establishing certain levels of social and environmental responsibility amongst the private sector, building a critical mass for solving society's complex challenges requires an approach that goes beyond merely conforming to legislative prescripts and CSR checklists. By means of global and local examples, the author delineates public–private partnerships in the emerging collaborative economy. The widespread entrenchment of norms of good behaviour in the institutional business mindset, social investment, impact investing and innovation-focused philanthropy are highlighted as potential options for the way forward. Special attention is afforded to the new wave of philanthro-capitalism, spearheaded by longstanding and newly thriving business elites, who have accumulated massive wealth and are now collectively coordinating efforts, on a global level, to tackle systemic challenges, especially those associated with energy deficits in poor countries.

In Chapter Two, Lyal White and Adrian Kitimbo analyse 'The role of the private sector in Africa's development'. Despite the momentum that built up around the 'Africa-rising' narrative, the authors describe how the slowdown in continental growth in 2016 exposed Africa's shortcomings in respect of the achievement of lasting and sustainable development outcomes. Weak policies and institutions during the preceding growth period of the last decade deepened inequality and failed to improve crucial areas of governance. The authors concentrate on how the development debate, hinged on the ongoing tension between 'more' or 'less' aid, seems to have toned down in the light of a push from the private sector toward a more active role in driving development as a stakeholder in Africa. The economic philosophy of 'Africapitalism' – an approach where the private sector drives market-led socio-economic development and serves as a key enabler of real development outcomes for Africans by Africans – is explored, and the role of impact investing in generating social and environmental impact alongside a financial return is highlighted. Examples of private sector investments in areas such as education, microfinance, agriculture and infrastructure are used to demonstrate what is possible when all stakeholders pool their resources for a common goal and a mutually agreed (and measured) outcome.

In Chapter Three, 'The role of the private sector in socio-economic change', Christopher Wood and Mzukisi Qobo focus on the potential for a sustainable social compact in South Africa. While the country has made significant political headway in entrenching a democratic state, intractable socio-economic inequalities today threaten South Africa's political stability. The authors investigate the notion of a social and institutional framework around which the main social actors can coalesce to push back against the country's mounting socio-economic challenges. They situate major challenges to societal stability and cohesion, like high levels of youth unemployment and social inequality, against the backdrop of South Africa's political transition in the 1990s. The authors argue that the country has not yet been able to craft a lasting economic transformation agenda on the basis of the political framework established during the Convention for a Democratic South Africa negotiations. They interrogate the weaknesses of the existing social compact, especially the shortcomings of one of its key institutional bodies, the National Economic Development and Labour Council. The authors maintain that a social compact, which is able to effectively tackle South Africa's massive socio-economic challenges, should be underpinned by political will, mutual respect between the government and business, well-defined and shared objectives, quality institutions, leadership that inspires confidence, a coherent economic policy and development strategy, and a corporate sector that transcends narrow self-interest.

The next two chapters are sector-specific, and investigate the role of the private sector in fostering inclusive development in the agricultural and mining sectors respectively. In Chapter Four, Wandile Sihlobo and Lyndré Nel ask: 'Is South Africa's agricultural sector addressing inclusive socio-economic development?' The authors delve into the complexities facing inclusive development in the agricultural sector, post-1994. They distinguish between the different approaches required for transformation in a dualistic agricultural sector, consisting of commercial agriculture and smallholder subsistence farming. The authors note the elevation of previously disadvantaged South Africans into management and/or landownership positions as a central challenge, and highlight the slow pace of land redistribution, due to the large capital and training investments required to make land transfers and empowerment initiatives sustainable. The chapter investigates the impact of the deregulation of the sector in 1997/98, the sector's significant contribution to overall employment, and the failures in land reform over the past two decades. The authors identify climate and policy uncertainty as important developmental challenges facing the sector. They make use of existing case studies to pave a way forward for inclusive development, highlighting the role of skills development and mentorship of upcoming farmers by their commercial counterparts.

In Chapter Five, 'A new mining industry: Opportunities and constraints', Lumkile Mondi describes a sector that houses vast transformative potential, but which is also the source of much historical and contemporary injustice. Mondi discusses the current state of the sector against an historical background of colonial and apartheid exploitation, and the challenges that the stubborn perpetuation of this legacy still poses. Based on a review and analysis of the legislative and institutional characteristics of the industry, the causes and consequences of the 2012 Marikana Massacre are discussed. The sector's challenges are also situated within global trends in mining and sector investment, and the slowdown in global commodity demand. The author cites leadership failures within the government and business, and mistrust among stakeholders, as the major obstacles to forging an inclusive mining development agenda.

A common theme throughout all of the chapters is a call for greater public–private cooperation as part of an inclusive economic development agenda. Chapter Six, 'Case study: Lessons from a public–private partnership in the renewable energy sector', by Christopher Wood examines what he describes as 'an almost ideal form of the type of public–private collaboration' – the Renewable Energy Independent Power Producer Programme. In theory, public–private partnerships like this offer a way to offset the burden on the government by de-risking private investments and thereby channelling private resources to productive endeavours (like encouraging renewable energy production). By highlighting the successes and failures of the REIPPP, the author provides valuable insights for potential public–private sector collaboration in future.

XII/ INTRODUCTION

Much of the global momentum behind the rise of populist right-wing movements today is being generated by widespread public disenchantment with the substantial sway that large business entities hold over government decisions at the expense of broad democratic consultation. Democracy, some now cynically say, has become a terrain of contestation where decisions of national importance no longer favour the popular majority, but the highest bidder with the deepest pocket.

Around the world, this disillusionment has resulted in a popular backlash against 'the establishment', which its opponents broadly define as the largely urban political and economic beneficiaries of neoliberal economics, who have exploited their privileged positions at the expense of inclusive development in their respective societies. In terms of this view, public interest has become subservient to the profit motive of global investors and, as a result, even those business entities that have their origins within a particular geographical territory cannot be trusted with the best interests of those who reside in it. Instead, they are viewed as beholden to fluid and fickle shareholder interests that show little consideration for the greater social good.

This disenchantment peaked amidst the global financial crisis, when the 'too big to fail' argument was employed by governments to justify the use of public money to bail out private financial institutions that, through their callous trading, obliterated the livelihoods of many. These events laid bare the noxious relationship that has developed between governments and big business over a period of decades and, consequently, both governments and corporate entities continue to suffer from the trust deficits left in their wake. Today ruling parties try to distance themselves from the 'establishment-friendly' label, while the public-relations machines of big business concerns have gone into overdrive to polish their image of good corporate citizenship.

This may, however, have been a case of 'too little, too late'. Amid depressed global growth since the crisis, there has been a surge in support for protectionist, anti-establishment parties in both developed and developing countries, promising to curtail the influence of powerful business lobbies and restore the citizen to the centre of national decision-making processes. This backlash against cosmopolitan elites, perceived to be more concerned with the health of their diversified global portfolios than the well-being of the national collective, coincided with a mounting wave of nationalism amongst the working and middle classes, whose fortunes are inextricably linked to domestic economies.

Although foreshadowed by developments in countries like Hungary and Poland, the British vote to leave the European Union in June 2016 (or Brexit, as it has become known) signalled the most decisive rightwards shift towards more inward-looking public sentiment in the global North at the time. Shortly thereafter, the success of Donald Trump's 'Make America Great Again' presidential campaign, with its nationalist overtones, further confirmed this major mood shift in the West. In 2017, important national elections in France and Germany will provide further indication of the extent to which this movement has gained traction.

Yet, during these campaigns, and others that will still follow in the course of 2017, more than just economic variables have informed (and will continue to inform) the case for greater protectionism. Thus far, some responses to perceived exclusion have contained strong ethno-nationalist undertones, suggesting that the polarisation around questions of wealth distribution not only related to social friction between the establishment and the rest, but also – and even more so for ordinary citizens – between those who view themselves as natives of their respective countries and those who are viewed as 'outsiders'.

A cursory look at the string of investment banker appointments by the Trump administration suggests that, to date, precious little has materialised from campaign promises to keep Wall Street at arm's length. Neither has there been a marked shift in the power relations that determine decision-making processes in the United Kingdom. These are early days, but the more cynical perspective may be that deep material concerns of ordinary citizens once again have been exploited for political gain by duping insecure voters through fiery rhetoric and empty promises. Whether there is truth to this or not, the reality of growing inequality and the resultant cost of social polarisation remains. It is no longer a sustainable model for developed countries, and even less so for developing societies with far less social support to offer the vulnerable sections of their populations.

At the same time, empty populist rhetoric that espouses radical economic solutions, without putting substantive alternatives on the table, poses an equally perilous threat to the cohesion of societies. As Italian Marxist theorist Antonio Gramsci pointed out, much can go wrong in the interregnum between the old that is dying and the new that is yet to be born. It is, for example, becoming increasingly clear to new incumbents that the globalisation egg will not easily be unscrambled and, by implication, that powerful business interests, which command substantial resources, will not be forced into submission without significant material consequences for ordinary people around the world. Moreover, what possible benefit can a country derive from an adversarial relationship between the state and business, two of its most powerful social forces? It is a clear recipe for self-destruction.

For this reason, it has become critical to seek new forms of collaboration between the private sector, the state, labour and civil society that will approach the notions of investment and return from a comprehensive, long-term perspective. Sustainable business is only possible in sustainable societies. As such, it becomes pivotal for private business entities to consider their social impact in the same careful manner as they do when they apply their minds to the expansion of physical infrastructure. From this perspective, fair and inclusive business practices, which are sensitive to the socio-political environment within which they operate, offer the potential for social peace, political stability and, by extension, sustainability from both a social cohesion and business perspective.

In few countries is the need for such a realignment as evident and as urgent as in South Africa. In a country with such intractable developmental challenges and deep inequalities, it is critical for the social partners (state, business, labour and civil society) to work in tandem to address these. This requires mutual trust between partners, a shared appreciation of the scope of the challenges, broad agreement on the type of society that is aspired to, and a general buy-in to the strategies that must be pursued to achieve such as society. Importantly, also, there needs to be a broad national consensus on the role that each stakeholder must play in this endeavour. In short, a new social compact needs to guide all stakeholders in the pursuit of a more equitable and prosperous society.

Yet, despite its obvious necessity, there is little evidence of such a broad social consensus within the South African body politic. The creation of the National Economic Development and Labour Council as a consultative forum for government, business, labour and civil society represented the post-apartheid dispensation's response to this need to forge common purpose amongst major economic stakeholders. Having been bypassed at several critical moments over the past two decades, it has never been allowed to play its rightful role as a consensus-building mechanism in what remains a deeply polarised society. As a result, the body lacks innovative ideas to shape economic policy. Other more recent initiatives to mobilise consensus, like the National Development Plan, which was launched in 2012, lost momentum as the government struggled to get commitment from all stakeholder groups.

The policy sphere, therefore, remains fragmented and collaboration between the major social stakeholders is largely coincidental, instead of being driven by a longer-term vision that allocates roles to particular stakeholders. Where interests have diverged, uncompromising winner-takes-all positions have on occasions frustrated progress and further eroded trust, which is already in short supply.

The role and place of business, in particular, as a social stakeholder has been complex and multi-layered. In the wake of the political transition of 1994, it has engaged with the government mainly when matters that directly affect its ability to compete optimally within the domestic and international economy have been on the agenda. Typically, this would include policy processes that relate to labour questions, trade policy and the integration of the economy through policies such as broad-based black economic empowerment. However, apart from dedicated corporate social responsibility investment initiatives, it has adopted a much more cautious posture as far as its actual engagement in broader socio-political questions is concerned. Some have criticised business for its reluctance to express itself on particular issues of national importance, given its financial muscle. Others have expressed their doubts about the sector's commitment to social development, citing the reluctance of South African corporates to invest their money in the country, while sitting on large cash reserves. From both camps, however, there appears to be a clear anticipation of stronger engagement with the country's socio-economic and political realities.

In South Africa, therefore, the business of business can no longer be just business. In the light of the country's multiple developmental challenges, as well as the resources (both financial and human) at its disposal, there is a growing expectation that the private sector will revisit its approach to doing business in South Africa. This does not require commercial enterprises to become explicit political actors. What is needed more than ever is for business to be fully conscious of the political challenges that the country faces, to project a posture of leadership rather than victimhood, and to leverage its unique positioning to engage candidly with the government. There are limits to what individual companies can do to affect a country's politics, but whenever they have an opportunity they need to make their concerns known, even if privately.

There are at least three factors that have, in the past, constrained the effectiveness of business in engaging with the government or the broader political challenges in the country.

Firstly, there has been the perception that large South African corporates resist social transformation, and are not prepared to contribute towards addressing the structural legacy of apartheid. Mistrust and misunderstanding between business and the government have deepened over time, with the government preferring to use regulation to extract equity outcomes from business.

Secondly, given the historical tensions in South Africa, it has been difficult for the business sector (in particular, predominantly white-owned corporates) to cultivate productive social networks with a predominantly black government. The various forums where the two interact tend to be formal and rigid, with stiffness and acrimony characterising the dialogues. Consequently, the government has little appreciation of the challenges that corporate South Africa faces, and the fears that it harbours about the present and the future. Conversely, corporates have a limited understanding of public policy decision-making and other institutional complexities of government. Cordiality between the government and business quite often represents a useful façade of 'South Africa Inc.' on platforms where it matters, such as the World Economic Forum and state visits to significant countries; or when the country undergoes some economic strain. There is, thus, a need to improve relations between business and the government, at both informal and formal levels, and such interactions should cut across various sectors.

Thirdly, the business sector is also fractured along racial lines and lacks organisational coherence. While this is changing gradually, there is still a myopic perception that organisations such as Business Leadership South Africa are hostile to the government, whereas the Black Business Council is seen as progressive. The failure of big business to speak in one voice makes it harder for its presence to be felt in public policy or broadly in society. Yet, business has an important role to play as an agent of socio-economic change.

Beyond grappling with politics, business needs to continue to explore creative and innovative ways of contributing towards nurturing a stable and inclusive society. By implication, this means that the business sector must look differently at how it defines the concept of 'investment' and, consequently, how the quality of returns is assessed. While businesses typically invest in their enterprises with a view to enlarging their monetary returns in the long run, they also have to consider the social returns. While businesses should be able to extract profits, it also makes long-term business sense to contribute to the nurturing of more sustainable and materially secure consumer markets.

While the state remains the dominant change agent, it is by no means the sole actor with the capacity to effect social change. Collaboration is the new game in town. There is no single actor that can shoulder the vast societal challenges alone. For this reason, it is imperative that the state collaborates with all social stakeholders, which include business, labour and civil society, on the basis of trust and mutual respect.

This edition of the Transformation Audit focuses on the potential for partnerships between the state and the private sector to effect social change in as far as South Africa's developmental challenges are concerned. The report is divided into two parts. The first focuses on global and continental African best practice by looking at examples of the private sector contributing towards the creation of more inclusive economic environments, as well as the lessons that can be learned from these experiences. Part Two focuses on developments in South Africa in this regard. It outlines past and present efforts to forge a social pact between key social stakeholders, and presents case studies in the agricultural, mining and renewable energy sectors that highlight the country's challenges and successes in this regard.

This report underscores the need for two key social actors – business and the government – to pool their collective resources and forge a new consensus for long-term social and economic change. This, in all likelihood, will require a strengthening of mutual trust, as well as the setting aside of vested interests that impede the alignment of resources in society.


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PART 1 | GLOBAL INSIGHTS

CHAPTER ONE

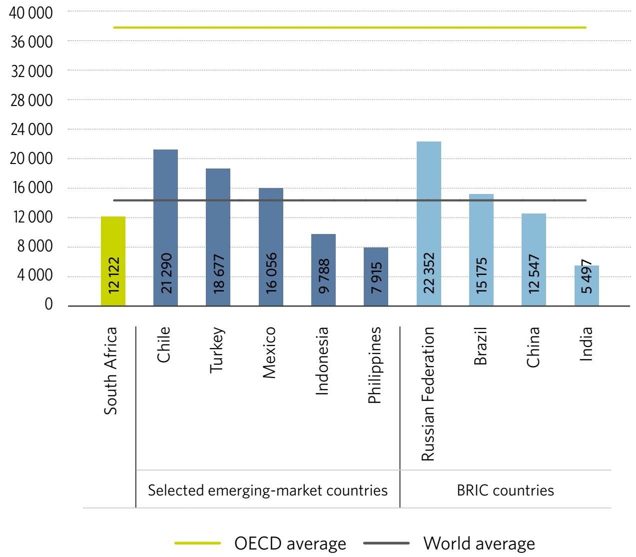
THE GLOBAL ROLE OF BUSINESS IN LEADING SOCIAL CHANGE: WORKING WITH GOVERNMENTS, SOCIAL ENTREPRENEURS AND CIVIL SOCIETY

Mzukisi Qobo

1

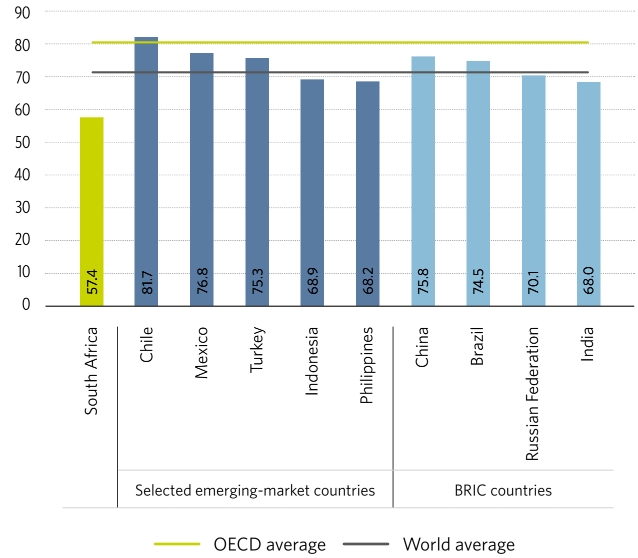
According to United Nations Development Programme (UNDP) data, South Africa performs relatively poorly in terms of its Human Development Index (HDI), ranking 116th out of 188 countries with a score of 0.666 out of 1. In terms of the measures that make up the HDI, and compared to its peers, South Africa performs strongly in education (measured in mean years of schooling received by its citizens), while its Gross National Income (GNI) is also comparable to that of other so-called Emerging Markets. It is in terms of health (measured by life expectancy), however, that the country falls drastically short.

Gross national income per capita, 2014
(US$ 2011 constant, PPP adjusted)



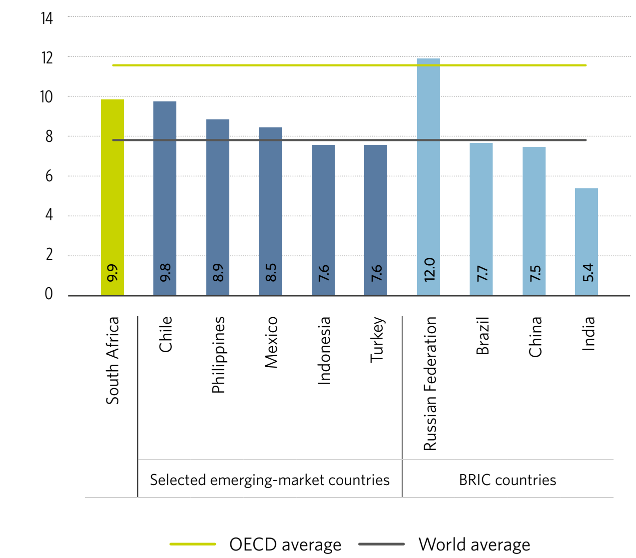
Source: UNDP Human Development Indicators Database

Life expectancy at birth (49.0–84.0), 2014
(years)



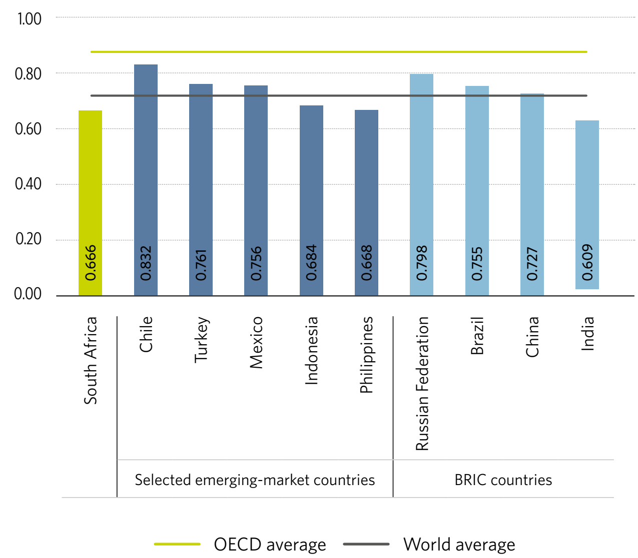
Source: UNDP Human Development Indicators Database

Mean years of schooling, 2014
(years)



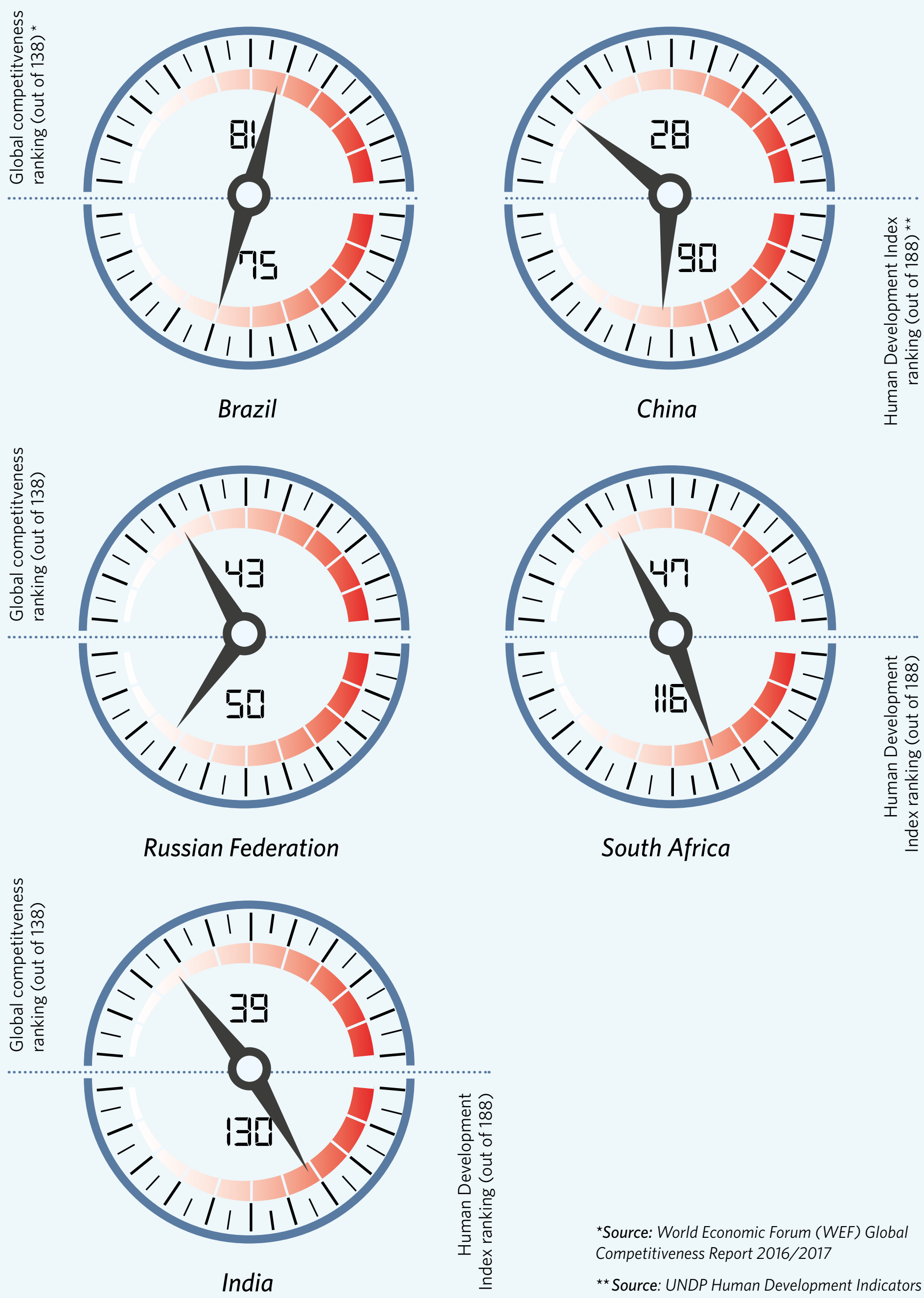
Source: UNDP Human Development Indicators Database

Human Development Index, 2014



Source: UNDP Human Development Indicators Database

COMPARING THE BRICS: HUMAN DEVELOPMENT AND GLOBAL COMPETITIVENESS

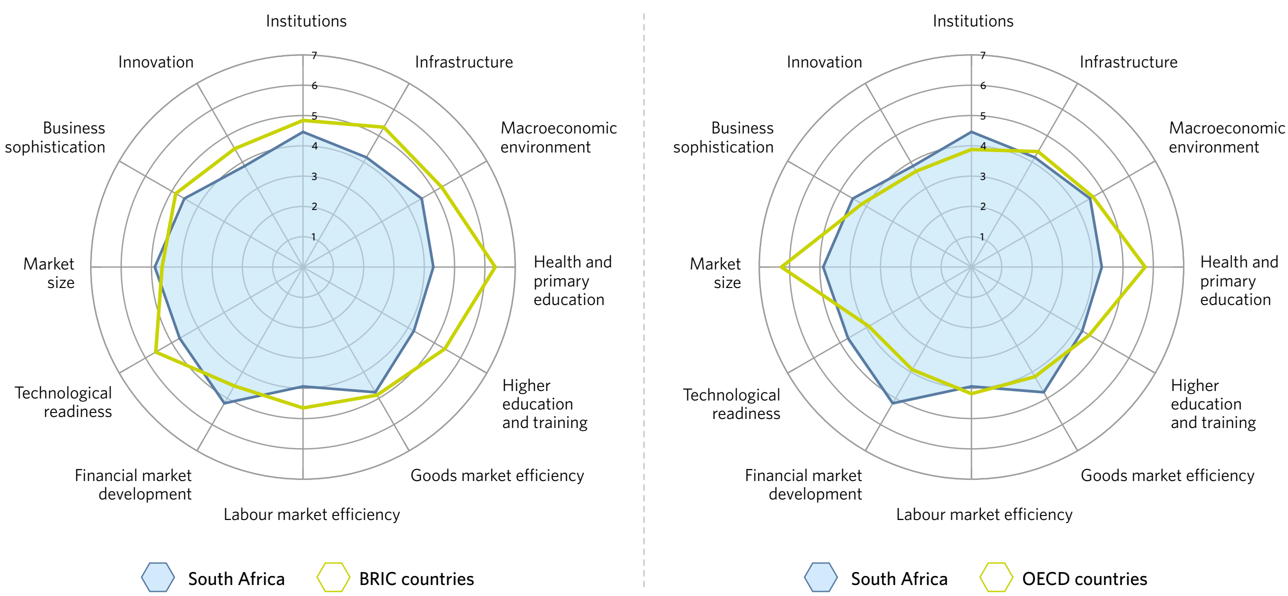


***Source:** *World Economic Forum (WEF) Global Competitiveness Report 2016/2017*

**** Source:** *UNDP Human Development Indicators Database*

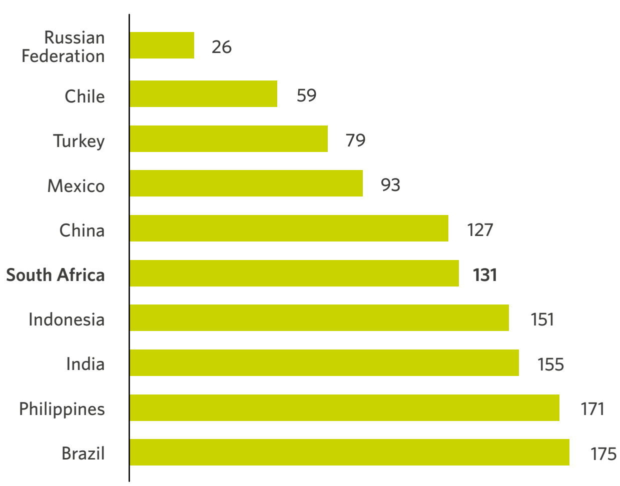
The World Economic Forum (WEF) ranks South Africa relatively high, at 47th out of 138 countries, in terms of its criteria for economic competitiveness. The country's particular strengths lie in its goods market efficiency (scoring 4.8 out of 7 and ranked 28th globally), its market size (4.9 and 30th), business sophistication (4.5 and 30th) and especially its financial market development (5.2 and 11th). Conversely, the country's major challenges lie in terms of labour market efficiency (3.9 and 97th) and health and primary education (4.3 and 123rd), themes that recur throughout the data on South Africa. Furthermore, while South Africa ranks 74th out of 190 countries in terms of the World Bank's doing business index, the same data indicate that it is a far greater challenge to start a business in the country (131st of 190).

WEF Global Competitiveness Indicators, 2016/2017



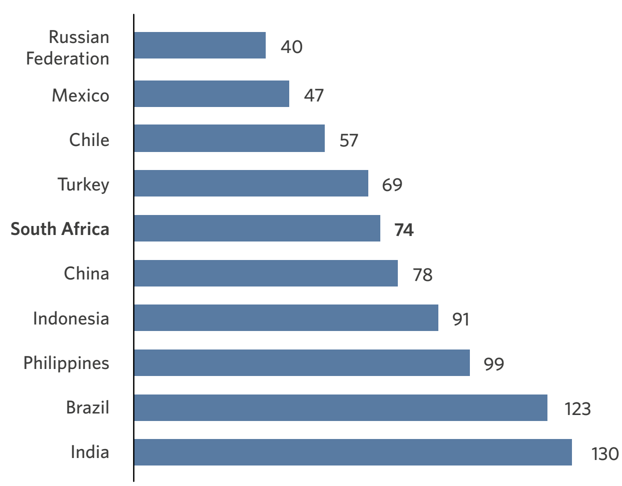
Source: *Own calculations from WEF global competitiveness indicators, 2016/2017*

Global ease of starting a business ranking (out of 190), selected emerging-market countries, 2017



Source: *World Bank Ease of doing business index*

Global ease of doing business ranking (out of 190), selected emerging-market countries, 2017



Source: *World Bank Ease of doing business index*

1/ KEY INSIGHTS

- Challenges such as energy deficiency, poor healthcare systems, weaknesses in education, water difficulties and social inequalities will not be solved only by the social policies of governments, but rather through collaborative thinking and coordination by all stakeholders controlling significant resources.
- It is no longer sufficient to see social engagement as a tick-box mechanism to obtain 'social licence' to operate without thinking seriously about the substantive difference that businesses make in society, both locally and globally.
- Notions of sustainability have become mainstream, with companies taking steps to improve the environmental and social consequences of their activities, often under the intense glare of non-governmental advocacy groups and the media.
- While measures such as CSR are very important in limiting negative externalities, or in extending the social reach of businesses to make them more responsive to social needs and a range of stakeholders that may be affected by the company's goods and services, these are certainly not sufficient to build a critical mass for solving society's complex challenges.
- While regulation is good for establishing rules of the game, and to pose a credible threat for non-compliance, the real achievement is when norms of good behaviour become an entrenched part of the business mindset.
- What is remarkable about the emerging collaborative economy is the recognition by governments and businesses that power is more diffused and laterally organised, and that partnerships are required to crack tough challenges in society.
- The new wave of philanthro-capitalism is spearheaded by business elites, a blend of elders and youth, who have accumulated massive wealth and are now collectively coordinating efforts, on a global level, to tackle systemic challenges, especially those associated with energy deficits in poor countries.
- Be it in shifting the pattern of industrial development and consumption towards cleaner energy, or changing the way transportation systems, education and healthcare are structured and delivered, there is a need for various stakeholders to work together in generating momentum towards a better society.

Introduction

With many corporate behemoths today commanding more resources (and possibly greater influence) than some nation states, the idea of excluding business from the search for global solutions to the major challenges of our time is almost unfathomable. Whether we talk about climate change, public health, natural resources management, education, infrastructure, inequality or the deepening digital divide, the participation of commercial enterprises alongside governments and civil society is critical in the search for sustainable solutions.

There is, however, a need for greater coordination amongst these key actors so as to avoid the dominance of any one stakeholder, or the duplication of resources, in trying to tackle common challenges. In the context of global power shifts over the past decade, it is in any case not possible for a single social actor to provide comprehensive solutions to complex social challenges. These shifts are evident across different dimensions: wealth and power are shifting from advanced to emerging economies; changes are also visible in the way that power is diffusing, not so much from one group of countries to another, but in its very composition, with a range of role-players acting laterally and on a smaller scale to outdo big actors, be they governments or corporates.

Apart from the shifting power dynamics, expectations are growing as to the role of business in effecting social change. New ways of thinking about the social role of businesses and investors are emerging. These include social investment, impact investing and innovation-focused philanthropy. There are still the compliance-driven corporate governance standards and practices, such as corporate social responsibility (CSR), which major corporates are expected to implement as part of their social licence to operate. However, thinking about the role of business in society goes beyond the ethic of 'thou shall do no harm' in the course of doing business, to 'thou shall proactively cultivate social good, because it is good for you'.

There was a time when businesses pursued the maximisation of profits with scant regard for the social impact of their dealings – where the definition of 'stakeholder' was limited to those owning a stake in the enterprise. Granted, this mindset is still prevalent in many ventures, but it is fast losing ground against a more inclusive understanding that sees the fortunes of corporates as being intertwined with the broader societies where they do business.

The celebrated conservative economist Milton Friedman once famously remarked that 'the role of business is business'. In Friedman's mind, there was nothing more that business could do to contribute to society beyond creating jobs and paying taxes. In this schema of thinking, business leaders only had to mind their businesses. Even when their operations had a harmful effect on the environment and human health, many business leaders simply turned a blind eye, hoping that their actions would not be detected. While this still happens, many now fear the detrimental impact that exposure can have on their brand. Taking care of the interests of customers, employees, suppliers and communities, or at least the perception of doing so, has now become the norm in corporate culture.

While these normative changes represent a major shift, the main thrust of this paper is that corporates, innovators and investors can still do much more to contribute to social change. There is a need to move beyond the tick-box approach of CSR, where 'doing good' is an afterthought, to consider business practices that yield both monetary and social value. Its financial muscle makes the private sector an influential stakeholder, alongside governments, in the pursuit of inclusive and cohesive societies. This shift in thinking requires a different way of conceiving corporate identity and responsibility, especially in a global system that is extremely fluid. Further, beyond large corporates there are wealthy individuals who, through their philanthropy, have invested in innovative solutions at the local and global levels, thereby reaching further than many governments and big companies can in directing the course of change. Challenges such as energy deficiency, poor healthcare systems, weaknesses in education, water challenges and social inequalities will not be solved only by the social policies of governments, but rather through collaborative thinking and coordination by all stakeholders controlling significant resources.

The first of the four sections that follow takes a critical look at CSR, providing perspectives on the utility of this framework, as well as its limits. The second reflects on corporates and their ethical frameworks. Ethical weaknesses in various large companies limit the extent to which businesses can be embedded productively in their social environment and gain social respect. The third examines the possibilities that lie in social enterprise. It is noted that the limitations of CSR require a new mindset and ways of driving social change through social enterprises, as a distinct form of engagement. The fourth section suggests that a new wave of philanthrocapitalism holds possibilities for tackling both local and global challenges.

Corporate social responsibility as minimalism

For a long time, CSR was viewed as the only way that businesses could express a legitimate social purpose and have a positive effect on a broad range of societal stakeholders. This approach refers to a host of activities undertaken by businesses: adequate corporate governance structures, implementation of workplace safety standards, establishment of environmentally sustainable procedures, and philanthropy (Schwab 2008).

Some hold that CSR encapsulates dual objectives – the pursuit of benefits for the business and for society (Keys, Malnight & Graaf 2009). From a societal point of view, companies now generally accept that they cannot ignore the environmental factors that could indirectly affect them. Creating benefits for society may be just what is needed to secure business sustainability. There is also a growing awareness of the importance of CSR as a means to establish social legitimacy and, possibly, political recognition amongst policymakers. At the heart of CSR is the idea that Hart (2007: 69) refers to as 'product stewardship', which 'integrates the voice of the stakeholder into business processes by allowing the firm to interact with external parties such as suppliers, customers, regulators, communities, NGOs, and the media'. According to Hart, this lowers environmental impacts across the value chain and enhances the firm's legitimacy and reputation.

At the same time, there exists a view that CSR has perhaps reached its limits, that new ways of thinking about the role of business in society are required. It is no longer sufficient to see social engagement as a tick-box mechanism to obtain 'social licence' to operate without thinking seriously about the substantive difference that businesses make in society, both locally and globally.

As Klaus Schwab (2008), the founder of the World Economic Forum, points out, there is a new imperative for corporates, which he calls 'global corporate citizenship', in terms of which corporates are stakeholders alongside governments and civil society in solving societal challenges. Back in 1971, the World Economic Forum pioneered the stakeholder concept to underline important ways in which businesses can conceive of their role beyond maximising shareholder returns, and engage with wider society to solve problems.

The 1973 Davos Declaration was a very enlightened step for that time, and gave currency to the notion of stakeholder capitalism. This was a bold move in view of the fact that the golden age of capitalism was in its final throes as a result of a spike in energy prices, declining profitability, and growing inflation and unemployment. There was very little cause to be optimistic, as many countries in both the developed and developing world entered a long period of recession. The March 1987 Brundtland Report titled 'Our Common Future' upped the ante on sustainability issues. The report was a result of an independent commission established by the United Nations Secretary-General in December 1983, chaired by Gro Harlem Brundtland of Norway. Its objectives were to identify realistic strategies for dealing with environmental and developmental concerns, to propose new means of international cooperation, and to raise the level of understanding, and commitment to action, of individuals, voluntary organisations, businesses, institutes and governments (UN 1987). Although the work of the Brundtland Commission focused mainly on the mobilisation of countries to advance international cooperation on environmental issues, it added to calls for greater environmental stewardship by businesses. The idea that businesses could and should play a bigger role in society became popularised by growing calls for sustainability, as well as through pronouncements such as the Davos Declaration.

Since then, notions of sustainability have become mainstream, with companies taking steps to improve the environmental and social consequences of their activities, often under the intense glare of non-governmental advocacy groups and the media. Schwab (2008) contends that business engagement with social issues can be expressed according to the following five pillars: corporate governance, corporate philanthropy, CSR, corporate social entrepreneurship, and corporate global citizenship. He defines corporate governance as 'how a company behaves when no one is looking' (Schwab 2008: 110). This dimension of business is essentially about promoting ethics and socially acceptable practices. The

UN Global Compact (established in 2000), for example, emphasises that corporate sustainability has to concern itself, mainly, with a company's value system and a principled approach to doing business.[1]

This framework sets out the following principles – that companies should:

- support and respect the protection of internationally proclaimed human rights;
- not be complicit in human rights abuses;
- uphold the freedom of association and the effective recognition of the right to collective bargaining;
- eliminate all forms of forced and compulsory labour;
- abolish child labour;
- eliminate discrimination in respect of employment and occupation;
- support a precautionary approach to environmental challenges;
- undertake initiatives to promote greater environmental responsibility;
- encourage the development and diffusion of environmentally friendly technologies; and
- work against corruption in all its forms, including extortion and bribery.

This mechanism, established in July 2000, is aimed at encouraging business to adopt sustainability measures globally, and has 1 300 corporate affiliates and stakeholders from 170 countries. It was set out as the clearest indication at the beginning of the new millennium of the importance of corporate sustainability as a problem-solving measure. Yet, as important as this thinking is, it is not sufficient for mobilising greater business action to solve major social and economic challenges of the day.

Efforts such as those of the Global Reporting Initiative (launched in 2000) have also played a useful role in encouraging businesses to be accountable to both internal and external stakeholders. More specifically, the Global Reporting Initiative seeks to ensure that sustainability reporting provides 'a balanced and reasonable representation of the sustainability performance of a reporting organisation – including both positive and negative reporting'.[2] Over and above financial reporting or reporting on internal factors, organisations are expected to report on external factors as they pertain to economic, environmental and social impacts. These standards are all aimed at embedding a social consciousness in the machinations of business. They give new meaning to the relationship between the environment and social benefits, on the one hand, and the perceived private costs of pursuing sustainability goals, on the other.

While minimalist in effect, these are not just passive measures. For example, they require organisations to demonstrate their understanding of their stakeholders and to report on how they have responded to their reasonable expectations and interests. Stakeholders may include employees, shareholders and suppliers that could potentially be affected by the organisation's activities, products and services. For the purpose of reporting, a distinction has to be made between factors that drive global impacts, such as climate change, and those that are more local, such as community development.

The emergence of these instruments has made it abundantly clear that stakeholder capitalism is the optimal way of doing business in a complete manner – emphasising both profitability and sustainability measures. As Porter (2008: 348) points out, this thinking should not be seen as eroding competitiveness, since 'properly designed environmental standards can trigger innovations that lower the total cost of a product or improve its value', and that 'enhanced resource productivity can make companies more competitive, not less'. This is also true for other social goals businesses contribute towards.

Porter (2008: 455) argues that, 'companies do not function in isolation from the society around them. In fact, their ability to compete depends heavily on the circumstances of the locations where they operate.' He uses education as an example, noting that investment in education has social and economic utility, especially with respect to increased human capital, which potentially has a positive effect on a company's competitiveness. Porter (2008) further contends that how the company uses labour, capital and natural resources to produce high-quality goods and services determines its competitiveness, and that productivity depends on creating an environment in which workers are educated, safe, decently housed and motivated by the availability of opportunities. The case for good corporate behaviour to promote sustainability objectives is solid. From this perspective, it is simply counterproductive for corporates to be parochial and only have a short-term view on their business.

Ultimately, being a responsible corporate citizen is good for business. Not only does it obviate the need for costly regulation, it can also help in strengthening an

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organisation's brand equity. When a company loses a business or competitive advantage in the short-term because it adheres to high ethical standards, it has a lot to gain in the long run from having cultivated a clean reputation and for credible corporate citizenship (George 2003).

Most importantly, CSR could enable the company to realise a greater role for itself as a critical stakeholder that is attuned to the challenges of society, and to possibilities that lie in the future. Yet, companies still need to do more in helping governments solve social and economic challenges that may, if left unattended, induce conditions for social instability. One of Porter's (2008) sharpest criticisms of CSR approaches is that they tend to be fragmented, disconnected from business and strategy, and their design limits the extent to which they create sustained benefits for society. In some instances, the pet interests of business leaders could also overshadow the need for a more strategically orientated corporate social investment. It is important for the private sector to realise its power to effect change in societies. As the World Economic Forum points out, a productive, competitive, well-diversified and responsible private sector can play a powerful role in 'underpinning economic growth and wealth-creation, but also supporting other key pillars of development' (WEF 2005). Indeed, a socially engaged company is likely to be internally healthy, with employees who have a greater sense of pride in associating with the company.

Charity begins at home. Companies have to hold values that are non-negotiable and cultivate an organisational culture that aspires to high ethical standards. In their study on the differentiators between good and great companies, Jim Collins and Jerry Porras (2000) make a powerful case that great companies are undergirded by idealism, expressed in the form of core values that go beyond watching the bottom line. Such companies, as Collins and Porras observe, do not pursue the single objective of making money, but rather a cluster of goals, of which profitability is but one. Other accounts hold that in some instances pursuing growth can cause a corporation to crash (Christensen & Raynor 2003: 1). Below, we explore the terrain of ethics, and show how pursuit of profitability at all costs can induce ethical lapses, with adverse implications for a social compact between the government, business and other stakeholders.

Corporates and weak ethical frameworks

While measures such as CSR are very important in limiting negative externalities, or in extending the social reach of businesses to make them more responsive to social needs and a range of stakeholders that may be affected by the company's goods and services, these are certainly not sufficient to build a critical mass for solving society's complex challenges. The approach to CSR – often characterised as triple bottom-up, encompassing people, profit and the planet – tends to be compliance-focused rather than principle- or value-driven. It tends to be about what to do right when everyone is watching, and not caring much about the impact of irresponsible actions when no one is looking.

There has been plenty of corporate malfeasance, ranging from weak ethics to downright criminality, both in South Africa and abroad, which has demonstrated a conditional acceptance of norms within the business sector. In South Africa, one of the more prominent corporate scandals of the past decade involved Fidentia Asset Management in 2007. The company was placed under curatorship, following fraud masterminded by the company's owners, which led to the loss of over R1 billion belonging to more than 47 000 widows and orphans of mineworkers. Fidentia Asset Management was responsible for the trust (the Mineworkers Provident Fund) in which this money was held. Even though the founder and chairman, J Arthur Brown was sentenced to 15 years' imprisonment, this incident showed the extent to which companies can circumvent requirements for corporate governance and stakeholder obligations.

Ethical norms were also breached in the construction sector, when various large construction firms, such as Grinaker LTA, WBHO, Murray & Roberts, Group Five, Concor, Basil Read and Stefanutti agreed to divide procurement (tender) opportunities amongst themselves for the construction of six stadiums for the 2010 World Cup. As a result of their collusion, each corporate entity managed to strike a comfortable profit margin of 17.5 per cent. Quite clearly, their preoccupation was greed rather than offering a service and delivering at fair value. As a result of their rigging, the market mechanism and the principle of fair value were undermined. This meant that the government devoted more public funds than would have been necessary, had such underhanded dealings not taken place.

This practice went against the country's competition laws, and in the end 15 firms were fined a total of R1.46 billion by the Competition Commission – a penalty that many viewed as too lenient.[3] In addition, the companies were obliged to implement competition law compliance programmes and to educate their managers on South Africa's competition law. Although it was the six largest construction firms that were in the limelight, there were various other companies that engaged in similar practices in 300 infrastructure projects across the country, including in the Gauteng Freeway Improvement project and the Gautrain development project (Competition Commission 2014). The organisations that were involved in this cartel behaviour were not just victims of unscrupulous behaviour by lower level employees.

As the former chair of the Competition Tribunal, Dave Lewis (2012) points out, this cartel had been in existence for over 34 years, something that suggests that a succession of leaders in the industry were socialised into this unethical conduct and the structure of operations that permits it. Such practices and their persistence, even when fines have been imposed on others, shows the extent to which ethics are weakly embedded in many corporations, but also their imperviousness to the social cost of their behaviour. While regulation is good for establishing rules of the game, and to pose a credible threat for non-compliance, the real achievement is when norms of good behaviour become an entrenched part of the business mindset.

Outside South Africa, there have been several recent examples of corporate scandals where commitment to good corporate governance and sustainability has been exposed as lip service. The global auto brand Volkswagen admitted in 2016 to US authorities that it had equipped 11 million vehicles with software designed purposefully to cheat on emissions tests. Millions of customers were misled into buying cars that they believed were eco-friendly.

What makes this offence even more reprehensible is the fact that the relevant pollutant (nitrogen oxide) is a major cause of emphysema, bronchitis and other respiratory diseases. Some of the customers had bought the vehicles with this marketed feature because they had suffered symptoms of these illnesses. Volkswagen, therefore, created an impression that they were playing their part in reducing the causes of these illness and showing fidelity to the environment, when the contrary was the case. In some instances, authorities found that

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when tested on the road, Volkswagen cars with the device installed emitted almost 40 times the permitted levels of nitrogen oxide (Gates et al. 2017). Ultimately the automaker reached an agreement with US authorities to either fix or buy back all affected vehicles, and to compensate the owners who had fallen victim to this fraud. Apart from being blatantly unethical, Volkswagen had violated fidelity to very important stakeholders, its customers.

There are many other iconic global brands that have engaged in behaviour that has undermined the public interest. One such practice that largely continues to go unpunished is the creative shifting of profits to low-tax jurisdictions, away from the countries where they are generated. In so doing, these companies are aggressively avoiding payment of their fair share of tax, and leaving ordinary citizens to pick up the tab. This includes practices such as claiming interest deductions for payments made by a company to its own subsidiaries, and what appear to be arm's-length transactions, but which are between related parties. All of this is designed for profit-shifting. High-profile cases of Western companies involved in tax avoidance schemes, such as Google, Starbucks, Apple, Ikea, Amazon, Gap and Microsoft, have made the headlines in recent years.

A study conducted by the European Parliamentary Research Service in 2015 found that large corporates dodged their tax obligations to the tune of between US$54.5 billion and US$76 billion a year by funnelling their profits made in Europe to low-tax countries such as Ireland and Luxembourg (European Parliament 2015). In 2016, Google agreed to a deal with British authorities to pay back GBP130 million in taxes and to bear a greater tax burden in the future.

Crucially, these tax avoidance schemes by large corporates erode the efficacy of public services, at a time of forced public spending cuts and austerity in the wake of the global financial crisis. These practices are less about playing in the grey zone between legality and illegality than they are about bad ethics that potentially have socio-economic implications.

Sometimes, their size makes corporate behemoths ill-equipped to organise themselves into agencies for social change that act ethically and for the greater good. This may explain why some delegate the function of social change to corporate foundations that operate autonomously to drive corporate philanthropy. In some instances, these foundations channel their support to social enterprises that are mission-driven and capable of acting with the agility that is lacking in large organisations.

The new collaborative economy through social enterprise

Weak ethics in large corporates aside, what large companies are struggling to accomplish due to their complex bureaucratic structures, social innovators and entrepreneurs are realising, sometimes with government support. This is not to write off the important role that big companies can play in unleashing their resources to create positive change. Major companies are able to play a positive role through their foundations. Many are already doing so. These include the Packard Foundation that has made more than 250 investments totalling US$750 million since it was founded in 1980 (Larson 2017). Since its establishment in 1999, the Michael and Susan Dell Foundation has focused on urban education, family economic stability, and health and wellness, with committed funds to the tune of US$1.32 billion.

Another of the newly emergent funders of social enterprise is Jeffrey Skoll, an engineer and tech billionaire who has the audacious goal of achieving a sustainable world of peace through the Skoll Foundation established in 1999. His foundation focuses on promoting social entrepreneurship as a catalyst for achieving his goals, and has invested approximately US$400 million around the world. The well-known Bill and Melinda Gates Foundation was formed in 2000 with the goal of improving health and well-being. It has spearheaded solutions to malaria and other public health concerns in Africa. There are many other similar foundations, also in the developing world. Increasingly, there is a growing interconnection between philanthropic initiatives through foundations, and social impact, especially in the non-profit sector.

According to the Bain & Company report on philanthropy in India, there has emerged a sophisticated brand of philanthropists who work with sophisticated NGOs. They do not just donate money, but also provide know-how (Bain & Company 2015). This emerging ecosystem of collaboration helps the non-profit sector to increase its capacity and scale its projects, thereby augmenting social impact. As Hart (2007) notes, corporations possess rare capabilities in the form of technology, resources, capacity and global reach. He further contends that 'properly focused, the profit motive can *accelerate* (not inhibit) the transformation towards global sustainability, with nonprofits, governments, and multilateral agencies all playing crucial roles as collaborators and watchdogs' (Hart 2007: 3). These strategic linkages are important since social impact depends largely on the effectiveness of the delivery mechanism which, in this case, is the non-profit sector. As Porter (2008: 469) counsels, 'by improving the effectiveness of nonprofits, corporations create value for society, increasing the social impact achieved per dollar expended'.

Market infrastructure for investing in social impact has been on the rise recently, and is pursued with greater vigour by countries around the world. It is said that the field of social or impact investment is valued at $3 trillion (Abib-Pech 2013). What is remarkable about the emerging collaborative economy is the recognition by governments and businesses that power is more diffused and laterally organised, and that partnerships are required to crack tough challenges in society. Both actors – government and corporate – acknowledge their limitations and unique strengths. For example, in 2014, India launched a US$1 billion inclusive innovation fund, aimed at spurring private sector solutions to some of the country's knottiest problems. This initiative was given the go-ahead by Cabinet, and was described as 'a unique concept that seeks to combine innovation and the dynamism of enterprise to solve the problem of citizens at the base of the economic pyramid' (*The Hindu* 27 January 2014). This fund sought to leverage the model of venture capital to transform the lives of those at the bottom of the social ladder.

In *Abundance: the Future is Better than you Think*, Peter Diamandis and Steven Kotler (2014) categorise the problem of those at the base of the pyramid as essentially about survival – food, water, sanitation and shelter, the absence of which constrains the enjoyment of freedom. In a solutions economy where collaboration is a primary driver of progress, a concerted effort between the government and the private sector is necessary to unleash positive change. India's initiative represents an attempt at removing these barriers to freedom. It is an initiative that is anchored by the National Innovation Council and the Ministry of Micro, Small and Medium Enterprises.

Western economies have also created their own social innovation drivers. In 2011, the former British Prime Minister David Cameron launched a GBP600 million fund, which was aimed at funding social innovation, and this work is located under the Ministry of Civil Society.

This was one of the pillars of his vision of building 'a bigger society'. The target of support was innovative social sector organisations that can drive change at the local level. Social impact, including delivering better services to the public, is the goal of this initiative. Social enterprise would fit into the category of what Naim (2013) calls micro powers, which are horizontal organisations that are set up on a small scale and can effect change, sometimes more emphatically than big players.

The UK government believes that creating a dynamic social investment market would help to deliver solutions in areas where the government's reach is exhausted. Social ventures supported through this initiative would help to: empower local communities by running their own amenities; open up public services by using social ventures as partners for service delivery; offer a stronger conduit for social action through a system of rewards for participation in the creation of solutions to local challenges; and open up new markets (HM Government 2011). It is also envisaged that this approach will offer large businesses and banks a new product through which to invest for social impact.

In April 2009, Barack Obama introduced a US$50 million social innovation fund and a new office of social innovation in the US, initially headed by an executive from Google with a background in philanthropy. This initiative is located in the White House Office of Social Innovation and Civic Participation, and is predicated on the notion of partnership between the government, private capital and social entrepreneurs to unlock opportunities that would empower communities, reduce inequality and create social change. Its aim is to strengthen and support the social sector, which includes not-for-profit organisations, foundations, social entrepreneurs, mission-driven businesses and multilateral development banks.

The major goal is to maximise private sector investment for greater social impact. Potentially, it has another effect – that of limiting the sub-contracting of government services to consultants and companies driven purely by the profit motive. Instead, it focuses on building an ethos of innovation in delivering public services by engaging social entrepreneurs and community organisations that work at the coalface of community challenges. The government's role in this initiative is to unlock human and financial capital to address social problems, and to support solutions that are already making an impact in transforming communities. This would happen through identifying and scaling up successful not-for-profit organisations, businesses and philanthropists. Their primary goals are to encourage greater civic participation and national service.

In July 2010, the Obama administration announced the 11 initiatives supported under the Social Innovation Fund across healthcare, financial education for communities, helping young people from poor backgrounds to transition to colleges, and creating employment for young people (*The Economist* 2010). The following year, Obama announced the National Robotics Initiative, which was a US$70 million multi-stakeholder effort to accelerate the development and use of robots that could work cooperatively with people (Diamandis & Kotler 2014: 67). There are several similar initiatives around the world, many of which are tapping into the growing social consciousness about finding better ways of tackling social problems. All are founded on the recognition that governments can no longer act alone as providers of public services, and solve vexing social problems on their own. The scale of the challenge is becoming more daunting, and more social actors working in concert are needed to push back, create new possibilities for driving social change.

Rifkin (2009) emphasises the importance of a rich civic space as a way to enhance quality of life. In his view:

> *promoting a quality-of-life society requires a collaborative commitment at two levels: civic minded engagement in the community and a willingness to have one's tax money used to promote public initiatives and services that advance the well-being of everyone in the society.* (Rifkin 2009: 549)

Such initiatives are not fixated on the GDP measure as a magic wand – often expected to be waved by governments – to cure social ills. Rather, they are aimed at maximising quality of life and creating possibilities, however incremental, for the emergence of what Fioramonti (2013: 49) refers to as 'a new model of society'.

The rise of corporate philanthropy

Corporate philanthropy represents another instrument to push for social transformation. This mechanism has a very old lineage. In the wake of the US industrial revolution at the end of the Civil War, titans such as John

D Rockefeller, an oil magnate, Andrew Carnegie, a steel magnate, and Cornelius Vanderbilt, who pioneered railroads, demonstrated a great deal of enlightened self-interest and commitment to enriching the public spirit, at a time when the US was finding its feet as an industrial power with nascent political institutions. Their acquisitive spirit ignited a flame of social consciousness. These businessmen created foundations that would light a path for corporate philanthropy for over a century (Naim 2013: 42).

Rockefeller, for example, committed his largesse to six areas of impact: government and law; language and literature; art and refinement; science and philosophy; morality and religion; and social upliftment (Chernow 1998). Apart from financing the establishment of the University of Chicago, Rockefeller funded new frontiers of knowledge in medical research, and contributed towards education and social upliftment in poor Southern states.

For his part, Carnegie devoted the bulk of his wealth to funding public libraries, institutes dedicated to improving the social conditions of African-Americans, the establishment of the Peace Palace in The Hague, which houses the International Court of Justice, and The Carnegie Trust for the Universities of Scotland, the country of his birth (Nasaw 2007). Carnegie's (2006) tract, the *Gospel of Wealth*, sets out his philosophy of social contribution, and lists areas that were close to his heart, such as public libraries, literature and the arts, and international justice (Carnegie 2006). This earlier generation of philanthropists inspired the recent wave, dubbed by some as philanthro-capitalism (see Bishop & Green 2009) or techno-capitalism (see Diamandis & Kotler 2014). They are so characterised because they are redefining the outlines and commitments of capitalism, and many of the wealthy individuals who are driving this initiative have amassed their wealth in technology sectors.

While the old generation was driven largely by the impulse to atone for their misdeeds and battered reputations, and often signed hefty cheques as individuals towards the end of their business careers, it would seem that the new generation is focused on collectively pooling their wealth while they are still in their prime to address shared social problems. Some wealthy businessmen and women have stepped down from their active business involvement to give their time fully to running the activities of their philanthropic foundations. The old wave of philanthropy by the founding fathers of

WHILE THE OLD GENERATION WAS DRIVEN LARGELY BY THE IMPULSE TO ATONE FOR THEIR MISDEEDS AND BATTERED REPUTATIONS, IT WOULD SEEM THAT THE NEW GENERATION IS FOCUSED ON COLLECTIVELY POOLING THEIR WEALTH WHILE THEY ARE STILL IN THEIR PRIME TO ADDRESS SHARED SOCIAL PROBLEMS.

American capitalism was built on the back of wealth generated, in particular, from steel, railroads and oil. However, many of today's philanthropists hail from sectors such as information technology, communications and life sciences (Naim 2013). In part because of the forward-leaning nature of their sectors, they tend to have a more futurist perspective about social change, and often see innovation and technology as powerful drivers.

According to Bishop and Green (2009: 1), '[Warren] Buffett and [Bill] Gates are leading a revival and reinvention of an old tradition that has the potential to solve many of the biggest problems facing humanity today'. This wave has built up gradually over time. Back in 1997, Ted Turner, the founder of CNN cable news, had thrown down the gauntlet to Buffet and Gates while announcing his donation of US$1 billion to the United Nations, with the challenge to 'give the money away that you have no idea what you're going to do with' (Bishop and Green 2009: 4). While the US dominates the philanthropic movement, countries such as India and China have witnessed growth in the number of billionaires featuring in Forbes 2000 ranking, and have also been riding the wave of philanthropy.

The new wave of philanthro-capitalism is spearheaded by business elites, a blend of elders and youth, who have accumulated massive wealth and are now collectively coordinating efforts, on a global level, to tackle systemic challenges, especially those associated with energy deficits in poor countries. They seek to work with not-for-profit organisations and to harness the profit motive to achieve greater social good (Bishop & Green 2009: 4). One of the remarkable features of this kind of philanthropy is its level of engagement; rather than just throwing money at a problem, it is deeply involved in seeking to apply business strategies to solving social challenges. Foundations established by philanthropists are also acting on their own in identifying critical challenges, such as in health and education, and are combining money and ingenuity in creating positive change. Over and above the well-known figures such as Bill Gates and Warren Buffett, a new class of innovators is blending profit-making with a social mission in seeking to create breakthrough solutions. These business leaders, new and old, leverage their business acumen, capital and networks to get results.

There are currently 158 wealthy individuals who have pledged to give a large portion of their wealth to social good. This philanthro-capitalism enterprise was initiated in May 2009 by Warren Buffett and Bill and Melinda Gates, and included about 40 wealthy individuals and families in the US who collectively were worth US$125 billion. This act of generosity shone like sunlight against the dark backdrop of a global financial crisis. Although most of the pledgers are still in the US, this has since spread across the globe.

This pledging initiative was followed by another mission-focused initiative – the Breakthrough Energy Coalition – masterminded by Bill Gates in the wake of the climate change negotiations in Paris in 2015, where a group of 28 billionaires came together on the sidelines of COP21 to push for an increase in funding for clean energy technologies. An investor-led fund to the value of US$1 billion, with a 20-year horizon, was created in December 2016 in order to invest in 'developing new ways to live, eat, travel, and build'.[4] Its focus is on five grand challenges: electricity, buildings, manufacturing, transport and food. It is founded on the idea that technology will help solve humanity's challenges, and this will be done through fostering partnerships between governments, research institutions and investors. The major focus is on investing in scientific breakthroughs that have the potential to deliver cheap and reliable clean energy to the world. Energy deficiencies are a constraint to business, but they also have health effects, since reliance on biomass in the developing world is one of the major causes of respiratory problems.

This initiative is being driven by large group of high-net-worth individuals (beyond the immediate circle of Western billionaires around Buffett and Gates), including entrepreneurs from China, India, South Africa and Nigeria. South Africa's Patrice Motsepe and Nigeria's Aliko Dangote, for example, are active participants in the Breakthrough Energy initiative. Although not part of this group, another African, Tony Elumelu from Nigeria has committed himself to promoting the growth of entrepreneurship across the African continent and to changing the economic paradigm to one that he refers to as 'Africapitalism'. In his view, the private sector (and not aid) should be the driving force for social change on the continent. He led by example when he seeded his foundation with US$100 million, with a goal to identify and grow 10 000 African entrepreneurs, create 1 million jobs, and add US$10 billion in annual revenue across Africa over the next decade.

There are many less celebrated entrepreneurs and innovators on the African continent, who are operating on a smaller scale. Diamandis and Kotler (2014: 156) describe these as a new 'cheetah generation' of Africans who are fast-moving, entrepreneurial leaders. It is just as well that there are African champions, especially since access to electricity is a major constraint in overcoming poverty. About 600 million Africans have no access to electricity, and it is estimated that poor energy infrastructure in Africa shaves 2–4 per cent off continental GDP on an annual basis (Power Africa 2014).

The Breakthrough Energy Coalition is built on the knowledge that in the 21st century governments cannot produce miracles for societies. Partnerships between the government, business and society are key to creating lasting change. Be it in shifting the pattern of industrial development and consumption towards cleaner energy, or changing the way transportation systems, education and healthcare are structured and delivered, there is a need for various stakeholders to work together in generating momentum towards a better society. As Porter (2008) points out, 'boosting social and economic conditions in developing countries can create more productive locations for a company's operations, as well as new markets for its products'. George (2003) makes a powerful case in observing that companies' employees live in communities, and that it is, therefore, in the companies' best interests to ensure that such communities offer a high quality of life, good educational opportunities and a safe environment.

Values-based thinking, which is not too deeply rooted in an exchange or transactional mindset, is sufficient to motivate a sense of higher purpose. There is also the existential reality of the interconnectedness of various national economies and societies, and the growing realisation that social instability, pandemics and poverty afflicting one part of our planet will eventually affect other parts, by way of rapid spread of diseases or surges in migration.

The Breakthrough Energy Coalition offers one example of how the wealthy, acting collectively outside the bureaucratic structures of their companies, can do more to tackle the challenges facing humanity. It is here that corporate philanthropy can have a far-reaching effect. Bishop and Green (2009: 7) stress that this kind of philanthropy potentially ignites a 'system innovation' or 'creative capitalism', and is different to traditional philanthropy which gave relatively small sums of money to draw attention to itself. Without doubt, governments need to play their part in creating the right environment to attract greater private sector investment; ultimately, however, success will hinge on collaboration.

The Breakthrough Energy Coalition is complemented by another initiative, called Mission Innovation, which comprises 22 countries plus the European Union.[5] They are not colluding to fix prices, increase margins or divide the market amongst themselves, but to explore the best ways of making the world a better place. These countries have pledged to double their investment in clean energy research to US$30 billion by 2021. Although South Africa has a self-enlightened businessman, Motsepe, at the Breakthrough Energy Coalition, the country is absent from the Mission Innovation initiative. Yet, this platform has value for the diffusion of ideas about creating an alternative future through greater investment in research and development, and new technologies, by leveraging the private sector, and addressing crucial challenges related to energy.

The Mission Innovation initiative is made up of countries from both the developing and the developed world, motivated by a shared concern about resource constraints and the need to create a low-carbon future. The action commitments of this initiative are: to encourage mutually beneficial engagement with other partner countries in international collaborations; to share information on national clean energy needs and support energy innovation; and to work closely with the private sector as it increases investment in the early stage clean energy companies that emerge from government research and development programmes.[6]

This symbiosis between government's public research and development support and scaling up of innovation through investment by the private sector is extensively discussed by Mazzucato (2015). She refers to 'transformational public investments', which are harvested from mission-orientated policies based on big-picture thinking, including envisioning the direction of economic development and technical change (Mazzucato 2015). The Mission Innovation platform could help to nurture such thinking and create a sense of urgency for governments to contribute towards technology-driven social change.

Several lessons can be drawn from the Mission Innovation and Breakthrough Energy initiatives. Individual philanthropists or governments working independently of the private sector cannot address major national and global challenges on their own. Collaboration is the future of innovation. Collaboration and networks are likely to

IN TODAY'S GLOBAL SYSTEM, POWER TO EFFECT CHANGE IS MORE LATERALLY ORGANISED, AND DIFFUSED ACROSS STATES, BUSINESSES, WEALTHY INDIVIDUALS AND OTHER INFLUENTIAL NON-STATE ACTORS.

be the most effective instruments for tackling social problems from health to food security to climate change and a host of other collective problems that confront us in the 21st century. As Bishop and Green (2009: 11) note, 'division of labour is needed between governments, businesses, charitable NGOs and philanthropists'. Increasingly, investors are teaming up with innovators to develop ideas to shift the paradigm for conceiving and developing solutions to energy, transport, food, education and health challenges.

In today's global system, power to effect change is more laterally organised, and diffused across states, businesses, wealthy individuals and other influential non-state actors (Naim 2013). There is also a gradual shift towards recognising the importance of stakeholder capitalism as a better way of organising society. Solutions to major social challenges at the domestic and global level hinge on co-funding, co-design of solutions and harnessing of will across the private and public sectors.

Conclusion

As much as society lives in an age of uncertainty, with social ills that are multiplying, there are also great opportunities for corporates, wealthy individuals, innovators and governments to come together in finding solutions. Old tick-box notions of CSR generally have minimal practical effect. While some companies have been able to use such an approach to make a genuine difference to their stakeholders and to build their legitimacy at the same time, many others have failed with efforts amounting to little more than public relations exercises.

Even at its best, CSR is not designed to tackle large-scale challenges. It is important for organisations to go beyond CSR and to realise a much richer role for themselves in the societies in which they operate. When corporates have a global reach, they should position themselves as part of the global solution to major social risks facing the world. In looking at the positive role of corporates in a changing world, Abib-Pech (2013: 28) lays down the challenge: 'There is an emerging call for corporations to rediscover themselves, a re-affirmation that their primary role is to create value while serving a community.'

In the context of power shifts, the solution may lie in drawing laterally upon productive networks, which include a wide range of actors. It is, however, clear that businesses can no longer be blind to the social challenges around them; they need to find ways to make a positive difference. As has been argued above, collaboration is key to delivering sustained social outcomes.

Given that corporates are massive bureaucratic organisations, they may not have the latitude or the agility required to tackle major social challenges. From a bureaucratic perspective, they are not too dissimilar from governments. Yet, they possess critical dimensions of capital that may enable them to offer a complementary perspective and reach beyond the capacity of governments. There is also a recognition on the part of some governments that they need the contribution of the private sector in tackling social challenges, which include areas such as health, energy, education and water. Crucially, the corporate sector must embrace good corporate citizenship and social action as an ethic to create a lasting difference. Legislation cannot force companies to be good corporate citizens, let alone agents for social change. The organisational culture must be socialised into such an ethic, and this thinking needs to permeate the behaviour and activities of the company.

There is also a great opportunity for a new kind of actor to do much more than companies are able to achieve through their limited CSR. This is the domain of social enterprises, innovators and foundations that are driven by enlightened individuals. Many of these are already parlaying resources towards solving local challenges where their companies have operations.

Some are part of the collective efforts to confront global challenges related to energy, health, education, water and transportation. The outcomes of their work may take time to be realised. They can, however, partner with governments and tap into publicly supported research and development to bring such research to full commercialisation for addressing social challenges.

They can also work with social entrepreneurs to help scale up innovation to solve local challenges and empower communities. In the final instance, these initiatives could make donor funding, which often carries political baggage, obsolete. As Eggers and Macmillan (2013: 4) remind us: 'Today, the landscape has changed dramatically. Citizens, businesses, entrepreneurs, and foundations often turn to each other rather than relying solely on the public sector to coordinate solutions to every problem.' Enlightened philanthro-capitalism can help to unleash a new society characterised by improved capabilities, able to overcome structural constraints, nurture conditions for social inclusion and broaden the spaces for substantive freedom.

ENDNOTES

1 See https://www.unglobalcompact.org/
2 See https://www.globalreporting.org/Pages/default.aspx
3 Murray & Roberts was fined R309m, WBHO R311m, Stefanutti R307m and Aveng R307m (see Duncan 2014).
4 See http://www.b-t.energy/
5 The countries participating in the Mission Innovation initiative are Australia, Brazil, Canada, Chile, China, Denmark, the EU, Finland, France, Germany, India, Indonesia, Italy, Japan, Mexico, Netherlands, Norway, Republic of Korea, Saudi Arabia, Sweden, United Arab Emirates, UK and the US.
6 See http://mission-innovation.net/our-work/

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CHAPTER TWO

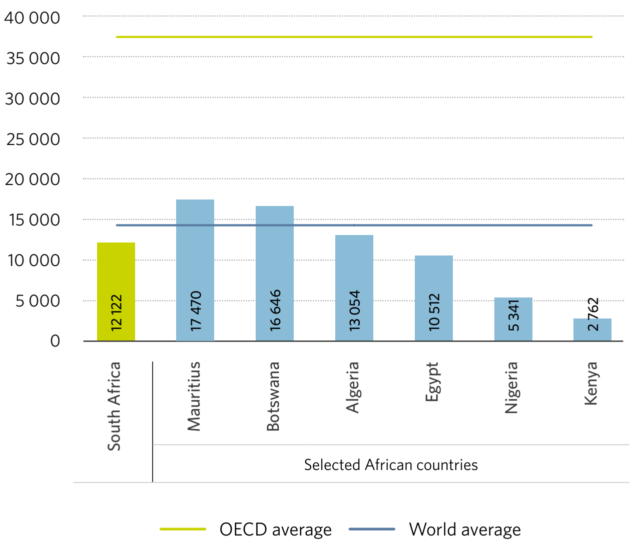
THE ROLE OF THE PRIVATE SECTOR IN AFRICA'S DEVELOPMENT

Lyal White and Adrian Kitimbo

2

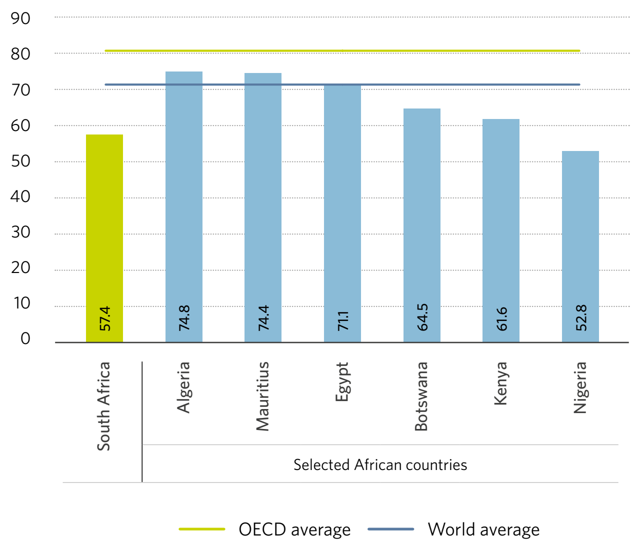
Compared to other African countries that have strong and/or large economies, South Africa performs relatively poorly in terms of the Human Development Index (HDI), which is attributable to its low score for health. Botswana, is relatively high-scoring in terms of non-health HDI variables, but shares with South Africa a similarly high prevalence of HIV/Aids. South Africa performs a year better in terms of mean years of schooling than its closest rival on the continent, Botswana.

Gross national income per capita, 2014
(US$ 2011 constant, PPP adjusted)



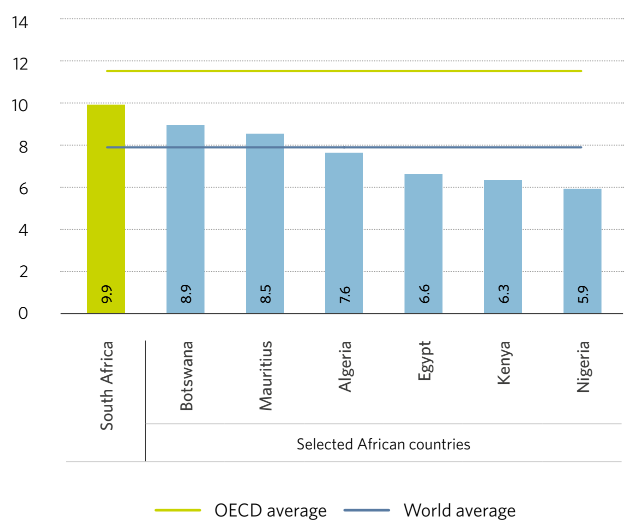
Source: UNDP Human Development Indicators Database

Life expectancy at birth (49.0–84.0), 2014
(years)



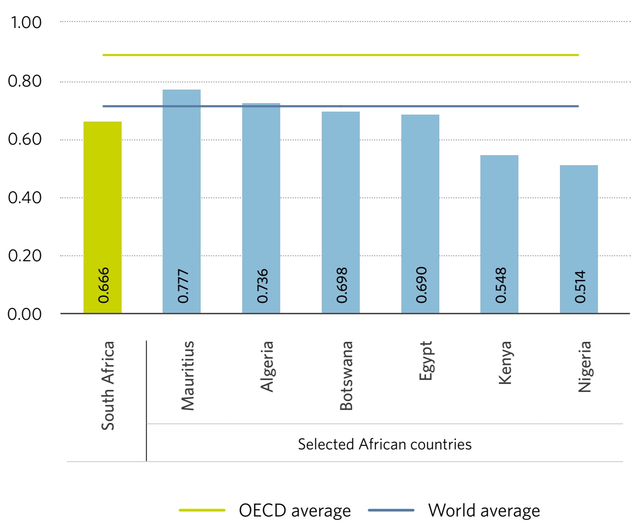
Source: UNDP Human Development Indicators Database

Mean years of schooling, 2014
(years)



Source: UNDP Human Development Indicators Database

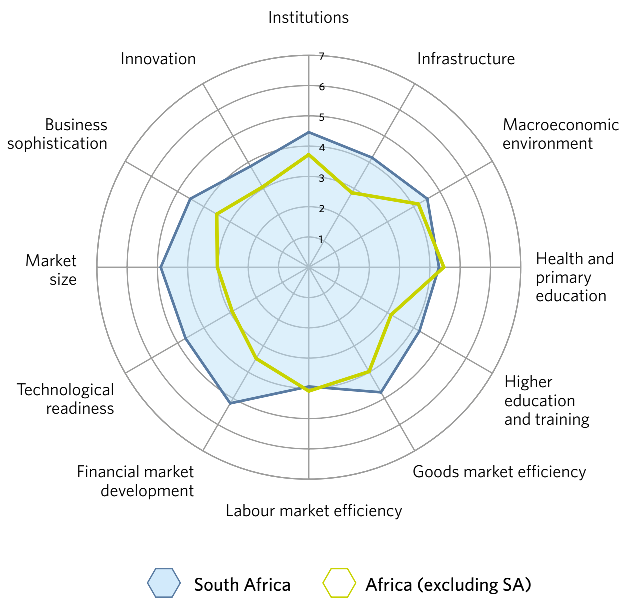
Human Development Index, 2014



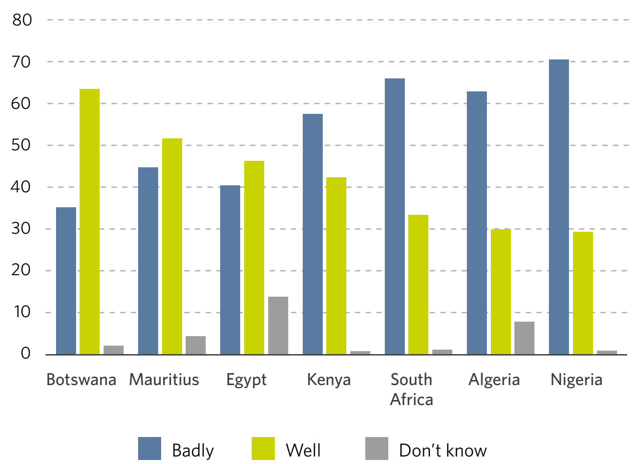
Source: UNDP Human Development Indicators Database

Apart from again highlighting South Africa's challenges in terms of health, primary education and labour market efficiency, the comparison of South African and general continental competitive indicators illuminates the continent's challenges in terms of infrastructure, higher education and training and technological readiness. From the Afrobarometer Opinion Survey data, it is also clear that South Africans expect more from their government in terms of its handling of the economy. Sentiments of South Africans in this regard are particularly negative compared to their continental peers, with 65.5 per cent of its citizens indicating that the South African government is handling the economy 'fairly badly' or 'very badly'.

WEF Global Competitiveness Indicators, 2016/2017



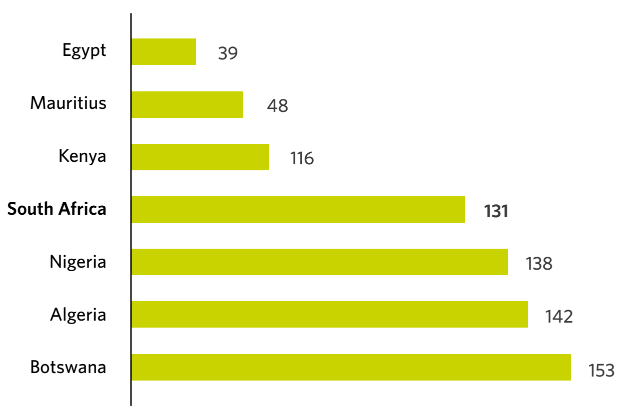
Perceptions of government's handling of the economy, 2014/2015 (percentage)



Source: Afrobarometer 2014/2015
"Question asked: '"How well or badly would you say the current government is handling the following matters, or haven't you heard enough to say?"'

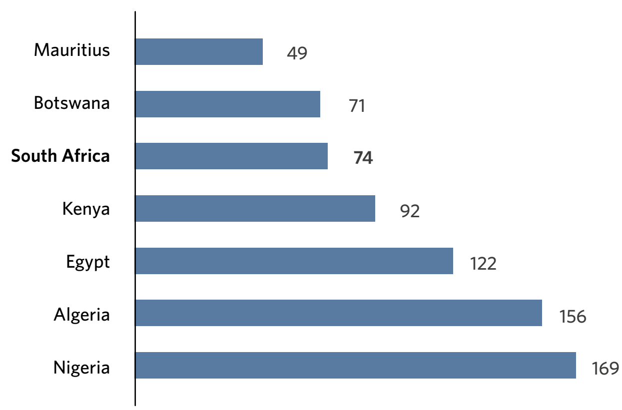
Source: Own calculations from WEF Global Competitiveness Indicators, 2016/2017
Average calculated for the following African countries (those for which data are available): Algeria, Benin, Botswana, Burundi, Cameroon, Cape Verde, Chad, Democratic Republic of Congo, Côte d'Ivoire, Egypt, Ethiopia, Gabon, The Gambia, Ghana, Kenya, Lesotho, Liberia, Madagascar, Malawi, Mali, Mauritania, Mauritius, Morocco, Mozambique, Namibia, Nigeria, Rwanda, Senegal, Sierra Leone, Tanzania, Tunisia, Uganda, Zambia, Zimbabwe

Global ease of starting a business ranking (out of 190), selected African countries, 2017



Source: World Bank Ease of doing business index

Global ease of doing business ranking (out of 190), selected African countries, 2017



Source: World Bank Ease of doing business index

2/ KEY INSIGHTS

- Despite an impressive growth record between 2000 and 2014, Africa's development goals and imperatives remain stubbornly elusive and still far from global averages.
- Weak policies and institutions during the high growth period of the last decade deepened inequality and failed to improve crucial areas of governance.
- While governments play a critical role in driving development, they tend to lack adequate resources, expertise and the capacity needed to tackle some of Africa's most intractable problems.
- The development debate, hinged on the ongoing tension between 'more' or 'less' aid, seems to have toned down in the light of a push from the private sector toward a more active role in driving development as a stakeholder in Africa.
- Africapitalism is an economic philosophy that stresses the role of the private sector not only as part and parcel of market-led socio-economic development in Africa, but also as a key enabler of real development outcomes for Africans by Africans.
- The somewhat unique nature of impact investing, focused as it is not just on financial returns but also on having social and environmental benefits, positions it uniquely as an incentivised model to drive development in Africa.
- The private sector has demonstrated its ability to supply new and innovative financing, technology and designs to help address Africa's inadequate infrastructure.
- The private sector's investments in areas such as education, microfinance, agriculture and infrastructure demonstrate what is possible when all stakeholders pool their resources together for a common goal and a mutually agreed (and measured) outcome.

2

Introduction

The hype and the hope of the so-called 'Africa Rising' narrative came to an abrupt end in 2016. Sub-Saharan Africa (SSA) experienced its slowest economic growth in more than 20 years, as the sharp fall in commodity prices impacted capital flows and development in key markets across the region. The International Monetary Fund (IMF) estimates that SSA's economy expanded by a mere 1.4 per cent in 2016. This was largely the result of lacklustre growth rates of 1.7 per cent and 0.1 per cent in Nigeria and South Africa respectively, since these continental giants account for more than 50 per cent of SSA's total gross domestic product (GDP) (IMF 2016).

Nigeria suffered the most dramatic economic setback of all. Following its recent emergence as Africa's largest economy, some claiming growth projections of between 6 and 8 per cent for the next four decades, Africa's most populous country was a casualty of an over-reliance on oil revenues, political instability and perceived insecurity following relentless attacks by Boko Haram in the north-east of the country. Oil accounts for almost 90 per cent of Nigeria's exports and contributes 75 per cent to government revenues (World Bank 2015). The drop in the oil price from US$115 a barrel in 2014 to as low as US$35 in early 2016 had a direct and devastating effect on the Nigerian economy, drying up liquidity in the market and sending the Naira (Nigeria's currency) into a tailspin.

This downturn in economic growth and lofty projection has ushered in a new debate and fresh thinking around tackling some of Africa's most pressing and protracted challenges. Despite an impressive growth record between 2000 and 2014, Africa's development goals and imperatives remain stubbornly elusive and still far from global averages. New players, innovative approaches and more effective implementation are needed now more than ever. This is critical if Africa is to meet the targets set in the new Sustainable Development Goals (SDGs) by 2030.[1]

Africa's rapidly growing population – once referred to as its 'demographic dividend' by market-hungry advisory firms – is becoming one of the continent's biggest concerns. According to the United Nations (UN) (2015), the current population of around 1.2 billion people is expected to double to 2.4 billion people by 2050. Governments will struggle increasingly to meet the needs of their burgeoning populations, especially if a low growth paradigm and slow development prevail. Moreover, the high and increasing rates of unemployment, especially among the youth, are a growing concern. In countries such as South Africa, unemployment of youth aged 15 to 24 years is upwards of 50 per cent and shows no signs of abating (World Bank 2014). It is estimated that one-third of Africa's nearly 420 million youth are unemployed (AfDB 2016).

SSA is also one of the most unequal regions on the planet, second only to Latin America (UNECA 2014). Weak policies and institutions during the high growth period of the last decade deepened inequality and failed to improve crucial areas of governance. Persistent infrastructure deficits and poor electricity access continue to hamper basic development and progress. The International Energy Agency estimates that more than 600 million Africans do not have access to electricity (IEA 2014).

Against this background, the following section tracks the origins of the private sector in Africa's development from a state-led model. The paper explores the gradual evolution of the private sector's role on the continent as it has moved beyond conventional profit-led business, tackling the continent's developmental challenges through new ideas, philosophies and approaches such as 'impact investing', 'shared value' and, ultimately, 'Africapitalism'. Examples in key sectors, including education, energy infrastructure, microfinance, agriculture and information and communication technology, illustrate innovative approaches and provide instructive lessons for development initiatives across the continent.

From state-led to private-sector-driven development

Africa's development challenges cannot be addressed by the state alone. While governments play a critical role in driving development, they tend to lack adequate resources, expertise and the capacity needed to tackle some of Africa's most intractable problems. Despite the fact that state-led development has been successful in addressing socio-economic challenges in East Asian countries like Singapore, South Korea and Taiwan, in Africa it has been less successful. The failure of the so-called developmental-state model in Africa can be attributed to a number of reasons: a lack of technical and analytical capacity, inefficient bureaucracies, ill-equipped technocrats and poorly targeted development plans, to name a few. Rwanda and Ethiopia are often espoused as recent African exemplars of the developmental state. However, it is too early to confirm such status, with both countries continuing to struggle with crippling poverty and severe underdevelopment, and still far from the level of the Asia Tigers that embraced a similar approach.

Moreover, while African governments have had better access to international capital markets in recent years, many countries have taken on unsustainable levels of debt over the past couple of decades, further weakening their capacity to confront social ills. As Reinhart and Rogoff (2009) establish, countries that are highly indebted record lower economic growth rates than those that are less indebted. They find that countries with debt-to-GDP ratios below 60 per cent can sustain economic growth at an average 3.6 per cent per year, while those with debt-to-GDP ratios above 60 per cent can manage only 2.2 per cent (Reinhart & Rogoff 2009). In addition, the flow of development aid, which many African countries have relied on for decades (although to a lesser extent in recent years), is slowing. Official development assistance to Africa was estimated to have slumped in 2015 to US$54.9 billion and was projected to decrease even further in the years to follow (AfDB, OECD & UNDP 2015). In 2017, more than two-thirds of states in SSA will receive less aid than they did in 2014 (AfDB et al. 2015). Additionally, aid's effectiveness has come under increasing scrutiny. Dambisa Moyo, one of development aid's sharpest critics, asserts that despite billions of dollars in aid flows to Africa over the last few decades, there is very little to show for it in terms of real achievement and sustained progress. Moyo (2009) blames aid for creating a culture of dependency and perpetuating corrupt regimes, and the numbers suggest that it has undercut economic development and crowded out productive capital flows. Easterly (2007) echoes these sentiments, arguing that 'development aid cannot achieve the end of poverty. Only home-grown development based on the dynamism of individuals and firms in free markets can do that.'

The development debate, hinged on the ongoing tension between 'more' or 'less' aid, seems to have toned down in the light of a push from the private sector toward a more active role in driving development as a stakeholder in Africa. This has taken on various shapes and forms in recent years, from investing in agriculture with a view to overcoming concerns around food security and generating new export revenues from agribusiness, to power generation and basic infrastructure, and service-

THE FLOW OF DEVELOPMENT AID, WHICH MANY AFRICAN COUNTRIES HAVE RELIED ON FOR DECADES, IS SLOWING.

oriented models of 'shared value' that bring knowledge and resources to better meet the continent's development challenges.

The private sector has not always been seen as an engine for development in Africa. It was only in the late-1980s and 1990s that many African governments finally implemented structural reforms to liberalise their economies and usher in privatisation. Prior to that, a large number of African countries had embarked on state-led development as the key to lifting people out of poverty. From 1960 and into the 1980s protectionist policies, trade barriers and state-led development characterised the socio-economic landscape, while the private sector was largely sidelined and viewed with great scepticism. As Baah (2003) puts it:

> *the key feature of African development initiatives in the 1960s was the important role the state played. The state allocated to itself a central role in the development process – building social and economic infrastructure and providing social services to the impoverished people of the continent.*

States also built large public sector enterprises and state agencies. As a result, 'governments became the principal actor in economic activities and the major instrument of development in many African countries' (Guseh 2001). The pursuit of state-led growth and development, as opposed to market-oriented policies, in the years following independence was partly due to the scepticism that many African countries had toward capitalism, as it was widely considered to be a form of neo-colonialism (Bartlett 1989). This would all change in the 1980s, however, following the oil crisis in the 1970s and the liberal shift in political and economic order globally from 1989.

Most public-sector enterprises also failed to keep up with national demand and global progress, and crumbled under the weight of poor technologies and the failure to innovate, as a result of little-to-no injection of the funding and knowhow that comes with private capital and open markets (AfDB 2011). With rising debts and a gross shortage of foreign capital, not to mention a dramatic slump in economic growth, countries were forced to seek help from international organisations, including the World Bank and the IMF. Donors and creditors required structural adjustments, including privatisation in the borrowing countries, as a condition for economic assistance (Baah 2003). This opened up economies to much-needed private investment and ultimately set in motion their role as players and stakeholders in development in the countries where they invested.

Advancing development through the private sector

The private sector has played an increasingly significant role in accelerating development on the continent in recent years. It has come to embrace its role in boosting African development across the board. Tony Elumelu, the Nigerian business tycoon, embodies this new commitment to development through enterprise. He has played a critical role in urging African businesses to engage actively in tackling unemployment, driving job-creation and addressing infrastructure deficits (Elumelu 2015). Elumelu coined the term 'Africapitalism', 'to define the new role of the private sector in the development of Africa, through long-term investments that create economic prosperity and social wealth' (Elumelu 2015). Indeed, Africapitalism is an economic philosophy that stresses the role of the private sector not only as part and parcel of market-led socio-economic development in Africa, but also as a key enabler of real development outcomes for Africans by Africans. It is embedded in the Ubuntu worldview and is underpinned by four principles that the private sector should embrace as they operate in Africa: creating a sense of peace, a sense of progress, a sense of parity and a sense of place (Amaeshi & Idemudia 2015). Organisations such as Good African Coffee, a company founded in Uganda in 2004, embody these basic principles of Africapitalism. The social enterprise employs a quadruple bottom-line business approach, which incorporates more than 14 000 farmers, the communities in which they live, shareholders and employees as the stakeholders. It aspires 'to be a leading African agribusiness producing quality products for the global market and using trade to bring about sustainable community development' (Good African 2017). What makes this company different is that rather than only bolstering its farmers' coffee earnings, it is also heavily involved in multiple, on-the-ground projects, such as training farmers in the best farming methods and providing small loans through microfinance schemes, all aimed at transforming the economic fortunes of entire communities in Western Uganda and truly sharing the value of coffee production in the country.

The idea of creating social wealth and tackling development challenges through the private sector is not new.

While not identical, the philosophy behind Africapitalism seems to stem from the idea of 'creating shared value' developed by Porter and Kramer (2011), who argue that firms can achieve competitive advantage while simultaneously advancing the economic and social conditions of the communities in which they operate. They contend that companies are often trapped in an old-fashioned approach to value addition, continuing to 'view value creation narrowly, optimising short-term financial performance in a bubble while missing the most important customer needs and ignoring the broader influences that determine their longer-term success'. According to Porter and Kramer (2011), shared value is created broadly in three ways: through reconceiving products and markets, redefining productivity in the value chain, and enabling local cluster development.

Microsoft's '4Afrika Initiative' is shared value in action, particularly in the technology space. The initiative focuses on three critical areas of development in Africa – developing local skills, enhancing access to technology platforms and fostering African innovation (Microsoft News Center 2013). Microsoft has partnered with various technology organisations in Africa to help drive its development agenda. These include companies such as Afrilabs, a pan-African organisation that brings together incubator hubs across the continent. With this partnership, Microsoft has helped to stimulate entrepreneurship as well as supporting technology start-ups across Africa by providing vital company resources. In so doing, it has helped to develop sustainable and scalable working environments across the continent (Microsoft News Center 2013). Kramer and Pfitzer (2016) contend that companies such as Microsoft that embrace collective impact 'will both advance social progress and find economic opportunities that their competitors miss'.[2]

Barclays Africa Group is another example of a company that has embraced the shared-value philosophy and embedded it in their operations. Through its Shared Growth Strategy, Barclays Africa is specifically focusing on three areas: spending more than US$100 million on education and skills development targeting youth, bolstering access to affordable finance for small and medium enterprises by raising US$100 million through corporate supply and distribution chains, and enhancing financial inclusion across the continent through both digital and non-digital access to underserved communities through real banking and value-add products (Barclays 2016). The Barclays and Microsoft initiatives show that firms are able to bring critical assets to efforts aimed at collective impact. Moreover, as Kramer and Pfitzer (2016) maintain:

> *they know how to define and achieve objectives within a limited time and budget, and through corporate pragmatism, accountability, and data-driven decision making are able to cut through the red tape and ideological disagreements that often stymie governments and NGOs.*

Perhaps the most widely accepted idea behind development through the private sector is that of 'impact investing'. Coined by the Rockefeller Foundation in 2007, the term refers to 'investments made into companies, organizations and funds with the intention to generate social and environmental impact alongside a financial return' (GIIN 2017). In other words, impact investing goes beyond just pursuing the bottom line. It factors in the larger social and environmental challenges with which many countries, including those in Africa, continue to struggle, with the aim of achieving sustainable development and a lasting impact that is good for the people, the environment and future markets.

Impact investing has grown steadily over the last few years. In a survey conducted in 2016 by the Global Impact Investing Network, 156 investors across the globe had more than US$77 billion in impact assets. In 2015 alone, a total of US$15 billion was invested (GIIN 2016), with that figure expected to increase by 16 per cent in 2016 (Monteiro 2016). Africa has become a favourite of impact investment funds. In 2014, the SSA region absorbed 15 per cent of the total allocation from impact investors. That figure jumped to 19 per cent in 2015 and is expected to keep growing (Monteiro 2016).

The continent attracts impact investors from various sources, including institutional investors, fund managers, private equity managers and Development Finance Institutions (DFIs) such as the International Finance Corporation (IFC), the United States Agency for International Development (USAID) and the African Development Bank (AfDB). Globally, fund managers make up the largest category of impact investors. However, DFIs accounted for more than 85 per cent of impact capital in sub-regions such as East Africa (GIIN 2015).

Investors have injected up to US$7.3 billion toward impact investment projects in East, Southern and West Africa in the last decade (GIIN 2016). Southern Africa attracted the largest investments in terms of capital,

IMPACT INVESTING, WHILE STILL IN ITS INFANCY, IS CONTRIBUTING SIGNIFICANTLY TOWARD AFRICA'S DEVELOPMENT THROUGH KEY PROJECTS.

accounting for US$5.6 billion. It was followed by East Africa at US$1.4 billion, and West Africa received a mere US$221 million (GIIN 2015).

Impact investing, while still in its infancy, is contributing significantly toward Africa's development through key projects. The targeted sectors vary, ranging from education and agriculture to energy and infrastructure development. The somewhat unique nature of impact investing, focused as it is not just on financial returns but also on having social and environmental benefits, positions it uniquely as an incentivised model to drive development in Africa.

Examples of impact investment in selected sectors

Microfinance

Microfinance is one of the biggest areas of focus for impact investors. As the largest receiver of impact investment, microfinance institutions (MFIs) and funds receive close to 40 per cent of impact investments worldwide (GIIN 2015). These institutions are often regarded as engines for financial inclusion in Africa, enabling some of the most impoverished people to start small businesses, up-skilling their business and financial literacy.

The Participatory Microfinance Group for Africa (PAMIGA) is one of the most successful initiatives on the continent. It has developed up to 14 locally owned African microfinance institutions since its inception in 2005 (PAMIGA 2017). With a savings portfolio of €55 million, PAMIGA has reached more than a million clients (PAMIGA 2017), thereby becoming a key player in some of the most financially marginalised communities in Africa.

MFIs have gained substantial traction in the last 40 years. It all began in the 1970s when Muhammad Yunus launched a research project, which would lead to the establishment of the Grameen Bank in Bangladesh, to provide small loans to businesses run by poor, rural women (Grameen Research n.d.). While the success of MFIs in certain parts of Africa is well-documented, including studies conducted on the Amhara Credit and Savings Institution (ACSI) in Ethiopia (Geleta 2009) and field experiments in Kenya (Dupas & Robinson 2013), these institutions have also come under fierce criticism in the last decade. Many of them have charged excessively high interest rates, over-lent and employed coercive collection tactics. They are often seen as ruthless, seeking hyper-profits while dragging the poor into deeper debt

(Economist 2016). Moreover, recent studies on micro-credit, including randomised controlled trials in Ethiopia, India, Bosnia, Mexico, Morocco and Mongolia found that MFIs are not as economically transformative as they are often espoused to be (Banerjee, Karlan & Zinman 2015).

Education

Access to quality education remains one of the toughest challenges on the continent. Education is critical to creating a productive and inclusive society. According to UNESCO (2014), each year of education increases an individual's earnings by as much as 10 per cent. While progress has been made in increasing access to education over the last few decades, major gaps remain. As of 2013, there were still 30 million children of primary school age not attending school, while Africa had the lowest secondary school enrolment rate in the world, at 29 per cent (Watkins 2013). In comparison to their counterparts in the OECD countries, youth in SSA are less than half as likely to receive secondary education (Dalberg 2015). Recognising the critical need to educate African populations, impact investors are intervening in Africa's education systems in order to close the gaps quicker. Dalberg (2015) estimates that between 2012 and 2015 the number of transactions relating to education involving private investors in SSA increased from 20 to 50, climbing in value from US$106 million to US$583 million. Prominent investors in this sector include names such as the IFC and Spark Capital. Bridge International Academies, private schools founded in Kenya in 2009, are an example of education organisations attracting significant impact investment. Based on a low-cost model, charging just US$6 a month per pupil, the schools reach more than 100 000 students.[3] Bridge International attracts large investors such as the Pan African Investment Company, Learn Capital and Omidyar Network, which are helping to transform pre-primary and primary education in SSA.

Agriculture

The private sector's role in Africa's development is most evident in agriculture, still the largest source of employment on the continent. The importance of agriculture in Africa cannot be overstated. According to the World Bank (2016), agriculture accounts for 65 per cent of the continent's labour force. The sector is the core of the African economy and is a fundamental part of day-to-day life across the continent; it contributes 35 per cent to Africa's GDP and is said to offer the best potential for job creation and poverty reduction (Mayaki 2016). While the public sector continues to dominate the agricultural industry, the private sector is playing an increasingly active role through large investments and private equity deals, in produce ranging from coffee to cut flowers in East Africa, and from sugar to cocoa in West Africa.

Despite the obvious significance of agriculture to the continent's economies, productivity and value addition remain low. This is partly due to insufficient investment and poor land management (UNESCO 2016). Soil erosion, for example, is the main cause of declining agricultural production in southern Africa due to degraded land (UNESCO 2016). Meanwhile, most raw materials are not processed, also resulting in lower revenues and little value addition.

A number of private sector companies are beginning to take the lead in adding value to agricultural products in an effort to change Africa's economic fortunes. Good African Coffee in Uganda, while not an example of impact investing, is playing a vital role in transforming the coffee industry in the small East African nation. African coffee beans have traditionally not been processed before being exported. Green beans from Africa are exported to other parts of the world like Europe and the United States for a fraction of the value at which they are sold to consumers or roasters (Ojambo 2014). African coffee producers such as Uganda and Ethiopia are merely cultivators of beans. Consequently, they see very little of the total value of the massive global coffee business. In an industry that is worth more than US$100 billion, some of the largest producer countries such as Brazil, Vietnam and Uganda, collectively, retain no more than US$20–25 billion of the total (Goldschein 2011). The biggest benefactors are not the producers of the best beans, but rather those countries that have the capacity to process, market and sell coffee to consumers. Good African Coffee is reversing this trend, stepping in where the Ugandan government has failed to turn around the misfortunes of its coffee endowment. It is the first Ugandan company to cultivate, produce and process coffee for consumer markets. It was also the first African company to export processed and packaged coffee directly to the United Kingdom (UK). The company's coffee has been sold on the shelves of major UK supermarkets including Waitrose, Sainsbury's and Tesco PLC (Kalinaki 2011).

The cut-flower industries in Ethiopia and Kenya are further examples of the private sector's increasingly pivotal role in advancing development through agriculture. The private sector is driving economic diversity from traditional exports such as tea and coffee to higher revenue and employment generators like flowers. Kenya's floriculture industry dates back to the 1980s (Economist 2008). Following years of painfully slow growth, the country is now the third-largest exporter of flowers in the world (Veselinovic 2015). The contribution of cut flowers to the Kenyan economy is significant. Close to half a million people depend on this sector, which brought in nearly US$600 million in 2014, making it one Kenya's largest foreign exchange earners (Veselinovic 2015). Kenya's biggest market is the Netherlands, which imports more than 65 per cent of its flowers for distribution around Europe.[4] This sector has attracted some of Kenya's largest investors, such as the UK-based Swire Group and the Dutch company, Zuurbier & Co.

Ethiopia's floriculture industry, while much newer than Kenya's, has grown impressively over the past decade and is currently among the top five global suppliers and second only to Kenya in African production and exports (Business Week 2015). Revenues exceeded US$220 million in the 2015/16 fiscal year and experts insist that Ethiopia's export capacity will surpass Kenya's in less than ten years. Since 2011, more than 100 000 new jobs have been created in this sector in Ethiopia, 75 per cent of which are occupied by women (ITC 2015). A large majority of Ethiopia's cut-flower companies are either entirely foreign-owned or joint ventures between local and foreign companies. In 2014, in a sign of growing investor interest, KKR, an American private equity firm, bought a US$200 million stake in the Ethiopia-based Afriflora, one of the biggest producers of roses in the world (Clark 2014).

Power generation

Another area in which the private sector is playing a critical role in Africa is power generation. It is a well-known fact that Africa's growth is constrained by massive power deficits. Of the 1.3 billion people worldwide who lack electricity, 600 million are in SSA, which is more than half the population of the continent (Lindeman 2015). Only in Côte d'Ivoire, Namibia, South Africa, Cameroon, Gabon, Ghana and Senegal do more than 50 per cent of citizens have access to electricity (Castellano et al. 2015), and Africa's power needs are expected to increase dramatically. By 2030, demand will be more than double current electricity production (Tralac 2016). To meet the development requirements for power, SSA needs around US$40.8 billion per year, which is far beyond current funding available.

With Africa's power sector needs far exceeding most countries' capacity, the private sector has stepped in to address the current power shortfalls to ensure that economies can continue to tick over. This has been mostly in the form of independent power projects (IPPs). There are an estimated 125 IPPs across SSA, with an installed capacity of 11 GW, and investments of up to US$24.6 billion (World Bank 2016). However, most of these (67 IPPs, to be precise) are in South Africa (Tralac 2016). Governments across the continent need to create better investment and enabling environments in order to attract more IPPs.

Power Africa, an initiative launched by President Barack Obama in 2013, represents one of the largest private sector commitments to help deliver access to electricity in SSA. The initiative brings together multiple companies, financial institutions and political leaders with the aim of adding more than 30 000 MW of electricity to Africa (USAID n.d.). 'Beyond the Grid', one of Power Africa's sub-initiatives geared toward increasing off-grid access to electricity, has already partnered with more than 40 investors such as The Rockefeller Foundation, the Beyond Capital Fund, Kiva, and the Tony Elumelu Foundation, which have committed more than US$1 billion (USAID n.d.).

Infrastructure development

According to the World Bank (2016), Africa's infrastructure funding gap amounts to US$50 billion per year. The lack of adequate and well-maintained infrastructure is a major impediment to meeting the continent's development objectives. Africa's infrastructure bottlenecks are estimated to cut the continent's growth by as much as 2 per cent per year (Kaberuka 2014). In total, an estimated US$93 billion per year is needed for both maintenance and the provision of new infrastructure (Olobo 2016).

African governments are able to meet two-thirds of this amount, while multilateral and bilateral donors contribute another 8 per cent (Olobo 2016). The rest must come from the private sector, a growing reality as donors and governments are increasingly unable to meet funding requirements. While governments are ultimately responsible for providing adequate infrastructure for their citizens, many countries in SSA lack the capacity and capital to address infrastructure backlogs. The private sector, on the other hand, has demonstrated its ability to supply new and innovative financing, technology and designs to help address Africa's inadequate infrastructure.

Private equity (PE) funds have become an important source for bolstering infrastructure on the continent. In 2014, PE deals in Africa reached US$8.1 billion (Ernst & Young 2015). While that number has fallen over the last two years, the impact of PE funds on developing Africa's infrastructure has been significant. Leading American funds such as Blackstone partnered with Africa's richest man, Aliko Dangote, in 2014 to help boost infrastructure across SSA through a US$5 billion pan-African deal (Wallace 2015). In the very same year, the Dubai-based Abraaj Group raised US$900 million for its Africa fund (Saadi 2015). This fund focuses on high-demand sectors such as consumer goods and infrastructure services.

AFRICA'S INFRASTRUCTURE BOTTLENECKS ARE ESTIMATED TO CUT THE CONTINENT'S GROWTH BY AS MUCH AS 2 PER CENT PER YEAR.

Conclusion

The private sector has emerged as a primary driver of development across the African continent. The magnitude of Africa's development challenges cannot be addressed singlehandedly by governments, even with the help of international donors. Tackling yawning inequality, high unemployment rates, poor infrastructure and inadequate education and healthcare, to name a few, requires significant resources, skills and expertise. Moreover, the private sector has woken up to the fact that pursuing profits can go hand in hand with social and environmental development.

The private sector's contribution to Africa's development thus far, in the form of either impact investments or shared-value initiatives, illustrates the vast amount of resources, knowledge and skills that it possesses – not to mention the levels of efficiency and effective implementation of which it is capable.

However, governments need to partner with the private sector, and not only in the area of service delivery. They need to play a part in creating an environment that is conducive to business and that entices investment. SSA is notorious as a business environment that is not always attractive to investors. Institutional barriers such as red tape, socio-political instability and corruption stand in the way of private sector growth and operations in Africa, more so than anywhere else. Along with policy inconsistency and a culture of rent seeking, the investment climate in Africa can be toxic and unhelpful, driving away investors and businesses.

Africa's development challenges remain daunting but not insurmountable. The private sector's investments in areas such as education, microfinance, agriculture and infrastructure demonstrate what is possible when all stakeholders pool their resources together for a common goal and a mutually agreed (and measured) outcome. As Africa looks to meet the SDGs over the next 14 years, the private sector will play a key role in addressing the continent's challenges and in meeting crucial targets.

ENDNOTES

1 In 2015, countries adopted a set of goals to end poverty, protect the planet and ensure prosperity for all as part of a new sustainable development agenda. Each goal has specific targets to be achieved by 2030 (see http://www.un.org/sustainabledevelopment/sustainable-development-goals/).

2 Collective impact 'is based on the idea that social problems arise from and persist because of a complex combination of actions and omissions by players in all sectors – and therefore can be solved only by the coordinated efforts of those players, from businesses to government agencies, charitable organisations, and members of affected populations' (Kramer & Pfitzer 2016).

3 See http://www.bridgeinternationalacademies.com/.

4 See http://www.kenyarep-jp.com/business/industry/f_market_e.html.

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PART 2 | THE SOUTH AFRICAN CASE


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CHAPTER THREE

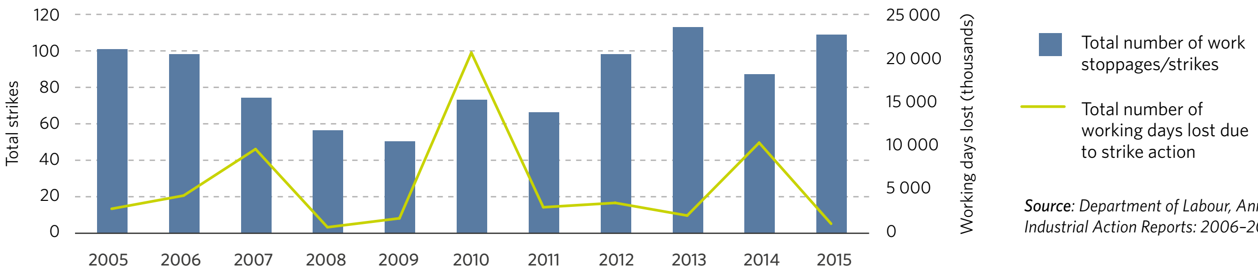
THE ROLE OF THE PRIVATE SECTOR IN SOCIO-ECONOMIC CHANGE

Mzukisi Qobo and Christopher Wood

3

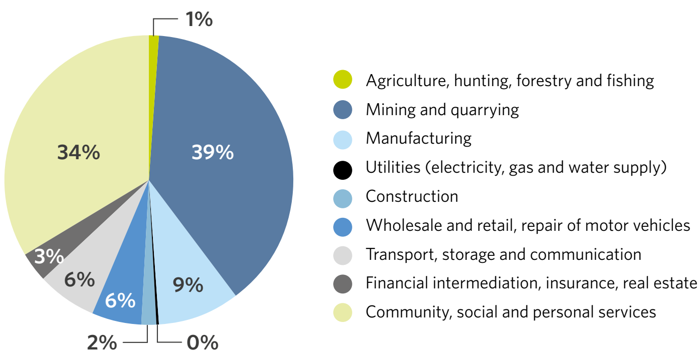
The Department of Labour's statistics highlight that the number of strikes per year does not necessarily correlate with the extent of working days (and productivity) lost, as the latter is largely the consequence of the length of the strike and number of participants (and points towards the importance of dispute settlement and the social compact). The mining and community services sectors were responsible for approximately three out of four strikes (73 per cent) over the past ten years. Public protests have also shown an upward trend, with violent protest action contributing to an increasing share thereof. Despite large-scale labour unrest, according to the WEF Executive Opinion Survey South African executives identify insufficient capacity to innovate and poor public health as the most problematic factors for conducting business.

Total strikes and working days lost, 2005–2015



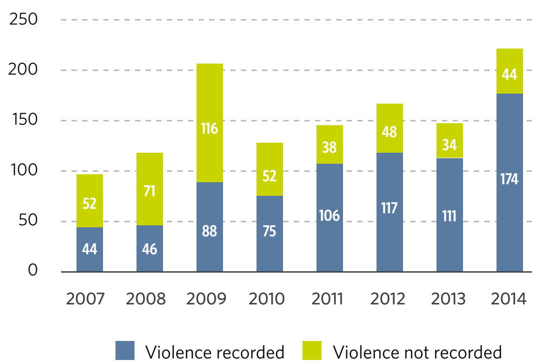
Source: Department of Labour, Annual Industrial Action Reports: 2006–2016

Working days lost: Contribution per sector, 2005–2015 (percentage)



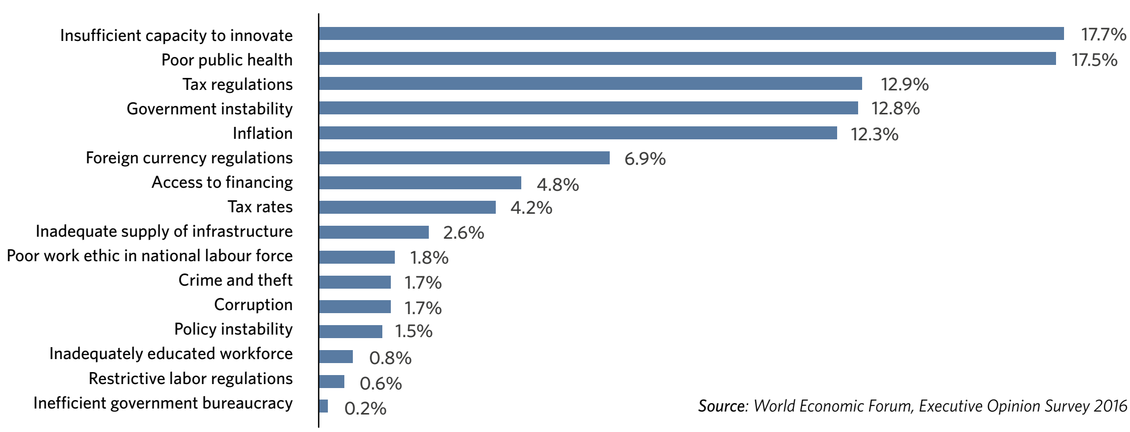
Source: Department of Labour, Annual Industrial Action Reports: 2004–2014
Own calculation based on 10-year average, per sector
Community, social and personal services include education; health and social work; recreation, cultural and sporting activities; and public administration and defence activities

Total protests and violence, 2007–2014



Source: Powell, D.M., O'Donovan, M. and De Visser, J. Civic Protests Barometer 2007–2014. The Multi-Level Government Initiative, Dullah Omar Institute. University of the Western Cape

Most problematic factors for doing business (percentage)



Source: World Economic Forum, Executive Opinion Survey 2016

WEF GLOBAL COMPETITIVENESS REPORT RANKINGS

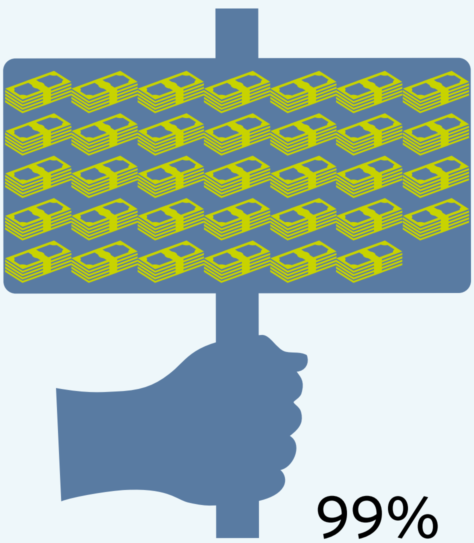
138th out of **138:**
South Africa
has the worst
labour-employer relations
in the world

Source: WEF Global Competitiveness report 2016/2017

PRINCIPAL CAUSE OF STRIKE ACTIVITY MEASURED IN WORKING DAYS LOST

2014

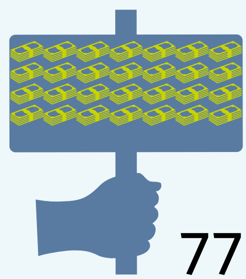
10 264 775
working days lost to strike action



99%
of working days lost, strike related principally to wages, bonuses and compensation

2015

903 921
working days lost to strike action

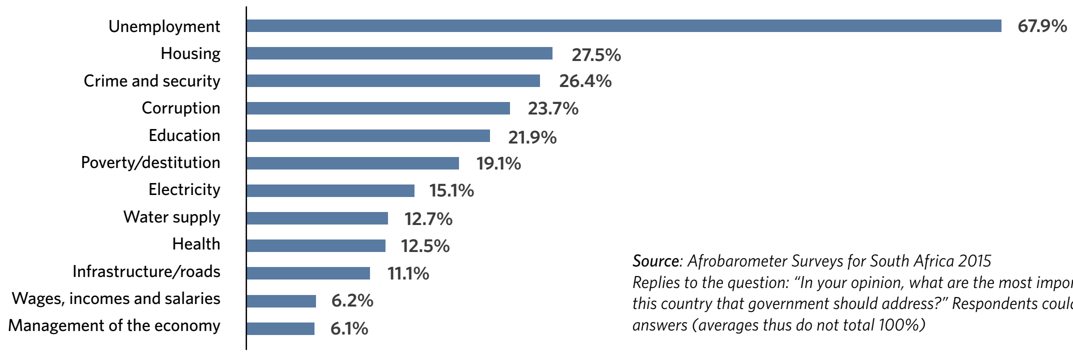


77%
of working days lost, strike related principally to wages, bonuses and compensation

Source: Department of Labour, Annual Industrial Action Reports: 2006–2016

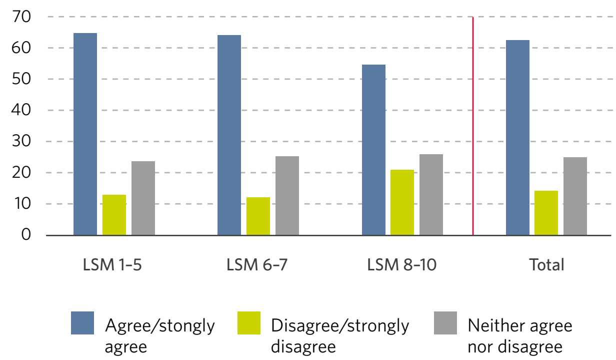
In contrast to the opinion of company executives, the principal causes of strike action from the perspective of labour are wage levels and compensation-related issues. A large majority of broad South African society seems to be concerned with very high levels of unemployment (at 27.1 per cent, or 36.3 per cent according to the expanded definition), with wages and income viewed as a lower priority (at 6.2 per cent). Pertinent to the question of a social compact, the majority of South Africans (across all Living Standard Measurements) agree or strongly agree with the importance of addressing poverty for the process of reconciliation. It is, therefore, worrying that Finn (2015) indicates that 53.8 per cent of South Africa's employees can be classified as 'working-poor'.

Most important problems facing the country (percentage)



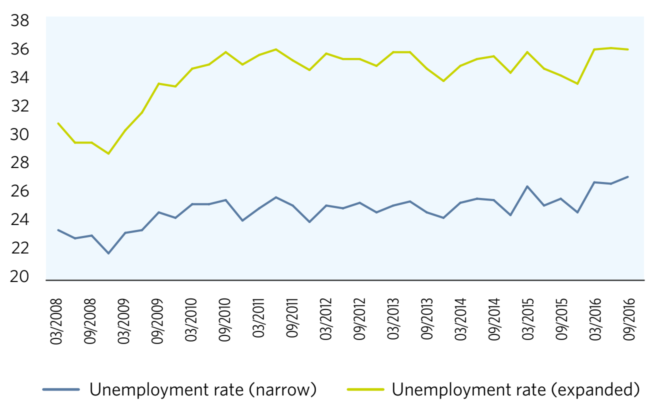
Source: Afrobarometer Surveys for South Africa 2015
Replies to the question: "In your opinion, what are the most important problems facing this country that government should address?" Respondents could provide their top 3 answers (averages thus do not total 100%)

"Reconciliation is impossible as long as people who were disadvantaged under apartheid continue to be poor", by Living Standard Measurement (percentage)



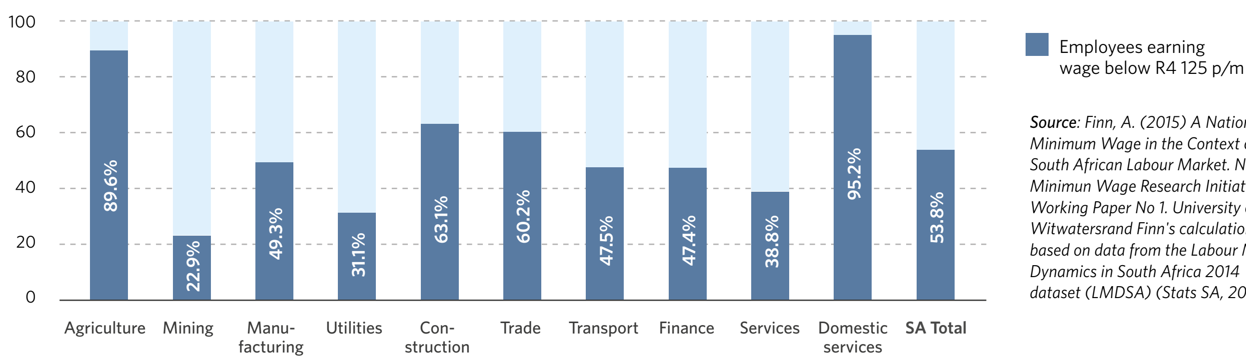
Source: The South African Reconciliation Barometer (SARB) 2015

Unemployment in SA 2008 to 2016 (percentage rate)



Source: Stats SA Quarterly Labour Force Survey (QLFS)

Proportions of working-poor employees per industry (percentage)



Source: Finn, A. (2015) A National Minimum Wage in the Context of the South African Labour Market. National Minimun Wage Research Initiative Working Paper No 1. University of Witwatersrand Finn's calculations based on data from the Labour Market Dynamics in South Africa 2014 dataset (LMDSA) (Stats SA, 2015)

3/ KEY INSIGHTS

- While the country has made significant political headway in entrenching a democratic state, complete with civil liberties and institutional checks and balances, intractable socio-economic inequalities today threaten South Africa's political stability.
- The very concept of a transition denotes the short-term nature of a settlement, with the hope that there would be goodwill to tackle the longer-term challenges related to social and economic transformation.
- Over time, frustration mounted and, today, with the goodwill of the transition having waned, mistrust and polarisation (both social and ideological) have become the order of the day.
- While business leaders focused on the economic policies that would be put in place under the ANC, and the removal of the threat of nationalisation, the ANC was fixated on the political settlement, which it hoped would ultimately secure economic dividends.
- For nearly a decade after the ANC took over power, it continued to be preoccupied with privatisation, consolidation of public finances, and other macroeconomic policies that were regarded as 'prudent' within the neoliberal frame of reference.
- Very high unemployment creates profound strains on social cohesion, narrows possibilities for economic growth and deprives the government of the revenue necessary for development, all of which deepens human stresses caused by the unemployment crisis.
- While the unemployment crisis and various related socio-economic problems receive a tremendous amount of media and academic attention, there is still no clear consensus on why South Africa's unemployment is so much worse than almost anywhere else in the world.
- In order to tackle society's massive socio-economic challenges effectively, there needs to be a capable state, with a leadership that is purposeful and effective, and a bureaucracy that is functional and productive.
- A common thread as far as business and labour are concerned has been the vigour with which both have pursued sectoral interests at the expense of economy-wide competitiveness, and their related reluctance to make short-term trade-offs in favour of long-term economic sustainability.
- The presence of a clear developmental vision, which has an institutional framework for implementation and the backing of a political power, should form the foundation for a strong relationship between business and the government.

Introduction

South Africa lacks a social and institutional framework around which its main social actors can coalesce to push back against the country's mounting socio-economic challenges. With the increasing weight of these challenges putting the very foundations of the post-apartheid state under pressure, we seem to be running out of ideas on finding a common approach that balances macroeconomic stability with more decisive action to achieve substantive inclusive development.

While the country has made significant political headway in entrenching a democratic state, complete with civil liberties and institutional checks and balances, intractable socio-economic inequalities today threaten South Africa's political stability. Somehow, the country has failed to graft a negotiated transformation agenda onto the basic political framework that was put in place during the Convention for a Democratic South Africa (CODESA) negotiations. Without this, our country's transition remains incomplete and fragile.

This paper asks how we might regain the momentum. In a pluralistic democratic polity, such as South Africa, with its low levels of interracial trust and equally fractious relationship between the state and business, dialogue, facilitated by a credible and responsive government, remains our best hope for social and economic change. In this regard, there are lessons to be drawn from the early phases of our political transition, which may help to put us back on track towards a more enduring social compact. There are, however, important factors standing in the way of success, amongst them a deleterious political culture that has played a pivotal role in limiting the realm of opportunity. Deliberative democracy remains underdeveloped, and this is borne out particularly in the strained relationship between the government and the private sector. This paper focuses on strategies to overcome the impasse, through the forging of a social compact between the government and business that would bring about a profound change in economic distributive patterns without compromising macroeconomic stability.

As such, our major contention here is that the value of dialogue, as the basis for solving the country's intractable socio-economic challenges, needs to be preserved. Without a strong collaborative relationship between the government and the private sector, meaningful reform that would put the country on a higher and more sustainable growth trajectory will remain out of reach. A new social compact should be underpinned by political will, mutual respect between the government and business, well-defined and shared objectives, quality institutions that inspire confidence, a coherent economic policy and development strategy, and a corporate sector that transcends narrow interests and a check-box mentality. All of this will require an overhaul of our political culture, as well as a clear confirmation by the government and business of their *bona fides* in jointly working towards a fairer and more inclusive economic model.

The paper is divided into four sections. First, it provides an assessment of South Africa's political transition in the 1990s to identify the impulses behind today's shaky social compact. In the second section, we take a look at the nature of current socio-economic challenges, focusing in the main on issues related to youth unemployment and social inequality. From here we proceed to interrogate the weaknesses of the existing compact. In the final section, we sketch broad outlines of a proposed social compact grounded on productive government and business relations.

Understanding South Africa's transition and what went wrong

A social compact between the government, business and labour was one of the pivots that defined South Africa's democratic transition. The National Economic Development and Labour Council (NEDLAC) became the new democratic state's first expression of such a compact and, albeit at a sectoral level, initiatives were undertaken to address specific issues related to transformation and wage bargaining. At the time, the creation of such a social compact was crucial, given the deep-seated distrust amongst the stakeholders that had to navigate profound socio-economic challenges. The commitment of political leadership, especially from the erstwhile foes, the African National Congress (ANC) and the National Party (NP), to embark on a process to define the terms of transition helped in building goodwill for the rafts of economic policy reform that followed. There were external factors that lent urgency to the reform process, such as the collapse of communism, the growing isolation of the apartheid government, and an intensified push by international actors for a negotiated solution in South Africa

(Adam, Slabbert & Moodley 1997). The collapse of the Soviet Union, in particular, shattered the notion that the ANC would act as a Trojan horse for Soviet influence in South Africa (Welsh 2009).

Internal factors such as rapid economic decline and fear of civil war, especially against the backdrop of growing uprisings in townships, further nudged the apartheid state towards a negotiated settlement. Choices were limited, especially for the white minority government, but the leadership from both sides of the political divide made the most of the perplexity of the prevailing political milieu. Yet, for a large-scale reform process of this nature, trust was necessary, and the ultimate political settlement of 1994 would not have been possible were it not for the intense trust-building efforts that preceded it between 1990 and 1993. Connective and transformative leadership was a powerful driving force in defining the character of the settlement, with both Nelson Mandela and FW De Klerk acting as the glue that held the tenuous transition together. In important respects, they had to go against their respective parties' scepticism, and convince militants and securocrats alike that negotiations were a higher road worth taking. The very concept of a transition denotes the short-term nature of a settlement, with the hope that there would be goodwill to tackle the longer-term challenges related to social and economic transformation.

The symbolism of the language of reconciliation and national unity, especially as amplified by Mandela, at the time served to give hope for momentous changes in the lives of black South Africans. It was on the basis of this compromise that goodwill was built up, and that there was confidence to drive earlier macroeconomic reforms. However, these measures still represented a halfway house at best. They did not define a transformative agenda to overcome socio-economic challenges, nor did they rescript spatial planning or offer greater inclusion to those who were previously excluded from playing a meaningful role in the economy. Big expectations were created, but bold policy action was largely absent.

The immediate political goal of putting in place a democratic constitutional framework was achieved, but the impetus for change was not sustained. South Africa would remain fractured along racial and ethnic lines, with economic distribution patterns continuing to run along these historical schisms. While the Constitution of 1996 outlined the foundational values of the new democratic state, the fostering of a fairer, more equitable society required renewed effort. Unfortunately, the momentum was lost early on.

A transformational agenda in the form of equity policies, like broad-based black economic empowerment, would prove to be directionless, failing to reach their intended beneficiaries. Over time, frustration mounted and, today, with the goodwill of the transition having waned, mistrust and polarisation (both social and ideological) have become the order of the day. Had black economic empowerment been part of the framing of the original social compact of the 1990s, or had it been prioritised by the Government of National Unity (GNU), South Africa's social reality may have looked very different. Expectations of how the government was to address social challenges diverged, with some placing emphasis on a minimalist government and free-market economics, while amongst the majority of black South Africans there was an expectation that the ruling party would use its newly found power to deliver economic dividends. Much of the negotiation between the ANC and the National Party government, however, was preoccupied with political questions, including the cessation of military hostilities by both sides, dealing with violence, normalising political activity by lifting restrictions, and the release of political prisoners.

As negotiations progressed, there was a growing push for power sharing, the promotion of liberal constitutional values and the protection of private property, mostly to allay the fears of the white minority. At the political level, the social compact was expressed more patently in the establishment of the GNU. Symbolically, this step made a significant impression in countering the narrative of minority rule and political subjugation of the black majority that had prevailed formally since the creation of the Union of South Africa in 1910, and intensified with the introduction of more severe, legislated forms of apartheid in 1948. The creation of a democratic, non-racial South Africa – the essence of the social compact that emerged in 1994 – was the culmination of difficult negotiations between former enemies who recognised the need to compromise for the sake of future generations.

There were, however, many unresolved problems on both the political and the socio-economic level, especially on the latter, which made the social compact tenuous. Worried about the fact that the political change ushered in during the 1990s did not bring about a meaningful shift in the material conditions of the majority of South Africans, the ANC called for a second transition that would require a new social compact, noting the following:

> *having concluded our first transition with its focus on democratisation over the last eighteen years, we need a vision for a second transition that must focus on the social and economic transformation of South Africa over the next 30 to 50 years.* (ANC 2012: 4)

From this perspective, the first transition dealt with the enactment of a new constitutional order, while the second had to address poverty, income inequality and lack of economic opportunities for black people and women.

This two-phased depiction of South Africa's transition arguably points to a recognition on the part of the ANC that the country's elusive economic pact might be jeopardising the stability of its political pact of the 1990s. In present-day South Africa, social inequality and uneven development are disrupting efforts to achieve a more stable and cohesive society. The ANC government is anything but blameless in this regard. Although it would have been unreasonable to expect radical change in the period immediately following the country's transition, a review of the past 22 years points to incoherent efforts, at best, as far as the creation of a more systematic approach towards overcoming socio-economic challenges is concerned. What has been lacking is the imagination and drive necessary for completing the transition to a more equitable society.

A major obstacle to fruitful dialogue on economic transformation at the outset of the transition was the dire state of the economy. Growth was poor; public debt was high. As a result, the economic propositions that gained traction were those that were aimed at stabilisation, namely focusing on growth, cutting the budget deficit, lowering tax on business and attracting foreign direct investment (Giliomee 2012).

Therefore, the initial economic pact was chiefly about getting a sick patient back on its feet, without due consideration for its long-term recovery. Of the four economic scenarios that National Party and ANC heavyweights discussed in the early nineties at Mont Fleur, outside Stellenbosch, the dystopian 'Icarus' scenario worried negotiators the most.[1] In this grimmest of scenarios, a black government would ignore constitu-

IN PRESENT-DAY SOUTH AFRICA, SOCIAL INEQUALITY AND UNEVEN DEVELOPMENT ARE DISRUPTING EFFORTS TO ACHIEVE A MORE STABLE AND COHESIVE SOCIETY.

tional checks and drive a populist and expansionary fiscal programme that would eventually culminate in an implosion of the economy. The most optimistic scenario, 'Flight of the flamingos', on the other hand, envisioned a country in which all South Africans would rise together through cooperation and negotiation. The establishment of the National Economic Forum (NEF) in 1993, a precursor to the formation of NEDLAC in 1995, was a step towards materialising this scenario. It also signalled a gradual shift in the role of unions from focusing on protests to reconstructing a new society. Yet, most energy was directed towards the achievement of a political settlement, as this was seen as a foundation for a lasting economic compact. On the economic policy front, the compact was tilted heavily in the direction of a more liberal, free-market economics.

The ANC may have won the political battle, but it had far less influence on the direction of economic policy and, consequently, on the character of socio-economic change. Even with regard to the constitutional negotiations, the areas where the National Party extracted meaningful concessions were in relation to economic provisions such as those in its proposal that:

> *a new constitution 'must contain or address' a range of principles including…your property will remain your own – no government will be able to confiscate it through expropriation or nationalisation; a free market economy…* (Welsh 2009: 440)

These negotiating gambits were in reaction to fears of the probable socialist thrust of the ANC upon ascending to power.

Business and political change

Fearful of how the political transition would eventually pan out, the business community, as far back as the early 1980s, had initiated informal dialogues with the ANC in exile. These were meant in part to understand the ANC thinking on economic policy, and in part to begin a process of socialising its leadership to free market economics. The Anglo American Corporation, as a dominant corporate entity, led the way in this regard, with former CEO Gavin Relly initiating a first meeting with ANC leaders in Lusaka, Zambia at the end of 1984, followed by another in January 1985. This was a voluntary initiative of the corporate sector, with no blessings from the political elite. In the wake of these discussions (and there would be many similar informal discussions in the future involving different players, including in Dakar in 1987, Paris in 1989 and London in 1990), Relly remarked:

> *I'm less concerned about who runs South Africa than I am about the form of economic system which prevails. My judgement is that the ANC would be more interested in a viable and vibrant South African economy than they would be in the Marxian form of economy.* (In Pallister, Stewart & Lepper 1987: 196)

The endgame of these discussions, from the point of view of business, was to secure the place for a free-market, capitalist economy when the political order changed.

This was an act of self-preservation, at a time when South Africa's international isolation was intensifying, with major Western corporations pulling out of the country as part of an organised disinvestment campaign. For the Anglo American group, it did not matter whether the political leadership was white or black; what was important was to explore political reforms that would ultimately create fertile ground for free market economics. Sanctions were an albatross around the neck of the white-owned economy, and the only way to unlock the economy would be through political reform. While the business leaders focused on the economic policies that would be put in place under the ANC, and the removal of the threat of nationalisation, the ANC was fixated on the political settlement, which it hoped would ultimately secure economic dividends (Esterhuyse 2012).

During the early stages of the transition, there was also a strong inclination on the part of the ANC to build bridges with the business community. As Esterhuyse (2012) notes in his recollection of that period, Mbeki had underlined the importance of the business sector in playing a key role in the transition to an inclusive democratic dispensation:

> *without the cooperation of businesspeople and without a growing economy, we will struggle with the democratization project…the political process of transition to an inclusive democracy with international status should not be too difficult. We would be able to manage that. The socio-economic transition process, though, is the more complex issue.* (In Esterhuyse 2012: 256)

The crux of the challenge of South Africa's political transition and the social compact that it gave birth to was that it built a halfway house of democratisation that lacked economic foundations. The more intense of these discussions about the character of the economic settlement took place in 1990 at Mells Park, London, and were inconclusive. The euphoria of political change left little room for the creation of a lasting framework that would overcome poverty, bring down the walls of race-based inequality, and diversify the ownership of the economy.

The long shadow of apartheid's socio-economic legacy was underestimated, but there were also objective constraints, particular to the historical juncture of the transition, which encumbered state intervention in the economy. Major shifts in the global political architecture, occasioned by the collapse of the Soviet Union, and a sharp swing of the pendulum from statism to free-market economics, made such strategies politically unpalatable to international financial institutions. These sentiments could not be ignored, given the country's high level of indebtedness, large budget deficits and mounting unemployment. For nearly a decade after the ANC took power, it continued to be preoccupied with privatisation, consolidation of public finances, and other macroeconomic policies that were regarded as 'prudent' within the neoliberal frame of reference (Clark & Worger 2011).

The government was in a bind: in order to make a dent the socio-economic legacy of apartheid, growth was necessary; for growth to happen, massive investment by the private sector would need to be mobilised; and for the private sector to invest in the economy, the government would need to adopt business-friendly macroeconomic policies. The threat of an investment strike in the event of the government adopting populist policies hung over it like the sword of Damocles.

It had been hoped that the political settlement would generate goodwill that would yield dividends for economic growth, which, in turn, would improve the quality of life of the majority of South Africans. Again, imagination was lacking on the part of business and the government on how to join forces in stabilising the economy while formulating a shared vision for inclusive growth and economic prosperity. It was either trickle-down economics that relied on growth, a position pushed strongly by business, or state interventionism, which was preferred by the ANC (but with limited tools and fiscal constraints), in charting this path. The result was a hybrid approach, with policies that helped to create growth, but which failed to bring about a more inclusive economy. Probably the greatest disappointment is the extent to which the economy failed to create decent and sustainable jobs. This weakness became particularly evident when the economy shed more than a million jobs in the 12 months after the country went into recession during the second half of 2009.

Against this global and domestic backdrop, the government's first social-democratic framework in the wake of the transition, the Reconstruction and Development Programme (RDP), which was favoured by the unions, did not stand much of a chance. With the government lacking the resources to implement such an ambitious programme, it opted for a market-based economic path, the Growth, Employment and Redistribution (GEAR) framework, which stressed growth, deficit reduction and the attraction of foreign direct investment. The era of technocratic government had arrived. In justifying its embrace of a liberal reform programme, the ANC contended that:

> *GEAR was a tactical detour necessitated by objective conditions (high public debt and deficit, bloated public service, low growth, etc.) and subjective conditions (distrust by private capital of the new dispensation). We explained that, in fact, after 2000, because of fiscal space eked out by our stabilisation policies, we implemented more expansionary fiscal policies, and experienced a period of sustained economic and employment growth.* (ANC 2012: 9)

The ANC, therefore, had limited room to manoeuvre upon assuming power. It had to undertake large-scale socio-economic reforms, but it could not do so by alienating key social partners, such as business. It was forced to forge a national consensus in respect of state–business relations, while simultaneously cutting across party-political, ideological and racial lines. Towards the end of President Nelson Mandela's term of office, however, fractures appeared between the major political parties, particularly the ANC and the official opposition, the Democratic Party (later the Democratic Alliance). A similar trend emerged in government-business relations, albeit somewhat later during the Mbeki presidency. Trade unions, moreover, adopted increasingly adversarial relations with employers, in both the private and the public sector. In this environment, the goodwill and momentum for the development of a social compact to drive economic change dissipated over time.

The need for a social compact is more urgent than ever. Some have articulated this need in the form of a call for an 'economic CODESA'. Arguably, however, it is not possible under the present political circumstances to conceive of an economic compact as something that would arise purely from roundtable discussions by stakeholders, or as something that would approximate negotiations about a new political settlement. A democratic constitutional order is in place that sets out both political and socio-economic rights, and provides the institutions within which they can be discussed. These include a parliament where legislation is processed, agencies that are responsible for implementing economic policy, and other consultative platforms that play a role in the search for economic solutions to the country's developmental challenges. Before discussing an outline for evolving a social compact, it is important to sketch the nature of these challenges.

The challenge of slow growth and implications for social stability

In its 2011 diagnostic report, the National Planning Commission (NPC) highlighted nine areas that require attention: poor educational outcomes; high disease burden; divided communities; uneven public service performance; spatial patterns that marginalise the poor; too few South Africans who work; corruption; a resource-intensive economy; and crumbling infrastructure (Presidency 2011). Economic underperformance and high levels of social and economic exclusion are at the heart of the challenges identified by the NPC.

Since the end of apartheid, economic growth can be divided roughly into four periods. The immediate post-apartheid period, from 1994 to 1999, was characterised by substantial uncertainty over the state of the transition, and the tentative reworking of the structure of the economy, with a focus on macroeconomic stability. The period ended with the global slowdown triggered by the Asian financial crisis, which flattened out growth as the 1990s ended.

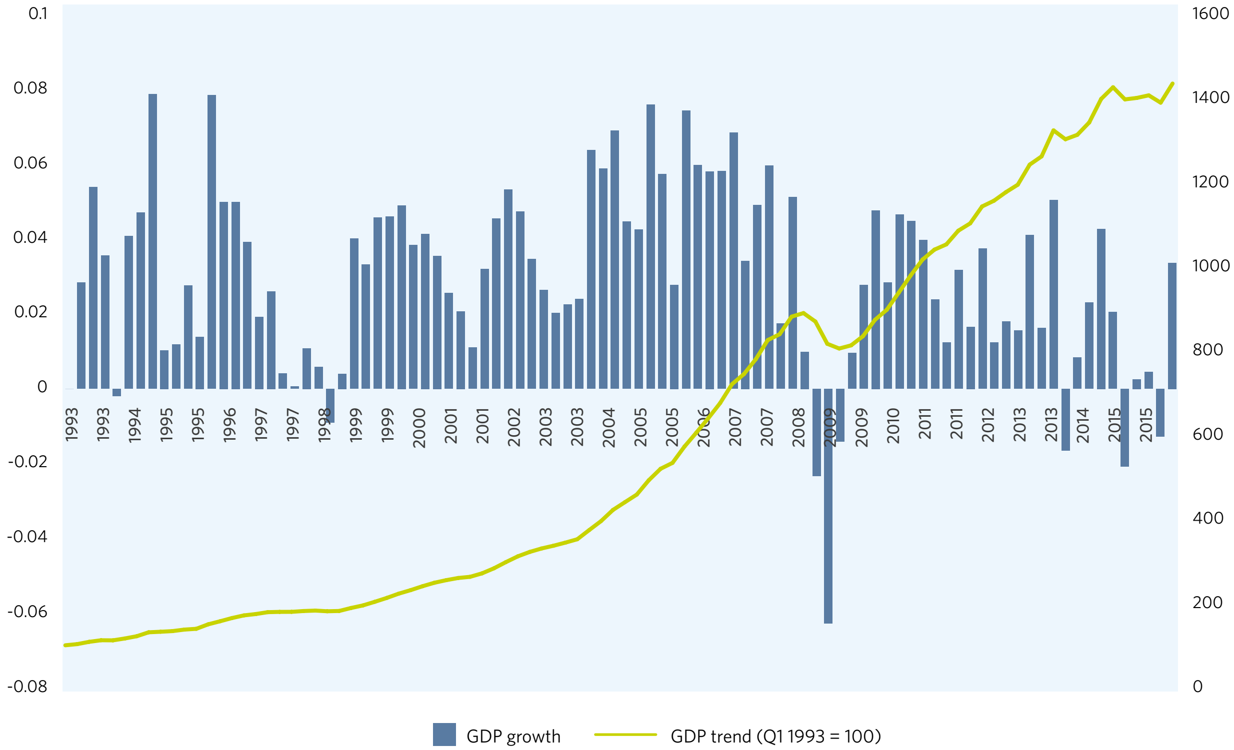
From around 2000 to 2004 the economy experienced some moderation, and achieved relatively stable growth of between 3 and 5 per cent. It was also during this period that the government built up a social safety net in the form of social grants and pensions. Grant recipients grew from 2 million people in 1996 to 13 million in 2008 and 16 million in 2013 (Mbeki & Mbeki 2016). The government's rhetoric shifted at this time, especially after 2004, with less emphasis on macroeconomic stabilisation and free markets, and more on thinking around the creation of a developmental state.

The third phase, running from 2004 until 2008, features some of the most rapid growth in recent memory. This was fuelled largely by rapid global growth, and a global commodity boom, which drove up the price of key commodities like platinum and gold. It was underpinned by a period of increased infrastructure investment, which accelerated as the Zuma administration came to power in 2008.

This year also marked the advent of the most recent growth period, the post-crisis phase. The global financial crisis (and its ensuing spillover impacts, like the European sovereign debt crisis) pushed South Africa into the deepest GDP contraction since the political transition of the mid-nineties, but the economy quickly returned to growth (see Figure 3.1). This was the result of three factors: firstly, the increased infrastructure expenditure since 2008 started to have an impact on the economy; secondly, there was a moderate rebound in global commodity prices in the wake of the crisis; and, thirdly, the roll-out of stimulus programmes (particularly quantitative easing) in the developed world encouraged investment in the developing world. The longer-term impacts, however, have been more damaging. The collapse of commodity prices, a European economy mired in slow growth and political uncertainty, and the slowdown of growth in BRICS countries have had an adverse effect on the global economy. With fiscal buffers largely depleted in the rush to respond to the financial crisis, there was little that could be done in terms countercyclical budgeting to decouple growth from the weak global economy, leaving South Africa to wait for the rest of the world to recover. What we have seen in the period since the global financial crisis is the compounding of internal socio-economic strain – a legacy of historical factors exacerbated by a negative external environment.

Several problems have been omnipresent throughout each of the four periods, the most notable of which is unemployment. It is hard to overstate the seriousness of South Africa's unemployment situation. The rate itself is, of course, remarkable; with an unemployment rate

Figure 3.1: GDP growth at seasonally adjusted constant prices



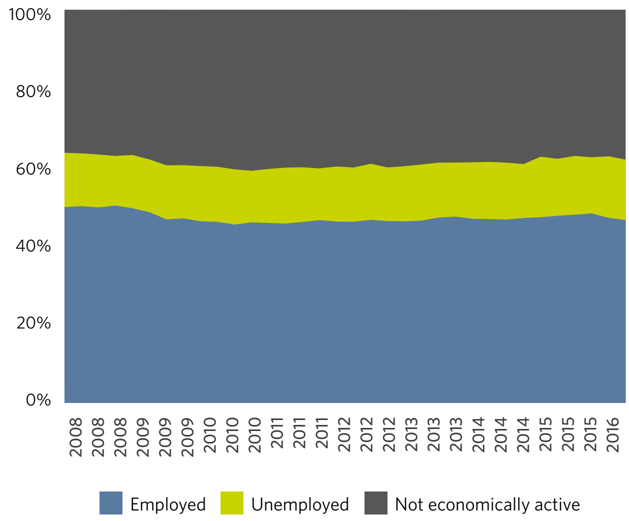
Source: *Stats SA, Gross Domestic Product data, Q2 2016*

of 27.1 per cent and an absorption rate of 42.5 per cent,[2] the entire country is balanced delicately on a thin layer of employed people and a tiny tax base. Expanding this definition to consider precarious unemployment makes matters appear even worse. As can be seen in Figure 3.2, the share of unemployed people as a percentage of the total labour market has barely changed in recent years, and while the period in question does cover the difficult post-crisis period, the rate has changed only marginally since 1994. Very high unemployment creates profound strains on social cohesion, narrows possibilities for economic growth and deprives the government of the revenue necessary for development, all of which deepens human stresses caused by the unemployment crisis. This makes it all the more urgent to shape a new social compact with a dual focus: the immediate challenges facing the economy, and a long-term strategy to create inclusive growth and shared prosperity.

Young South Africans are particularly adversely affected, with unemployment rates of 53.7 per cent for those aged 15–24 years and 31.4 per cent of those aged 25–34 years. Figure 3.3 shows that when these two groups are combined, they make up approximately 70 per cent of all unemployed people. This is clearly a crisis for those who are unemployed, but it also has a broader, long-term impact for us as a society. The youth, particularly, those aged 25–34 years, will raise future generations, drive a large portion of retail sales, and underpin the housing market (among other important social functions). An economy that does not service its youth now creates immediate economic problems, and leaves the next generation at a disadvantage, as they have to overcome the economic hardships faced by their parents. Consumption levels, a critical fuel of the economy, will also be uncertain, making it harder to imagine high growth rates in the future.

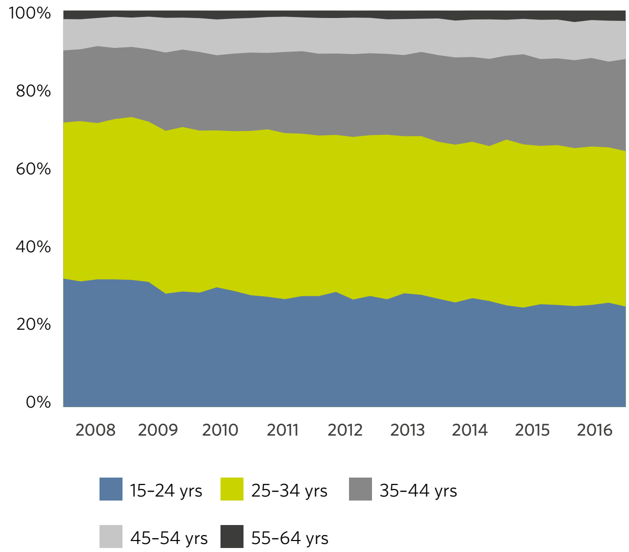
While the unemployment crisis and various related socio-economic problems receive a tremendous amount of media and academic attention, there is still no clear consensus on why South Africa's unemployment is so much higher than almost anywhere else in the world. Brazil, for example, is similar to the South African economy in numerous ways, but even at the height of a deep political crisis and economic recession, its unem-

Figure 3.2: South African workforce by status, 2008–2016



Source: Stats SA, Quarterly Labour Force Survey data, Q3 2016

Figure 3.3: Share of unemployment by age group



Source: Stats SA, Quarterly Labour Force Survey data, Q3 2016

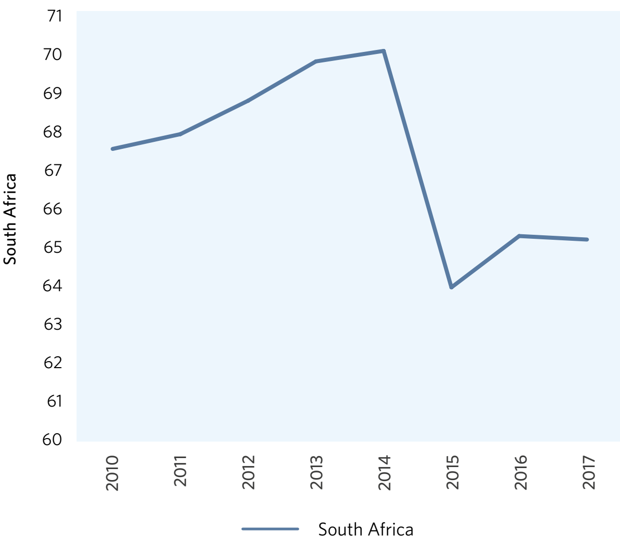
ployment rate remains below 12 per cent. One major factor, according to Harvard academic Ricardo Hausmann, has been 'a structural change in the economy, away from low-skilled jobs, and a significant increase in the proportion of South Africans looking for jobs' (National Treasury 2008: 1). As a result, unemployment spiked over a very short period from close to 15 per cent in 1995 to over 27 per cent in 2004.

A panel of international advisors, appointed by the National Treasury in 2006 to identify binding growth constraints, suggested that poor export performance (another factor with historical roots) presents an additional obstacle to the achievement of a more dynamic economy. South Africa has consistently underperformed in comparison with its peers. Between 1960 and 2004, the real value of exports grew by only 34 per cent (about 0.7 per cent per year), which stands in stark contrast to 169 per cent in Argentina, 238 per cent in Australia, 1 887 per cent in Botswana, 385 per cent in Brazil, 387 per cent in Canada, 390 per cent in Chile, 730 per cent in Israel, 1 192 per cent in Italy, 4 392 per cent in Malaysia, 1 277 per cent in Mexico and 120 percent in New Zealand (National Treasury 2008). While there is no decisive answer for what makes South Africa so unfortunately exceptional, three perspectives are cited frequently.

The first is the 'certainty and policy efficiency theory'. This viewpoint pins the blame largely on political or policy climate factors, such as: a large amount of red tape; a black economic empowerment policy that is narrowly focused and generates few outcomes by way of shared growth or inclusion of those on the bottom rungs of the social ladder; policy that constantly changes and generates substantial uncertainty; and a general lack of faith in a government leadership that is seen as corrupt, self-serving and not up to the task of governance. It is important to stress the fact that, without credible political leadership, there is no basis for a social compact. In order to tackle society's massive socio-economic challenges effectively, there needs to be a capable state, with a leadership that is purposeful and effective, and a bureaucracy that is functional and productive. The state plays a central coordinating role in mobilising other social actors, and in directing energies towards productive ends.

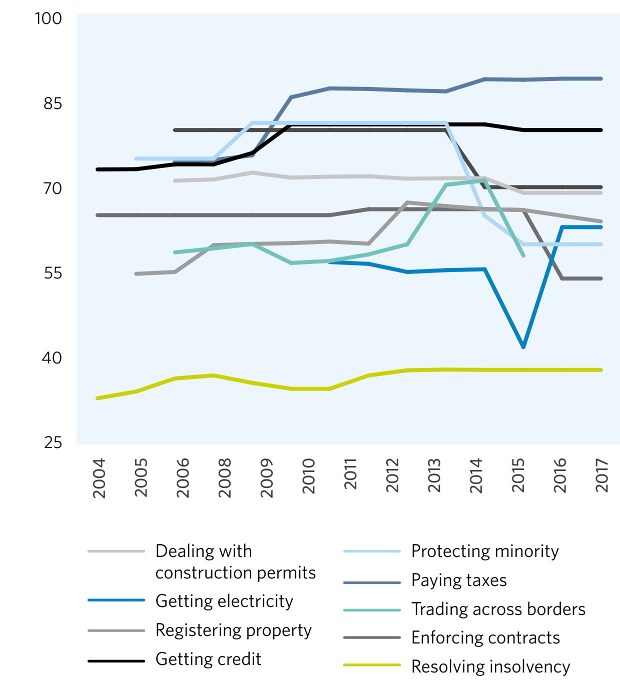
While business red tape is certainly a concern, and something that must be improved continuously, there is little evidence to suggest that South Africa is notably worse off than other major economies on this score. As

Figure 3.4: Ease of doing business overall measure



Source: World Bank, Ease of doing business, distance to frontier data

Figure 3.5: Ease of doing business measures



Source: World Bank, Ease of doing business, distance to frontier data

can be seen Figures 3.4 and 3.5, South Africa performs relatively well on the World Bank's 'ease of doing business ranking', which assesses the extent of cumbersome red tape that firms encounter. South Africa consistently outperforms leading emerging economies like China and India, although the comparison is a bit misleading, since those economies can compete on their economic fundamentals (like population size and cost of labour), while South Africa must compete against these natural advantages, through factors like a very efficient governance structure.

The ease of doing business ranking also paints an incomplete picture on another score. While many government failings may not be dire, consistent systemic failure can trigger much more serious crises, such as in the case of failure to invest adequately in energy infrastructure. Similarly, a general lack of faith can undermine business confidence and make firms unwilling to invest in or expand employment. These firms are not necessarily correct (in an economic sense) when they make such decisions, but a lack of government action to convince business that the country is on the right track is indicative of an unhealthy working relationship that can have a profound impact on growth.

Closely linked to political instability is instability in the labour market. South Africa lost an average of 206 work hours per 1 000 workers between 1999 and 2008, making it the fifth most strike-prone country in the world (Bhorat & Tseng 2014). Substantial labour unrest is, in part, the result of a labour regime that provides extensive protection to labour movements, and, in part, due to the close relationship between unions and the government, which allows labour to exert influence on aspects of economic policy. More fundamentally, it is based on a poor relationship between labour and business, in which lack of trust and deep animosity are the order of the day.

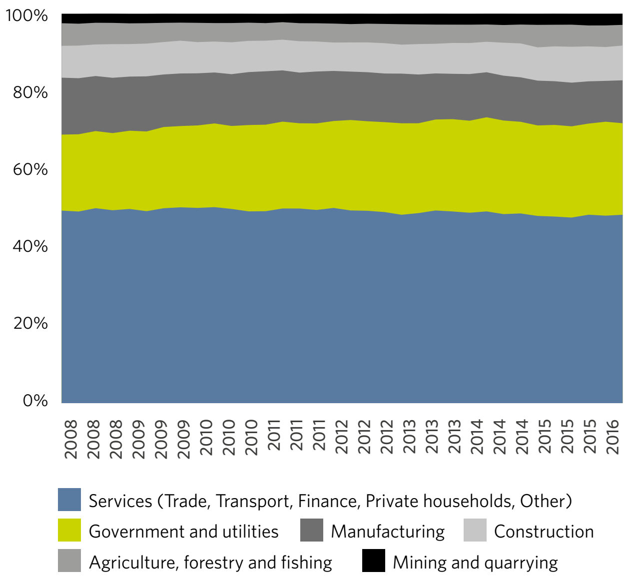
The second perspective relates to the industrial structure of the South African economy. South Africa developed as a mining economy, and relatively rapidly became a services economy, bypassing a period of deep industrial activity, which has resulted in a small manufacturing sector (see Figure 3.7).

While a heavy manufacturing industry, particularly in iron and steel, was developed, it was never on the scale that led to the mass employment seen elsewhere in more recently industrialised states. The weakness of manufacturing, in particular, has often been identified

Figure 3.6: Trends in industrial action in South Africa, 2010–2016

Source: Department of Labour, Annual Industrial Action Report 2014

Figure 3.7: Employment by sector, 2008–2016



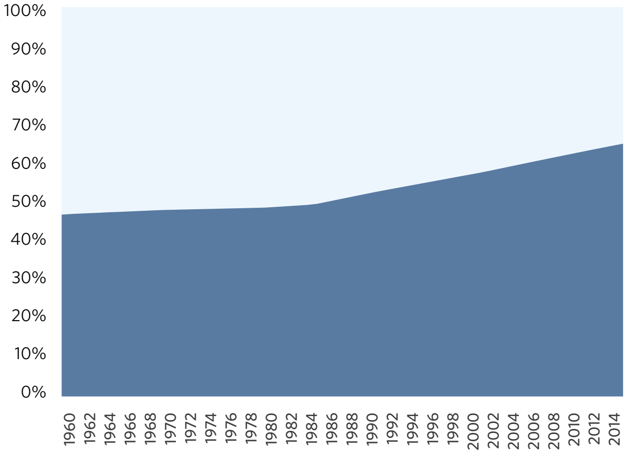
Source: Stats SA, Quarterly Labour Force Survey data, Q3 2016

as a systemic problem for the South African economy. Manufacturing is generally considered desirable, because it has extensive linkages to other parts of the economy: the purchase of raw materials, the provision of services, and the development of industrial component supply up and down the value chain. This is complemented by a range of additional spillover benefits, such as strengthening the currency (through both exports and import substitution) and developing technical skills and productive capacity. Perhaps most crucially, manufacturing offers a route to the middle class for those without advanced skills – a vital consideration for human development and social cohesion. This pathway has largely been closed in South Africa, partly because of a lack of industrial activity, and partly because of our now late industrialisation, which typically takes place during a period of capital-intensive production that demands less labour and higher skills.

Although discussed less than manufacturing, agriculture is also of great importance. South Africa employs an unusually small percentage of our population in agriculture. Traditionally, agriculture has acted as a buffer during the process of job creation – a large traditional sector able to absorb the lower skilled, while the rest of the economy evolved to the level at which it could provide opportunities. The unique history of South Africa, however, saw mass dislocation from agricultural land during apartheid, and a politically complex scenario after democracy. The politically charged nature of an agricultural sector dominated by white-owned farms has meant that agriculture has received little support, and with the land reform programme stalled, there is little evidence that transformation will happen rapidly enough to inspire renewed concentration on the sector. The weakness of agriculture has contributed to the rapid urbanisation of the country (as can be seen in Figure 3.8), which, in turn, places substantial strain on major economic centres, and means that the formal economy must absorb the overwhelming majority of the population.

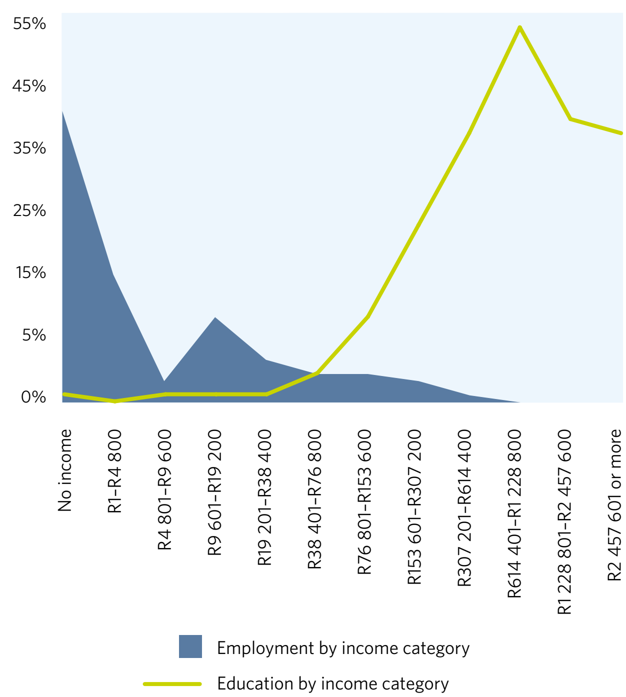
The third perspective on South Africa's high unemployment rate is concerned with economic inequality. Not only is South Africa consistently ranked among the most unequal societies in the world, its inequality also has a pronouncedly racial character. This creates a serious barrier to the type of social progress that facilitates access to work. Most recently, this has been highlighted at university level in the 'FeesMustFall'

Figure 3.8: Urban population as share of total, 1960–2015



Source: *United Nations, World urbanisation prospects, urban population (percentage of total) data*

Figure 3.9: A broken pathway



Source: *Stats SA, Census 2011 data*

protests, but it has also been evident in a long-running critique of the basic education system, which disproportionately benefits the wealthy while failing the poor. As can be seen in Figure 3.9, someone looking to move up the income ladder faces narrowing job opportunities and rapidly escalating education demands. Deep inequality undermines access to scarce opportunities and leaves much of the population fighting for too few low-income jobs.

However, inequality has side-effects other than its impact on social mobility. There is a growing consensus, backed by empirical evidence, that inequality slows economic growth. Thomas Piketty has become the most noteworthy proponent of such thinking, but more recently, orthodox financial institutions, such as the IMF, have echoed this view (Ostry, Berg & Tsangarides 2014). The mechanisms of this impact are still contested, but one is particularly interesting for South Africa. As a service economy, employment grows fastest when domestic demand for retail services expands. Retail services grow fastest when there is a strong middle class that can purchase such services. It is here that South Africa is perhaps most anomalous. Globally, income inequality tends to be split roughly 50/50, divided between the combined wealth of the bottom 40 per cent and top 10 per cent, and the middle 50 per cent.

Realistically, all of the above explanations contain a measure of truth and, thus, the answers may lie in a combination of them. However, the differences are important. With no consensus, even in diagnosing the problem, it becomes very hard to rally key constituencies around a common economic vision, or what we have been referring to in this paper as a social compact. This is especially true when different groups have vested interests in backing particular explanations. Business will go for the policy uncertainty explanation or blame political factors broadly, while labour is likely to emphasise class issues (the inequality explanation, in particular), and the government will emphasise the legacy of apartheid and exogenous factors.

Creating a social compact that can move the economy forward needs to take into account all of these divergences. Finding a shared platform on which the various ideological perspectives, political inclinations and sectoral interests can be rationalised through deliberative processes into a common pragmatic vision for the country could help a great deal. The earlier platforms for such a social compact, in the form of the NEF and later NEDLAC, have reached a point of exhaustion. This is due largely to the fact that mechanisms like NEDLAC were created to shore up a specific type of political transition, with key actors having to grapple with immediate challenges, which involved the formulation of the initial raft of economic and labour market policies. They have reached their sell-by date, and a new framework for navigating solutions in the future is urgently required.

The weaknesses of the current social compact

Few developments symbolise the fraying of South Africa's tentative social contract as clearly as does the demise of NEDLAC. Established in 1995, it represented the post-apartheid hope that equal, representative engagement could overcome entrenched divisions. Yet, while this body has had some success, most engagements have stumbled on the same real fault lines that cut across South African society. When important agreements have been reached – as in the recent case of the minimum wage – too often the resultant compromises have left everyone unhappy, raising questions about the extent to which sustained compromise can be attained in a society that is so deeply polarised. Moreover, it has raised serious questions about the overarching capacity of institutional structures to compensate for a broader lack of unity.

NEDLAC has its origin in the merger of the NEF and the National Manpower Commission (NMC) – two negotiating forums established during the transition to debate economic policy for the new government. At its formation in 1995, NEDLAC aimed to achieve the triple aims of growth, equity and participation through negotiated agreements (NEDLAC 2015), rather than a set of talks resulting in an outright 'winner' (Parsons 2001). It was structured around three chambers, which included the three core members – labour, business and the government – and focused on issues of labour, trade and industry, and monetary and fiscal policy. A fourth chamber included the additional constituency of 'community', and focused on social policy. There are representational problems, or a democratic deficit, in NEDLAC. Consider, for example, the so-called community representation in NEDLAC, alongside trade unions and business. Most of those who purport to be representing the 'community' are former unionists, ANC politicians and South African Communist Party activists. They have no legitimacy to speak for the broader interests of South Africa's diverse communities. The poor, in whose name NEDLAC exists, have no say in this body.

Throughout its existence, the functionality of NEDLAC has shifted substantially, with various developments roughly fitting into three periods.

The first was the foundational period for NEDLAC, which was characterised largely by debates around the Labour Relations Act 66 of 1995 (LRA) and related work. The LRA was and remains one of the landmark legislative achievements of the post-apartheid era, defining a wide range of labour protections and establishing a clear dividing line between unions and the private sector, which frequently bemoans the restrictions imposed by the LRA. One of the defining features of the negotiations in this phase was the close relationship between labour and the government or, more accurately, between the Congress of South African Trade Unions (COSATU) and the ANC. The result was the passing of legislation that business was never fully comfortable with, and which remains a frequent point of contention in debates around labour market flexibility and when strike action breaks out. While the LRA negotiations produced an important outcome in terms of a critical piece of legislation, the process itself undermined the reasons for which NEDLAC was established, namely the forging of consensus around key economic legislation. A social compact, if it is to be credible in the eyes of all stakeholders, requires sufficient consensus.

The degree of consensus shifted with the second, highly contested, phase, which was framed by the GEAR strategy. GEAR was widely regarded by labour as a move towards a more business-friendly approach to the economy, even while the private sector continued to complain about the excessive power wielded by labour. This nascent strain was deepened by the institutional damage brought about by the departure of NEDLAC's executive director, Jayendra Naidoo, and a resulting vacancy in the senior leadership position for 12 months (Bassett 2004). The period coincided with the consolidation of power under the Mbeki administration, which saw decision-making increasingly centralised in the presidency and, to an extent, the ANC. The Mbeki era, with its technocratic high-handedness, foreclosed any possibility of a broadly shared social compact. The result was the creation of major policies that angered both labour and business, and a consequent weakening of NEDLAC.

Apart from the fact that it was formed to counter the apartheid-era practice of unilateral decision-making processes on economic and social policy, NEDLAC also set itself the objective of promoting economic growth and social equity, as well as minimising tensions in industrial relations. It has not been able to achieve these objectives.

Over the past 17 years, industrial disputes at NEDLAC have continued to surge, in both the public and private sector. At one point, it threatened to throttle innovative ideas, such as youth wage subsidies, without putting in place any feasible alternative to infuse dynamism into the economy. Sectoral interests in business have also sought to use NEDLAC to canvass for tariff protection for sectors that cannot withstand global competition. A common thread as far as business and labour are concerned has been the vigour with which both have pursued sectoral interests at the expense of economy-wide competitiveness, and their related reluctance to make short-term trade-offs in favour of long-term economic sustainability.

The third phase has been characterised by a growing and over-layered agenda, thereby making this institution lose its relevance. The GEAR period and that of its successor, the Accelerated and Shared Growth Initiative for South Africa (ASGISA), practically ended with the ascendance of the Zuma administration. While the initial period of Zuma's presidency saw a brief resurgence in the influence of labour, it did not result in the revitalisation of NEDLAC or the putting in place of a new mechanism to build a social compact. Relations between the trade unions and the ruling party would become strained over time, industrial action (especially in the mining sector) would mount and the factious battles within the tripartite alliance would sap energy for policy innovation. The NPC appointed by the Zuma administration lacked the required authority to drive social and economic change. It could not act outside the consent of the affected ministers, regardless of the initial public support it enjoyed. Furthermore, the political gridlock under Zuma and poor relations between the government and business meant that there would be no structured mechanism drawing together key social actors to push for a social compact that could create conditions for inclusive growth. The resultant discontent with NEDLAC as a forum for self-serving interest reached its peak after the massacre at Marikana (Gumede 2015), with the tragedy highlighting the very deep divisions between labour, business and the government, as well as the devastating consequences for the economy.

All three stages are bound by a set of common problems, key among them being the inability to operate on the basis of consensus. In effect, the three phases reflect shifting power balances within NEDLAC, the first phase dominated by labour (and backed by the government), the second by the private sector (again with the backing of the government) and the third seeing a loss of authority by NEDLAC, and a general rise of mistrust in the institution.

As deep as concerns are about these divisions between the tripartite forces of labour–business–government, so are worries about the widening schisms within each constituent sector. To compound matters, NEDLAC has neither the credibility nor the capacity to bridge these. Labour is most clearly divided, with increasing fragmentation from both the split within COSATU, and the rise of more militant alternative unions, such as the Association of Mineworkers and Construction Union (AMCU). The government underwent a period of extensive fragmentation at around the same time as the foundation of NEDLAC, with responsibilities divided between different levels of government (national, provincial and municipal) and across various functions (with an ever-growing roster of departments, agencies and state-owned enterprises).

This fragmentation is a problem primarily because of poor systems of communication and coordination, but the divide is now even wider, with intermittent tension between some departments (e.g. the Treasury and the Presidency, for example) and clear ideological differences between others (e.g. the Treasury and the Department of Trade and Industry, or Eskom and the Department of Energy in respect of green energy). Finally, business is being dogged by institutional weakness, particularly with instability at Business Unity South Africa, and by profound division between businesses on multiple levels. These manifest between large and small industries (the latter generally being poorly represented), and between white- and black-owned businesses (notably with the formation of the breakaway Black Business Council). With lack of unity in each constituent part, it will prove increasingly difficult to achieve consensus by way of

FAILURE TO MOULD A SOCIAL COMPACT WOULD PROLONG UNCERTAINTY, INTENSIFY ECONOMIC STRAIN AND CONTRIBUTE TO CONDITIONS THAT GENERATE SOCIAL INSTABILITY.

the NEDLAC machine. Worryingly, the prospects for a social compact now seem even further out of reach than during the early phases of political transition.

Broad outlines of a social compact: an improved government and business relationship as a catalyst for change

The relationship between the state and the private sector differs widely around the world and, indeed, within individual countries. The private sector is not a homogenous body. Some sectors and firms have a much closer relationship with the government than do others. In some sectors, the government may be an active participant, in the form of state-owned enterprises. Similarly, the government may have good but highly fragile relations with business, the relationship breaking down when the government does something the private sector does not like. The complexity underlying state–business relations notwithstanding, there do seem to be some governments that find the right balance – where the relationship drives, rather than hinders, growth.

In South Africa, more than ever, there is a need for sustained dialogue between the government and business to navigate the country out of its current low-growth trajectory. Over the past five years, there has been great apprehension about the deteriorating state of the economy, and the lack of leadership in addressing it. Leadership, or the absence thereof, seems to be at the heart of our current challenges. Such leadership, in terms of defining a shared vision for the future, should be forthcoming from the government; but the private sector, too, given the resources at its disposal, should be challenged to do more than simply driving social corporate investment projects.

Society expects much from both government and business leaders in generating solutions to mounting social and economic challenges. There are historical antecedents to fraught relationships between the government and business. Even under apartheid, there were often frosty relations between the Afrikaner political elite and the guardians of Anglo-Saxon capital that dominated the mining sector. Some of these tensions centred on the terms of the latter's contribution to the fiscus and broader social development (of the Afrikaner community in the main). As is the case today, ideological antipathy was not in short supply, with the nationalists arrayed against those they perceived to be representing imperial interests.

The presence of a clear developmental vision, which has an institutional framework for implementation and the backing of a political power, should form the foundation for a strong relationship between business and the government. It is not enough for this vision to simply map the outlines of development, as the NPC has done with the National Development Plan (NDP) or, indeed, as was the case with the RDP in the 1990s. It, furthermore, needs unambiguous political backing, expressed in a designated implementation agency or agencies, something that is also currently lacking in South Africa.

While all sides need to be receptive to dialogue, it would be up to the government to take the initiative in reaching out to other parties. Although running against time, the NDP could be a starting point for such conversations, especially as it relates to the chapters that deal with economic and social infrastructure. What must be clear is that failure to mould a social compact would prolong uncertainty, intensify economic strain and contribute to conditions that generate social instability.

Unfortunately, some of the more recent initiatives have been short-termist, reactive and/or self-serving. An example of this is President Zuma's call in 2012 on government and corporate executives to tighten their belts, through a pay freeze, as a way of signalling a collective commitment to combatting inequality. Inequality, along with corruption, represents the ugliest part of South Africa's social underbelly. It poses a serious danger to long-term social stability. Political leaders need to pay attention to their own obligations before pontificating about the role of business in society. As it is, many creative initiatives on the part of business leaders and other individuals to promote social change in society are undermined by persistent corruption in government, and a hostile attitude towards the business sector.

Whenever the government engages positively with business, it is not with a view to crafting a long-term social compact, but to address short-term concerns or to get buy-in from business (e.g. to present a façade of unity close to the State of the Nation Address or to ward off the possibility of a credit rating downgrade).

A social compact that could formulate an effective solution to the country's deep-seated social problems

A SOCIAL COMPACT THAT COULD FORMULATE AN EFFECTIVE SOLUTION TO THE COUNTRY'S DEEP-SEATED SOCIAL PROBLEMS REQUIRES THAT THE GOVERNMENT AND BUSINESS LOOK PAST THEIR DIFFERENCES AND CONSIDER THE FUTURE.

requires that the government and business look past their differences and consider the future. Business would have to come out of its own comfort zone and realise that it has a stake in the stability of South Africa, and that a thriving, stable democracy is good for business. Without a doubt, the conversations are going to be difficult, but they are necessary and may very well help society to deal with its own difficult conversation about the effects of the legacy of the past , and to be animated by the possibilities the future holds, as expressed in an emerging social compact crafted by the government and business.

Conclusion

In an article on difficult conversations, Professor Arnold Smit of the University of Stellenbosch School of Business draws on the themes of the book titled *Difficult Conversations*, published as part of the Harvard Negotiation Project (Smit n.d.; Stone, Patton & Heen 2000). In the book, the authors distinguish between three types of conversation. The first of these is the 'what happened conversation', in which differences relate to specific facts. Instead of exploring the views and truths of others, we rather fight for the acceptance of our version of things. Individuals and groups sometimes tend to find it hard to transcend their ossified biases to explore what the world of the other looks like, or just to take a moment to listen and understand. This requires strategic patience in a search for something bigger and more uplifting than the current position.

The second is the 'feelings conversation', in which we recognise the emotional charge between and within us. Here, instead of acknowledging and owning up to discomfort, we apportion the negative emotions to the other party and, consequently, rob the conversation of honesty and inter-subjective connectivity. This represents a failure to take responsibility for our perceptions and the negative emotion that they generate.

The third is the 'identity conversation', which we can find threatening, with the consequence that we seek protection in a group similar to ourselves while labelling the others as the enemy. Dogma becomes our guide here. We exchange our dogma with those who have a dogmatic outlook similar to ours, and when we are challenged, we immediately close rank. Instead of searching for new solutions, we seek affirmation for our heuristic biases, sometimes taking refuge in a racial group or clan, thereby missing the opportunity of building something bigger than ourselves that we could bequeath to future generations.

As William Eggers and Paul Macmillan (2013) point out, citizens, businesses, entrepreneurs and foundations often turn to each other rather than relying solely on the public sector to coordinate solutions to every problem. The time has come for business leaders to raise their platform of engagement with the government. If things were to collapse, the effect would reverberate across society, the economy would be badly damaged, return on capital would be whittled down and social instability would become pervasive. The fiscal strain that is likely to follow in the wake of the sub-investment downgrades, for example, will not only induce pain for those in Luthuli House or the Union Buildings, but will also weigh heavily in the corporate boardrooms, in the profits of companies, and in the pockets of the middle classes through high taxes. Menacingly, it could debase the livelihood of ordinary citizens.

More than a ratings downgrade, we need to be concerned about the character of leadership that tough economic times tend to produce. When it gets tougher in the economy, politicians tend to appeal to raw nationalistic feelings and the emotive issue of race, and to shift the blame to corporates that are resisting transformation. Populism gains wider currency in such circumstances, and this tends to play to growing resentment caused by high levels of social inequality and declining opportunities for gainful employment.

Granted, it is not the core business of corporates to fix politics. It would be regrettable, however, if business leaders were to fail to recognise their transcendental role as social actors who have it within their power to contribute meaningfully to social change. They do not have to shout from the rooftops or support political parties to play this role, but should be good corporate citizens, committed to meaningful transformation and willing to contribute to solutions. This can be done in formal forums, or via informal dialogues with the government, but also through playing a nurturing role in the renewal of ideas for change in the form of support to think tanks.

One thing we have learnt from experience is that meaningful dialogue, between partners who are invested in finding an outcome, can create new possibilities. The walls of mistrust can be broken down, and new societies, under a credible leadership, can rise from the rubble in the wake of conflict. Experience has taught us, furthermore, that technocratic policies and other approaches that lack consultation do not help societies to improve. Often, they have an opposite, polarising effect. Leaders – whether in government or business – therefore, have to work and, importantly, learn to trust across their domains to ensure lasting solutions.

Finally, there is a need to move beyond the revision of plans and tweaking on the margins, and to commit to intense implementation. South Africa has seen too many half- or un-implemented plans. Our catalogue of policies includes the New Growth Path of the Economic Development Department, the National Industrial Policy Framework of the Department of Trade and Industry and the NDP of the NPC. Provinces also tend to develop their own growth strategies that sometimes are not properly aligned with national policy frameworks. At the national level there seems to be a paralysis in policy implementation, precisely because of weak leadership. Quite clearly, there is the need for much better alignment in terms of the institutions of governance responsible for economic policymaking but, importantly, there is also the need to rebuild trust and knit together a new social compact that would open up possibilities for shared growth.

ENDNOTES

1 The various scenarios were: 'Ostrich in the sand' (a recalcitrant white government rejecting a negotiated settlement); 'Lame duck' (a prolonged transition under a weak government, satisfying no one); 'Icarus' (a black government ignoring constitutional checks and driving a populist and expansionary fiscal programme that would lead to the collapse of the economy); and 'Flight of the Flamingos' (a scenario in which everyone rises together).

2 The absorption rate refers to the percentage of the working-age population employed. Unlike the unemployment rate, it also counts those who are not actively looking for work.

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CHAPTER FOUR

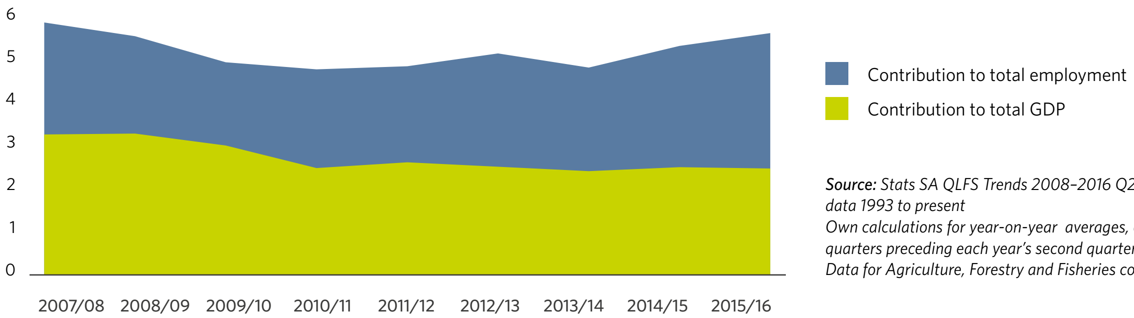
IS SOUTH AFRICA'S AGRICULTURAL SECTOR ADDRESSING INCLUSIVE SOCIO-ECONOMIC DEVELOPMENT?

Wandile Sihlobo and Lyndré Nel

4

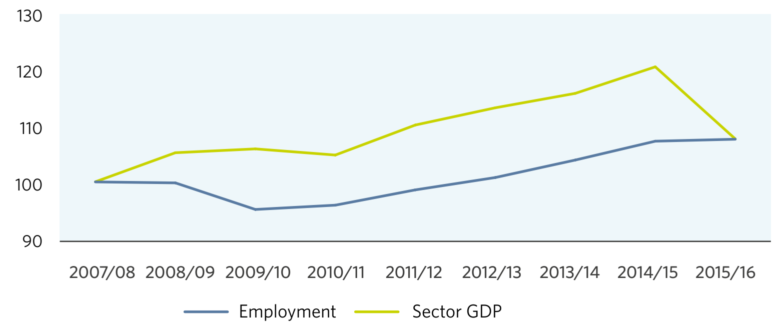
Despite the agricultural sector making a relatively small (and declining) contribution to South Africa's total GDP (2.4 per cent in 2015/16), it is a disproportionately important sector in terms of its contribution to employment (5.5 per cent of total employment in 2015/16) and food security. Commercial agriculture is a male-dominated industry, with on average 68 per cent of employees being male. The sector's productivity growth has generally outpaced its growth in employment, with the exception of the period from 2014/15 until the present (during which low growth can be attributed largely to the lowest annual rainfall [in 2015] since records began in 1904).

Agriculture contribution to total employment and total GDP, 2007–2016
(percentage contribution in total)



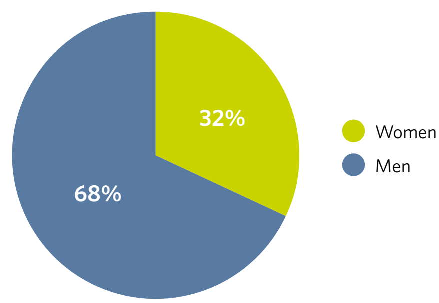
Source: *Stats SA QLFS Trends 2008–2016 Q2 and Industry GDP data 1993 to present*
Own calculations for year-on-year averages, calculated for the four quarters preceding each year's second quarter (at current prices)
Data for Agriculture, Forestry and Fisheries combined

Agriculture employment and GDP index, 2007–2016 (percentage, 2007/2008=100)



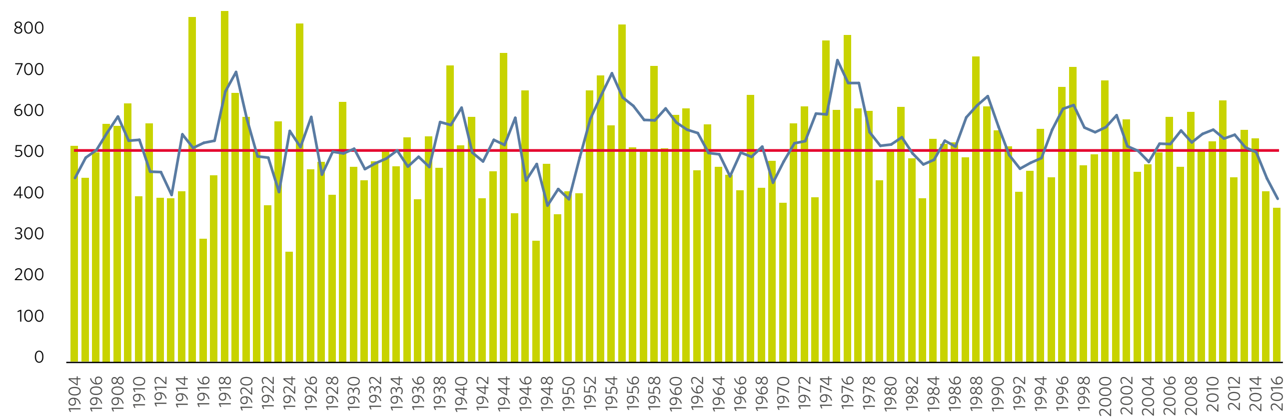
Source: *Stats SA QLFS Trends 2008–2016 Q2 and Industry GDP data 1993 to present*
Own calculations for year-on-year averages, calculated for the four quarters preceding each year's second quarter (at 2010 constant prices)
Data for Agriculture, Forestry and Fisheries combined

Agriculture employment by gender
(percentage)



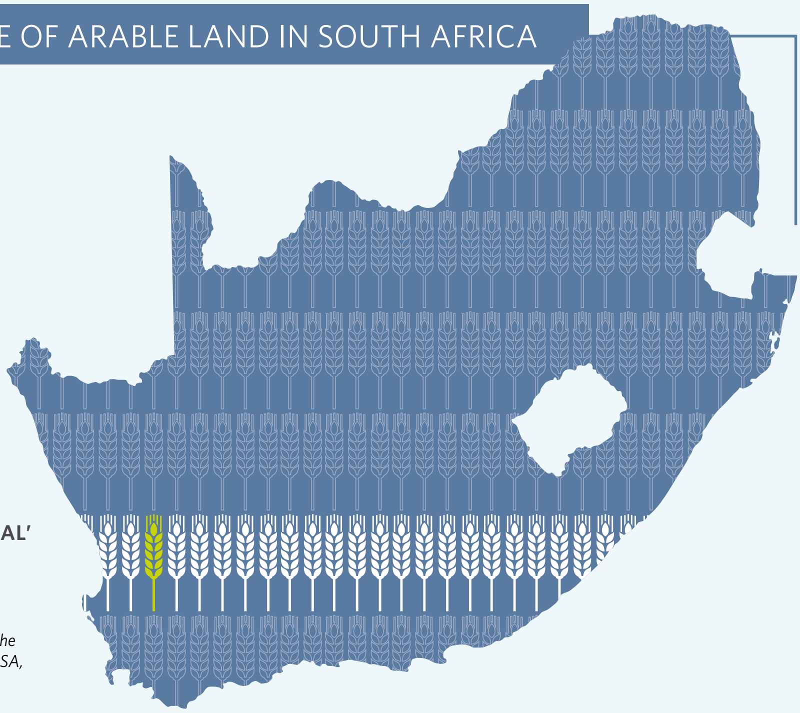
Source: *Stats SA QLFS data, 2008–2016 Q2*
8-year average from 2008 Q2 to 2016 Q2
Data for Agriculture, Forestry and Fisheries combined

Rainfall level in SA, 1904–2015 (in millimetres)



Source: *Agricultural Buiness Chamber of SA (Agbiz) rainfall data*

PERCENTAGE OF ARABLE LAND IN SOUTH AFRICA



12%

OF SOUTH AFRICAN LAND AREA SUITABLE FOR CROP PRODUCTION

2.64%

DEEMED 'HIGH POTENTIAL' AGRICULTRUAL LAND

Source: *From* A Raindrop in the Drought, *report to the Multi-Stakeholder Task Team on the drought by Agri SA, February 2016*

16.9%

SA HOUSEHOLDS INVOLVED IN SOME FORM OF AGRICULTURAL PRODUCTION

Source: *Stats SA General Household Survey, Selected Development Indicators 2015*

16.7%

of SA's households had inadequate access to food

Source: *Stats SA General Household Survey, Selected Development Indicators 2015*

In a similar trend to employment growth, worker compensation growth in the agricultural sector has grown at a slower, albeit less volatile, rate than sector GDP growth (until very recently). With the exception of the large-scale strike action that erupted in the Western Cape in 2012, the sector has seen relatively less labour unrest than other sectors,. Despite 38 per cent of South Africa's population residing in rural areas in 2013, the agricultural sector contributed only 5 per cent of total employment (which is particularly low compared to international averages). Investment in the sector has also been on a downward trend since 2013.

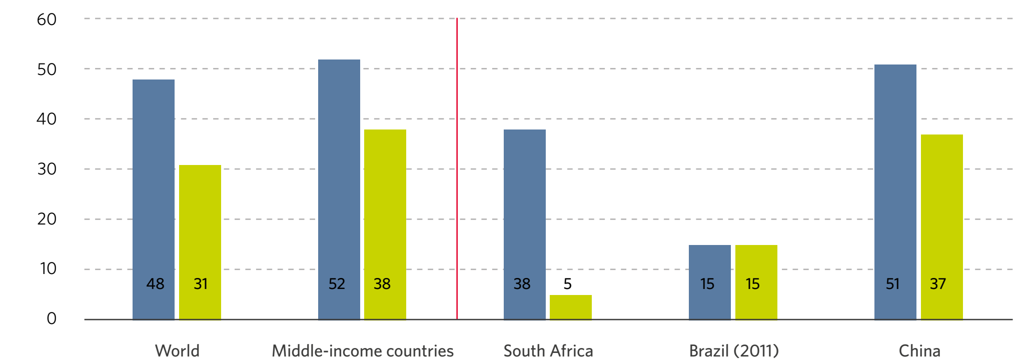
Agriculture compensation and GDP growth index (percentage)

Source: *Stats SA Industry GDP data, 1993–present*
Data for Agricultre, Forestry and Fisheries combined
Own calculations for year-on-year averages, calculated for the four quarters preceding each year's second quarter (at current prices)

Agricultural sector working days lost to strike action, 2005–2015 ('000)

Source: *Department of Labour, Annual Industrial Action Reports: 2005–2015*

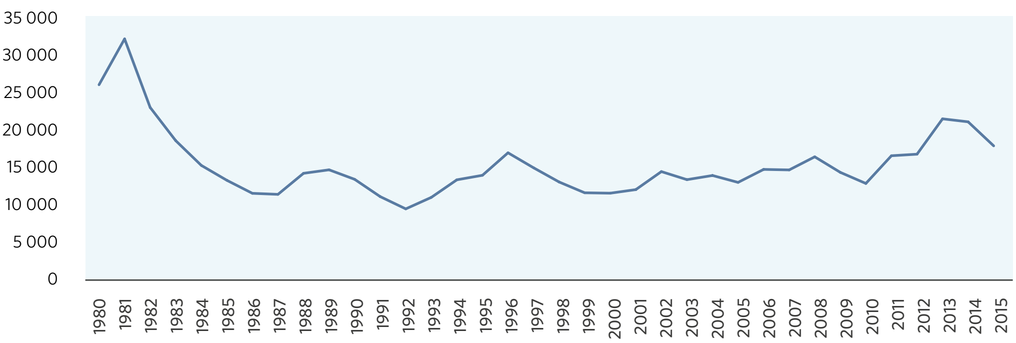
Ratio of rural population to employment in agriculture: a global comparison, 2013 (percentage)



% population rural
% employment in agriculture

Makgetla and Dick (2014) as quoted in the UNDP 2015 report: The impacts of social and economic inequality on economic development in South Africa

Gross fixed capital formation (investment) in agriculture, 1980–2015 (ZAR millions)



Agriculture

Source: *SA Reserve Bank*
Data for Agricultre, Forestry and Fisheries combined

4/ KEY INSIGHTS

- In striving to achieve inclusive growth, there should be an appreciation of the fact that South Africa's agriculture is dualistic, consisting of a commercial sector and a smallholder subsistence sector.
- The primary objective of transformation in the agricultural sector in South Africa is to elevate previously disadvantaged people into management and/or landownership positions in respect of economically viable land for cultivation.
- Farmers had to learn to manage the influence of global agricultural commodity price volatility, exchange rate fluctuations and stock level (world and domestic market) influences, amongst others.
- Overall, both the public and private sectors seem to agree that the NDP's target of redistributing 20 per cent of agricultural land by 2030 would be the most effective means of addressing land reform in South Africa.
- It should be noted that agriculture plays a crucial role in the broader economy – constituting 6 per cent of the total labour force, which is well above the mining sector and almost on a par with the transport industry.
- In the recent past, a number of agribusinesses have shown an interest in contributing towards social development of previously disadvantaged people, particularly in rural areas of South Africa.
- The relevant government departments are faced with common challenges confronting the political landscape of South Africa, such as capacity shortages, administrative complexity, bureaucracy and fund mismanagement.
- With the limited knowledge novice farmers have in terms of agricultural practices and growth, it is of utmost importance that they are empowered through skills development and mentorship by their commercial counterparts.

Agriculture is viewed as one of the vehicles that can deliver economic growth and job creation in South Africa. In his 2015 State of the Nation Address, President Zuma highlighted farming as one of the sectors that could boost growth and create much-needed employment through 'revitalising agriculture and the agro-processing value chain' (Presidency 2015). In striving to achieve inclusive growth, there should be an appreciation of the fact that South Africa's agriculture is dualistic, consisting of a commercial sector and a smallholder subsistence sector.

According to Aliber and Cousins (2013), the commercial sector consists of an estimated 40 000 farming enterprises, while the smallholder sector consists of more than 2 million farming households. Research shows that commercial farmers own approximately 67 per cent of South Africa's total farmed area of 122 081 300 hectares (Cherry 2014). Of this total, smallholder farmers occupy 15 per cent, most of which is state-owned.[1]

Commercial farm ownership imbalances exist between socio-economic groups. Growth and development of the agricultural sector throughout the past 70 years has been largely skewed towards white commercial farmers. This stems from colonial dispossession and apartheid policies principally serving white commercial farmers. Since 1994, South Africa's African National Congress (ANC) government has been actively engaged in land reform debates, with the intention of addressing the aforementioned landownership imbalances in the agricultural sector, as well as the challenges of poverty in society. South Africa's land reform process follows three approaches – land tenure, restitution and redistribution.[2] There is a need for careful consideration of the methods applied in implementing land reform so that it does not detrimentally affect the food security status of the nation (ASUF 2015). Against this background, this paper explores transformation and inclusive growth in South Africa's commercial agricultural sector (both primary and value chain).

Current state of South Africa's agricultural sector

The primary objective of transformation in the agricultural sector in South Africa is to elevate previously disadvantaged people into management and/or landownership positions in respect of economically viable land for cultivation. As such, initiatives to promote socio-economic development in agriculture seek to support the participation of previously disadvantaged groups within primary agriculture and the agricultural value chain. The South African government emphasises policy interventions that aim to integrate, and ultimately increase, the share of these communities in existing and new markets.

Background

Over the past 21 years, the South African agricultural sector has undergone multiple policy changes, a key one being its deregulation in 1997/98. After many years of government support, deregulation meant that farmers had to take sole responsibility for the production and marketing of their products for the first time since the 1930s (Vink & Kirsten 2002).

After the passing of the Natives Land Act 27 of 1913, the government of the day progressively increased the technical and policy support for white commercial farmers (NDA 1998). Prominent amongst the policy support measures was the marketing and pricing of agricultural products. From the 1930s until 1997, the marketing and pricing of agricultural commodities in South Africa were heavily regulated by the state, under the Marketing Act 26 of 1937 (Traub & Jayne 2004). Moreover, one of the effects of this Act was its role in influencing access to markets for commercial white farmers only (Vink & Kirsten 2000).

In the early 1960s, for the first time, the South African agricultural industry faced increasing pressure to liberalise its markets due to the high costs of government support programmes (NDA 1998). Moreover, the pressure accelerated in the 1990s (in the final years of apartheid), which led to the complete deregulation of state agricultural marketing schemes in early 1998, under the Marketing of Agricultural Products Act 47 of 1996 (Vink & Kirsten 2000).

The abovementioned policy reforms influenced only the domestic agricultural environment, because South Africa was already isolated from international markets due to sanctions. Thereafter, the deregulation process meant that agricultural commodity prices and production decisions would be influenced by global market forces. For some time, this posed a challenge for farmers, as they had to adapt after operating in a guaranteed and enclosed environment for decades. Farmers had to learn to manage the influence of global agricultural commodity price volatility, exchange rate fluctuations and stock level (world and domestic market) influences, amongst others (Sihlobo 2016a).

Support from several institutions that were created by both the government and the private sector ensured the success of the deregulation processes. These institutions included a number of supporting directorates within the Department of Agriculture and Forestry, the National Marketing Council and the South African Grain Information Services. Overall, the deregulation of agricultural marketing was successful, with notable improvements in production efficiencies (Chabane 2002). With the end of apartheid, South Africa gained access to international markets, allowing it to export and import agricultural products on a commercial level. This new access changed the face of commercial farming in South Africa and compelled significant productivity gains for South African produce to be competitive in global markets.

Today, the South African agricultural sector is still principally dualistic, consisting of the large-scale commercial and small-scale subsistence sectors (Pienaar 2013). White farmers dominate the commercial farming sphere, and black farmers the subsistence sphere.

South Africa's agricultural sector is considered a good platform for addressing wealth inequality, due to its successful economic functioning. The sector has the ability to provide low-skilled employment for large groups of people, has the potential to provide great returns on small investments and can incorporate various business groups within its value chain. Since 1994, the topic of inclusive growth and transformation in South Africa's agricultural sector has featured prominently on national reform agendas. The government has followed various approaches to encourage transformation in the sector, with mixed results. Two of these are agricultural development programmes and black farmer empowerment programmes, of which land reform is a part. These approaches have found expression in several initiatives, such as the Comprehensive Agriculture Support Programme, the Micro Agricultural Financial Institutions of South Africa scheme, recapitalisation funds and the ongoing development of agri-parks, as proposed in the National Development Plan (NDP).

Alongside these developments, organised agriculture (in partnership with the government) has been involved in various development programmes, such as assisting in the transformation of black smallholder farmers into large-scale commercial producers, which have yielded positive results.[3]

Meanwhile, land reform remains a key political and social challenge in South Africa. Slow progress has been made, with strong disagreements about recent approaches, such as the 'willing-buyer, willing-seller' policy and the 'Strengthening the Relative Rights of People Working the Land' policy proposal, amongst others. Research by the Institute for Poverty, Land and Agrarian Studies (PLAAS) at the University of the Western Cape shows that since 1994, roughly 7 per cent of commercial farmland has been transferred to black South Africans through land restitution and the redistribution framework (Cousins 2012). This is less than half the amount that the government had projected would be transferred by 2016. Overall, both the public and private sectors seem to agree that the NDP's target of redistributing 20 per cent of agricultural land by 2030 would be the most effective means of addressing land reform in South Africa (ASUF 2015).

Given the slow progress of land reform in recent years, politicians have frequently raised the issue of forced transferal of landownership rights. This has created significant uncertainty within the predominantly white commercial farming sector, which, in turn, could impact the outlook for agricultural production. This underscores the growing urgency required to find a lasting solution for the land reform matter and, more broadly, meaningful transformation of the commercial agriculture sector.

Groups such as the Agri-Sector Unity Forum (ASUF), which represents both black and white farmers, are continuously engaging with the government to find a lasting solution for the sector. ASUF consists of the African Farmers Association of South Africa, Transvaal Agricultural Union of South Africa, Agri South Africa and the National African Farmers Union of South Africa (ASUF 2015).

Recent challenges

2016 was one of the more challenging years for the South African agricultural sector since the deregulation of agricultural marketing and pricing. The most significant challenges faced by the sector, at present, emanate from policy uncertainty and irregular weather conditions, due the greater impact of climate change. More broadly, uncertainty stems from the land reform policy debate, as well as the newly proposed minimum wage bill. Although the intention behind both of these policies is to transform the sector, the discomfort that they cause in the initial stages tends to weigh heavily on the sector. For example, following the minimum wage proposal, a number of farmers signalled the intention to invest in mechanisation, thereby reducing labour costs.

With the exception of policy changes, the 2015/16 drought has been arguably the most severe challenge since the 1980s. Its impact has been felt across all sectors, causing sharp decreases in crop and livestock production. A common understanding is that, if farmers do not make money, then neither do the farmworkers. Thus far, the drought has negatively impacted on the livelihoods of many families that are dependent on seasonal and part-time work within the agricultural sector throughout South Africa.

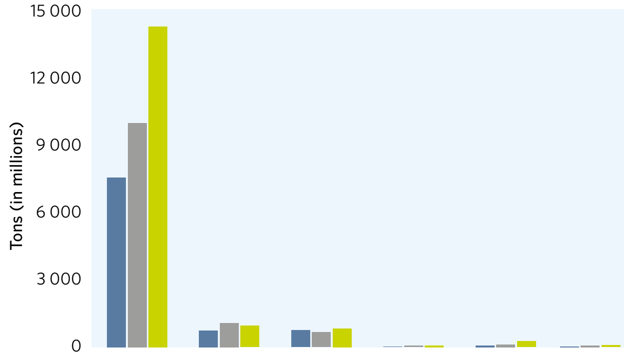
As a result of the drought, there was a 28 per cent decline in the total commercial summer crop production – from 16.45 million tons in 2014 to 11.90 million tons in 2015.[4] Moreover, in 2016, there was a further decline of 23 per cent of total commercial summer crop production – from the previous season's 11.90 million tons to 9.16 million tons (see Figure 4.1).

Livestock has also been hard hit by the drought. Although the official data had not been released at the time of writing in 2016, we know that the cattle slaughtering rate trebled – from an average weekly rate of 6 500 head of cattle in 2014, to an average of 15 000 head per week in 2016 (see Figure 4.2). This can be attributed to the dire need of farmers to recover input costs, as cost of feed outweighed the income from the raising of livestock.

It is worth noting that the recent drought affected not only farmers, but the entire society. From a consumer perspective, rising food prices were a reflection of lower domestic stock levels owing to the reduced crop production. In November 2016, food inflation, as measured by the Consumer Price Index data, reached 11.6 per cent year-on-year and was expected to peak at 12.3 per cent in December 2016 (Sihlobo 2016b).

Employment in the South African agricultural sector, on the contrary, has increased despite the unfavourable climatic conditions. Recent employment data show that the agricultural sector created 7 per cent more jobs in the third quarter of 2016 than in the previous quarter,

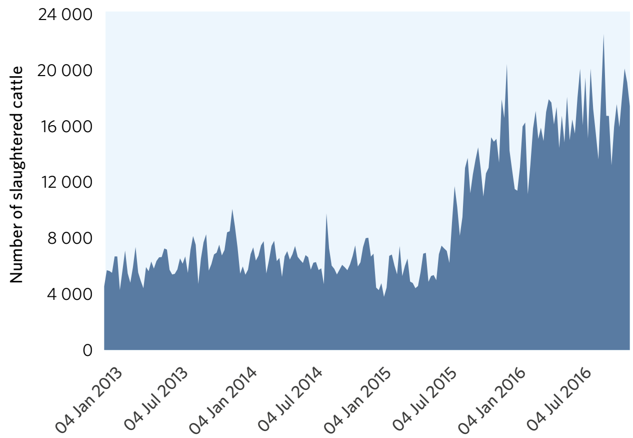
Figure 4.1: Summer crop production



	Total maize	Soybeans	Sunflower seed	Ground-nuts	Sorghum	Dry beans
2016	7 536 875	741 550	755 000	18 850	74 150	35 445
2015	9 955 000	1 070 000	663 000	62 300	120 500	73 390
2014	14 250 000	948 000	832 000	74 500	265 000	82 130

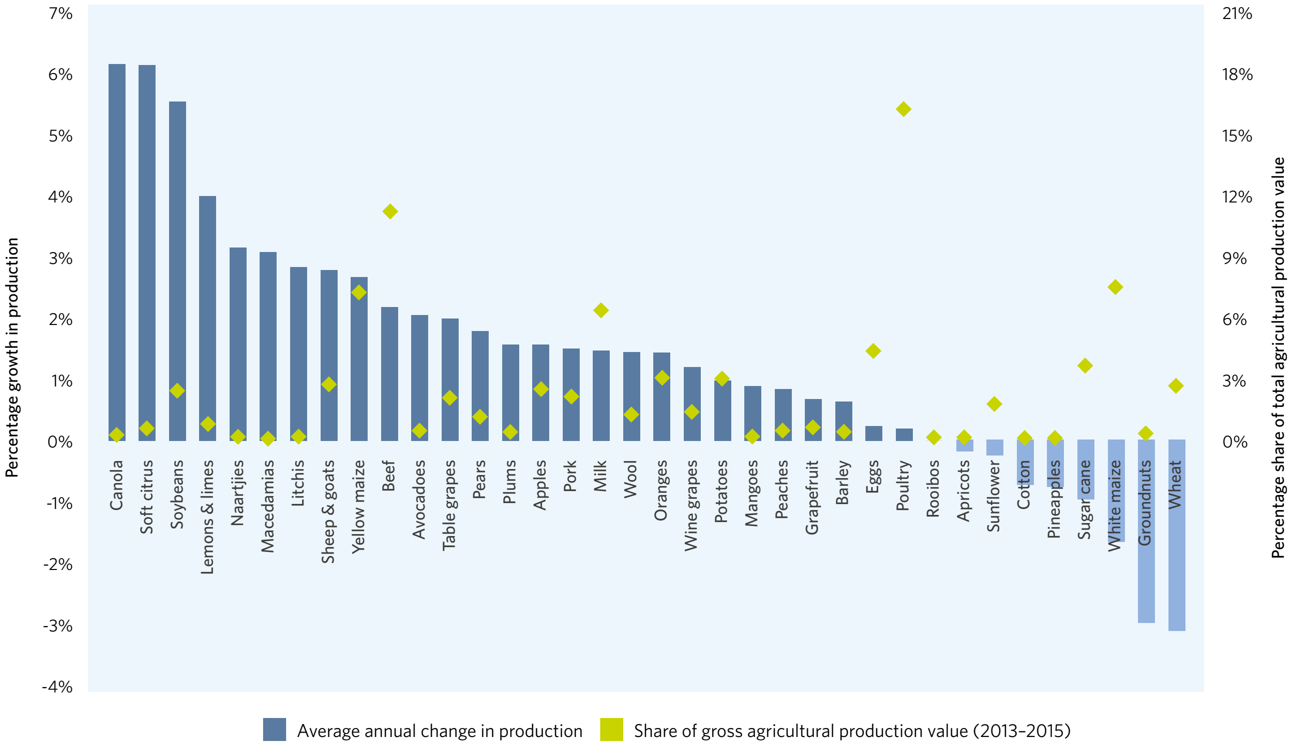
Source: CEC (2016)

Figure 4.2: South African cattle slaughtered per week



Source: RMAA (2016)

Figure 4.3: Agricultural performance – growth in production and share of agricultural production value, 2011–2015



Source: BFAP (2016)

which amounts to 56 000 additional jobs, putting the sector's total labour force at 881 000 workers (Stats SA 2016a).

Although this is an encouraging development, the effects of the 2015/16 El Niño-induced drought are still reflected in some sectors. In fact, on a year-on-year basis, agricultural jobs were down by 2 per cent in the third quarter of 2016. In essence, even though there was growth in labour market participation, the sector is still underperforming.

It should be noted that agriculture plays a crucial role in the broader economy – constituting 6 per cent of the total labour force, which is well above the mining sector and almost on a par with the transport industry (Sihlobo 2016c).

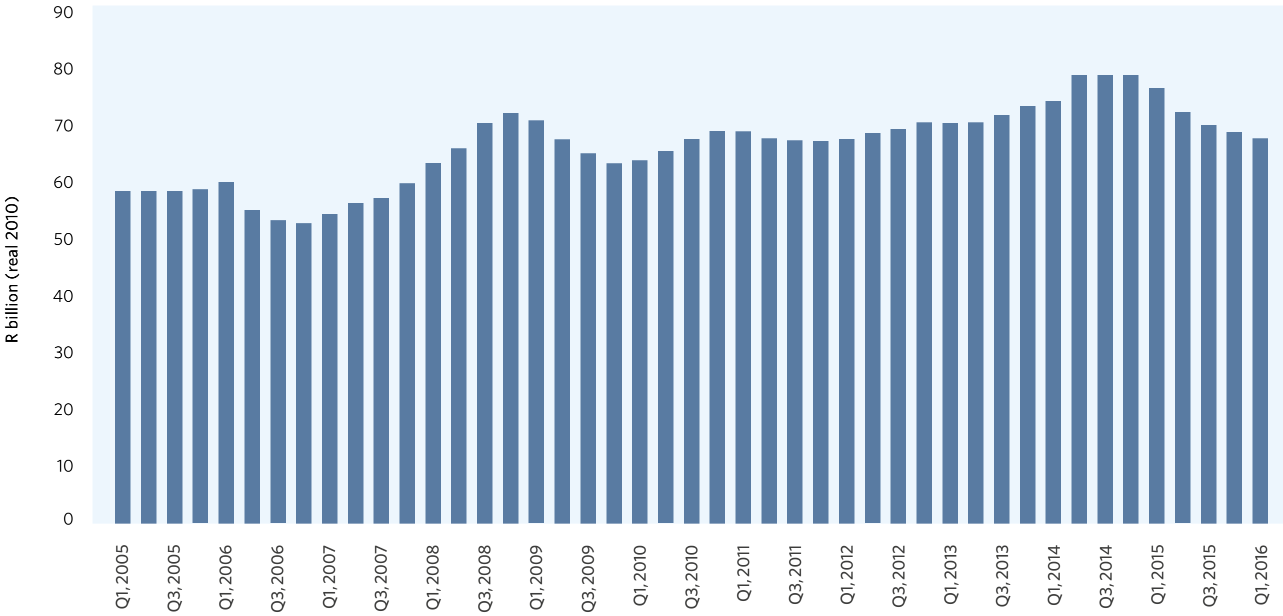
Overall, the current drought situation has had a devastating effect on the production and liquidity of many farmers throughout South Africa, with around R133 billion in farm debt being owed to South African Banks in 2016, up from R117 billion in 2015.

Performance of the agricultural sector

Each agricultural production subdivision (different crops and livestock) can provide a certain number of jobs and opportunities for transformation and social upliftment within the sector. By keeping track of the performance of each subdivision, it is possible to predict and better determine areas for socio-economic improvement and upliftment.

Overall, the South African agricultural sector has shown significant growth despite the recent negative impacts. In terms of inclusive socio-economic development, this is a remarkably good sign. Figure 4.3 provides an overview of the actual growth rates that have been achieved in respect of various produce over the past five years. Although most crops have shown positive growth, the decline in sunflower seeds, cotton, sugar cane, white maize and groundnuts can be attributed to the 2015 El Niño-induced drought. Meanwhile, the wheat industry continues to struggle with structural challenges, such as current seed varieties and higher input costs.

Figure 4.4: Agriculture, forestry and fisheries GDP, 2005–2016



Source: *Stats SA (2016b)*

Agriculture's contribution to GDP

Over the recent past, the gross value of the South African agricultural sector increased by roughly 16 per cent – from R57.65 billion in the first quarter of 2005 to R66.82 billion in 2015. This was driven largely by favourable domestic and global macroeconomic developments and climate. With bumper crops in 2014, growth in the sector peaked in that particular year before the drought started having an impact from 2015 onwards. In fact, the agricultural sector has been in recession since 2015 (see Figure 4.4).

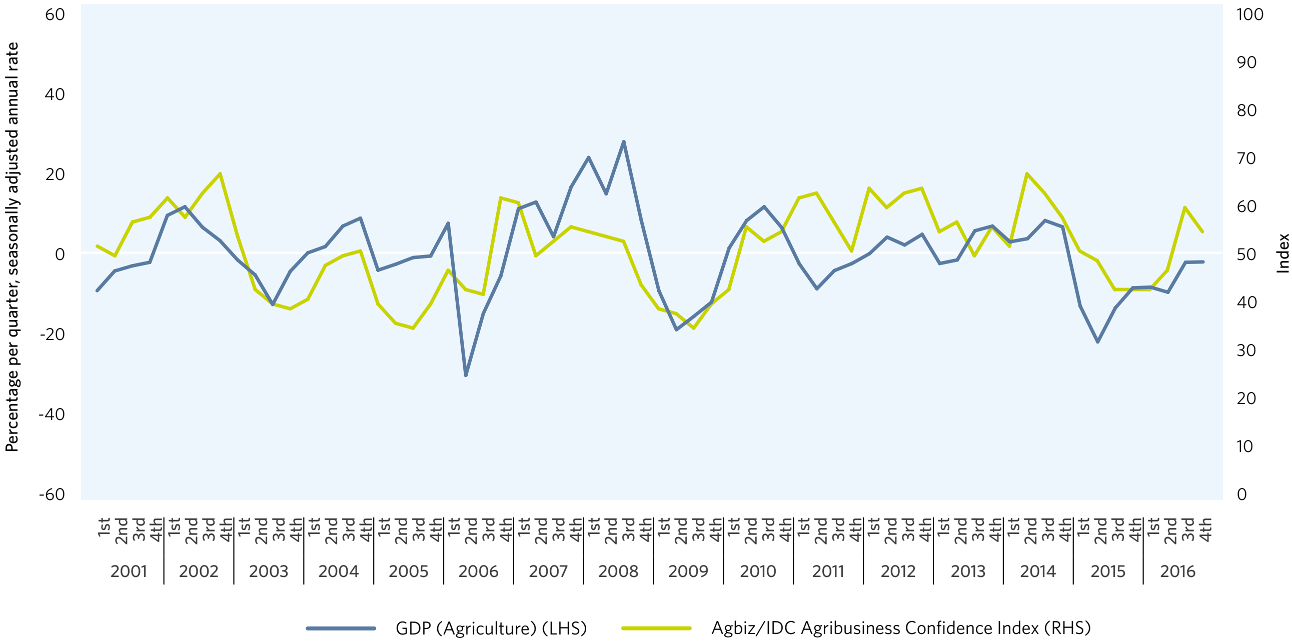
The agricultural sector has been seriously constrained by the 2015/16 drought, and some enterprises will continue to suffer the aftermath over the medium term. As far as crop production is concerned, the area planted with summer crops decreased by 22 per cent year-on-year from 4.1 million hectares in 2014 to 3.2 million hectares in 2015. As a result, total summer crop production is expected to drop by 25 per cent year-on-year to 8.9 million tons.

There are indications, however, that the negative growth cycle in the agricultural sector may be bottoming out. South Africa's agricultural GDP growth may have shown a slight recovery in the third quarter, with significant growth expected in the final quarter of the year. All of this is based on the assumption that weather conditions will normalise in the near future. The weather will be the key determinant of whether South Africa's agricultural sector escapes the current mediocre growth path.

The Agbiz/IDC Agribusiness Confidence Index,[5] which serves as an indicator of how South Africa's agricultural GDP could perform in the succeeding quarters, is already signalling positive developments. In the third and fourth quarter of 2016, the Index remained above 50 index points, which indicates expansion in South African agribusiness activity. More specifically, the 55 Index points that was observed in the fourth quarter of 2016 suggests that agribusinesses are still holding a relatively optimistic view regarding business conditions in the country.

This is important as it influences investment decisions in the sector, which, in turn, influence the number of transformation projects and rate of growth in the sector. Figure 4.5 shows the changes in Agbiz/IDC Agribusiness Confidence Index along with South Africa's agriculture GDP performance. There is a fairly strong correlation between these variables, which suggests that the agricultural sector could soon shake off the lacklustre performance over the latter part of 2016 into 2017. This may provide the sector with an opportunity to roll-out much-needed transformation projects.

Figure 4.5: Agbiz/IDC Agribusiness Confidence Index and agriculture GDP



Source: *Stats SA (2016a); Agbiz (2016)*

However, unfavourable climatic conditions resulted in South Africa being a net importer of grains in the 2015/16 season, with a similar trend expected for 2016/17. The low stock has resulted in skyrocketing food prices, with both the producers and consumers bearing the load. This has been exacerbated by the livestock slaughtering rate, which has trebled since the 2014/15 season, and which can be attributed to the fact that there is no drought insurance for livestock in South Africa. Given the recent climatic conditions, this has had a severe impact on small-scale and developing black farmers. As a result of this vulnerability, transformation efforts have been set back significantly.

Agriculture's contribution to socio-economic development: a case study approach

Over the past 20 years, there have been some transformation developments in the agricultural sector, with the government, agribusinesses and organised agriculture being the key stakeholders behind such initiatives. These include the Grain SA farmer development programme, the Sundays River Citrus Company (SRCC) empowerment projects in the Eastern Cape, and the support of agribusiness and the government for socio-economic development in agriculture.

Grain case study

Grain SA runs a farmer development programme as part of its transformation project. The focus of the programme is on training and skills development, which is conducted by way of study groups, farmer's days, demonstration trials, a farmer-of-the-year competition, support to individual farmers and 24 different training courses. Grain SA's training programme is accredited by the AgriSETA.

The training courses were developed to equip farmers in various ways and can be divided into four components – production, skills development, mechanisation/maintenance, and management courses.

Together with the government, Grain SA has been involved in a recapitalisation programme, in terms of which it has provided skills and expertise, while the government has assisted with the finance for acquiring implements and inputs. In addition to recapitalisation, the project has also enabled farmers to apply the knowledge they have gained throughout the programme.

Grain SA has added to the programme a mobile skills training unit – a light-duty vehicle, which is fully equipped to assist farmers mechanically on their farms. During the training, farmers and workers learn not only how to use the equipment, but also how to repair and maintain their own tractors and implements.

Over the years, around 5 958 black smallholder farmers have been involved in this project. By 2015, the project covered over 80 000 hectares, with 124 study groups across the country. At the same time, more than 1 200 farm-workers have been trained in this programme, thereby elevating their skills and qualifying for better wages. Moreover, by 2015, around 167 farmers had progressed to being 'advanced farmers', producing roughly 250 tons of maize per annum. It is important to note that an average family of six people needs about one ton of maize per year. Thus, these advanced farmers would have surplus maize to sell on the market, which, to some extent, qualifies them as commercial farmers.

Citrus case studies

In response to the call for socio-economic development, the public sector introduced various programmes spear-headed by different departments. Worth noting here is the adoption by the SRCC of the proposed public–private partnership approach of the NDP.[6] The SRCC launched a transformation strategy in 2006 and, since then, has empowered three farming enterprises – Luthando Farm, Mbuyiselo Farm and the Sundays River Farming Trust.

Luthando Farm is 75 per cent owned by a workers' trust and 25 per cent owned by the SRCC, with management assistance provided by the SRCC. So far, this project has been a success and currently contributes roughly 200 000 15-kilogram citrus cartons per year for export.

Mbuyiselo Farm is 100 per cent owned by a workers' trust, with management assistance from the SRCC. This particular projects contributes roughly 75 000 citrus cartons per year for export.

Lastly, the Sundays River Farming Trust, which consists of five consolidated farms (most of the land of which is still owned by the government), has a current total export volume of about 450 000 citrus cartons per year, with further growth expected from the development of a farm recently acquired by the trust. This is one of many examples of successful transformation resulting from private partnerships. In equal measure, there have been several failed attempts at such partnerships. An underlying theme to these has been insufficient training and skills transfer, farmer apathy or disinterest (spurred on by low levels of self-investment and high stress levels associated with farming) and unrealistic goals and time-frames.

As illustrated by the case studies, public–private partnerships can be critically important tools in transforming the South African agricultural sector. Much can be learnt from the cited successes, which can be reproduced elsewhere within the agricultural sector, and probably also in other sectors and regions across the country.

SA agribusiness contribution to social development in agriculture

In the recent past, a number of agribusinesses have shown an interest in contributing towards the social development of previously disadvantaged people, particularly in rural areas of South Africa. Such contributions have mostly been in the form of community projects with a focus on aspects such as education, poverty alleviation, wellness programmes, healthcare, food security, development of emerging farmers, and empowerment of employees. There are numerous examples of successful initiatives in this regard.

AFGRI Limited's corporate social investment (CSI) arm runs 3-year projects to work on and holistically develop communities with high rates of unemployment, poor education systems and extreme poverty. The three main pillars of AFGRI's CSI initiatives are education, poverty alleviation, and water and food security.

In the sphere of education, in the 2013 financial year AFGRI was involved in a number of educational projects, such as: the Birchcroft Primary School, a co-educational English independent school in Dullstroom, Mpumalanga; Buhle Farmers Academy, which provides subsidised agricultural education to emerging farmers in Delmas, Mpumalanga; and Fundisisa Combined School, a no-fee school which provides education to children from disadvantaged backgrounds.

On the food and water security front, AFGRI's CSI has been involved in a number of projects such as the Abraham Kriel (Emdeni Skills Development Centre) and Roundabout PlayPumps. In the poverty alleviation field, AFGRI's CSI has been supporting projects like the Jehova Jaireh Children's Home, Unathi Drop-in Centre, and the Bethlehem Child and Family Welfare Society.

THERE IS AN URGENT NEED TO MOVE TOWARDS INCLUSIVE DEVELOPMENT AND PARTNERSHIP – NOT SIMPLY THE 'GIVE AND ACCEPT' RELATIONSHIP THAT HAS APPEARED OVER THE RECENT PAST.

Agrinet Limited's contribution has focused mainly on skills development, seeking to empower a previously marginalised deaf community by finding candidates suitable for employment and providing them with the necessary skills to successfully integrate into the hearing world.

Astral Foods Limited has been playing a role through its wellness programme aimed at reducing workforce HIV/Aids-related deaths dramatically and rerouting savings on risk insurance to employee retirement funds.

GWK Group Limited has been involved in education, sports and recreation, and projects that seek to invest in emerging farmers.

More broadly, though, it appears that agribusinesses and value chain participants have largely been focusing their energies on charity initiatives. These efforts are highly commendable; however, they play no real role in long-term transformation of the agricultural sector. There is an urgent need to move towards inclusive development and partnership – not simply the 'give and accept' relationship that has appeared over the recent past.

To attain this, agribusinesses will need to maximise their participation in industrial training, by partnering with upcoming black firms such as millers, packhouse and silo owners, brokerage houses, and others. They can relieve resources from farmer training and leave that avenue open for organised agriculture such as Grain SA, Sugar SA, Potato SA, Wool SA, Fruit SA and Vinpro.

While the past few years have seen some positive developments, the value chain has not transformed much, with the exception of these empowerment initiatives. The government-initiated and ongoing agri-parks programme, which seeks to bring the industrial side of agriculture to rural areas, could add value to improving the dynamics in this space.

Government support for social development in agriculture

The South African government aims to provide much-needed support both to developing and experienced farmers through structures like the Department of Agriculture, Forestry and Fisheries, the Department of Rural Development and Land Reform and the Agricultural Research Council. This support comes in the form of farmer development, skills transfer and research production.

The multitude of technical support services offered by regionally localised Department of Agriculture officers serve to support and develop both large and smallholder farmers. Technical services are offered in the form of consultation and extension work given by trained and experienced workers. Such support services, which are crucial to developing young black farmers, include youth development programmes, information collection and dissemination, farmer support groups, agricultural development projects, information days, resource preservation and conservation strategies, and general support services.

The Department of Rural Development and Land Reform drives a youth development and skills transfer programme, which aims, amongst other concerns, to develop agricultural production in rural areas throughout South Africa. The Department's National Rural Youth Services Corps provides agricultural training and placement for previously disadvantaged youth from rural towns, such as Napier, Vredenburg, Beaufort West, Leeu Gamka and Rietpoort. This year-long programme includes a short training period in the National Defence Force, studying towards an AgriSETA-accredited national diploma, and a 4-month placement in a learnership/apprenticeship role with a commercial farmer. Thereafter, the learners are given further support in either start-up agri-enterprises or work placements on commercial farms. This programme encapsulates the government's efforts to provide rounded development and support for young people wishing to enter primary agriculture in support of rural economies.

The Agricultural Research Council provides extensive research support to farmers in optimising agricultural production. Through this research institution, hundreds of bursaries are awarded to previously disadvantaged students to further their tertiary education in agriculture. This provides further opportunity for youth to be introduced to and become involved in agricultural production and, ultimately, the larger agricultural sector.

The relevant government departments, however, are faced with common challenges confronting the political landscape of South Africa, such as capacity shortages, administrative complexity, bureaucracy and fund mismanagement. Nevertheless, in many instances they do provide the necessary help and support to developing black farmers, and endeavour to drive inclusivity in socio-economic development in agriculture.

GIVEN THE PAST FAILURES OF AGRICULTURAL PROGRAMMES, IT IS IMPORTANT THAT THE SECTOR PRIORITISES NOVICE FARMERS BY INCORPORATING THE CONVENTIONAL APPROACH WITH THE SOCIAL-SYSTEMS APPROACH.

Conclusion

The agricultural sector remains a key player in the South African economy. While its deregulation has yielded positives in terms of productivity and international competitiveness, land reform policy to address historical inequities continues to lag behind. Measured by the government's target of redistributing 30 per cent of agricultural land to black farmers by 2014, progress has been painfully slow. At this point only 7 per cent of such land has been transferred. In addition, even if such targets were attained, it would be critical to ensure that emerging farmers are trained with the technical skills required to compete in extremely competitive international markets.

Given the past failures of agricultural programmes, it is important that the sector prioritises novice farmers by incorporating the conventional approach with the social-systems approach. The latter defines development as the process whereby an individual's abilities and wants increase to satisfy his or her own needs and justifiable aspirations, and those of others. There is a need to introduce a system in which the abilities and aspirations of novice farmers are understood before they become links in the agricultural value chain.

Moreover, with the limited knowledge novice farmers have in terms of agricultural practices and growth, it is of utmost importance that they are empowered through skills development and mentorships by their commercial counterparts. This has been implemented and is yielding positive results through the recapitalisation grant offered by the Department of Rural Development and Land Reform, followed by partnerships such as with Grain SA's farmer development programme.

It takes approximately 30 years to be 'trained' as a successful, self-sustaining farmer. As far as farm ownership is concerned, this creates a complex issue when dealing with inclusive socio-economic development in agriculture. This would mean that support for transformation projects would have to run for the lifetime of the farmers being developed. Lifetime support is unprecedented, as the cost to undertake such funding would be too extreme for government and private business budgets.

Looking at management positions within agriculture, the training and skills development process is shorter than that of a landowner or agribusiness-owner farmer. For more inclusivity of black farmers and farm managers, it will be necessary to encourage farming villages, agricultural schools and colleges where farming becomes a skill passed down through generations, as a chosen career path. Should these programmes deliver skilled young people for the agricultural sector, they could be utilised in incubation programmes, which aim to develop novice farmers into self-sustaining small-scale commercial farmers. Other than management and ownership positions in agriculture, small-scale commercial farming holds exceptional potential as a way to achieve truly inclusive socio-economic development in agriculture that can attract more viable black farmers.

Incubation programmes provide platforms and resources for farmers to produce food in collectives. This allows for a measure of security and support, which, in turn, encourages their long-term involvement while developing their farming experience. In these small-scale operations, farmers could arrive at a better understanding of how market prices and, consequently, income is determined. This changes the treatment of farming as a means of subsistence and survival, to an opportunity for the social development of those who wish to engage in agriculture as a commercial venture.

Transformation is needed in the structure of agricultural production for the benefit of inclusive socio-economic development. In providing security and protection to individual small-scale farmers, through incubation programmes, supported by the government and private business in operation-related activities, less burn-out and loss of black farmer involvement would occur.

Another consideration is for the government to create resource pools for region-specific support to developing farmers and agribusinesses. Regional farmer business groups could apply for funding and/or resources from the government to roll out targeted projects to develop and uplift their region as an independent production area. This would also create the opportunity for civil society to fill the gap between business and the government, by identifying the greatest needs and challenges in the area and acting as project executants (i.e. supporting agriculture-focused NGOs). These organisations have the ability to learn from farmers on the ground and to build personal relationships based on mutual trust and support. Such projects go a long way in providing emotional support to developing farmers, which would result in greater transformational success.

Recent empowerment projects in the agricultural sector, through public–private partnerships, bring hope to addressing inclusive socio-economic development in South Africa. The successes illustrated by the grain and citrus case studies show that many beneficiaries can be reached if such transformational approaches are employed. Admittedly, South Africa's agricultural sector needs more strategic oversight to reach projected transformation goals.

ENDNOTES

1 A smallholder farmer is an individual farming on up to 10 hectares of land.
2 In the restitution approach, the government compensates individuals who had historically been forcefully removed from their land. The land tenure approach is a system of recognising people's right to occupy land. Redistribution is the process whereby the state fosters conditions that enable citizens to gain access to land on an equitable basis.
3 Grain SA's farmer development programme, with more than 4 115 black members, is a notable example of an agricultural transformation project.
4 Maize, sunflower seeds, soybeans, groundnuts, sorghum and dry beans are commercial summer crops.
5 The Agbiz/IDC Agribusiness Confidence Index is constructed quarterly by the Agricultural Business Chamber (Agbiz), in support of the Industrial Development Corporation (IDC). This index reflects the perceptions of at least 20 agribusiness decision-makers on the ten most important aspects influencing a business in the agricultural sector (i.e. turnover, net operating income, market share, employment, capital investment, export volumes, economic growth, general agricultural conditions, debtor provision for bad debt and financing cost). It is used by agribusiness executives, policymakers and economists to understand the perceptions of the agribusiness sector, and also serves as a leading indicator of the value of the agricultural output while providing a basis for agribusinesses to support their business decisions.
6 The NDP target relating to land reform, empowerment and transformation within the agricultural sector is that 20 per cent of farming enterprises be transferred to farmworkers, with the farmer or landowner retaining ownership of half of the shares (10 per cent).

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vodacom

CHAPTER FIVE

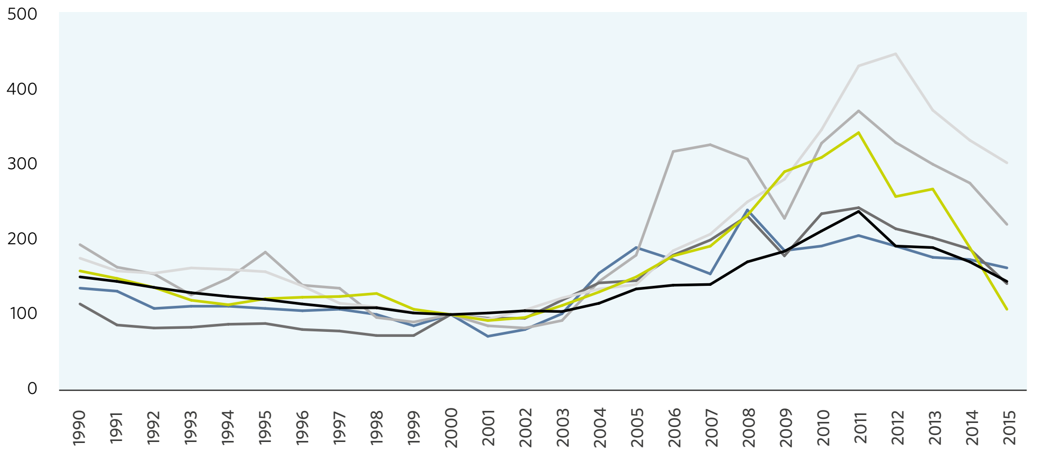
A NEW MINING INDUSTRY: OPPORTUNITIES AND CONSTRAINTS

Lumkile Mondi

5

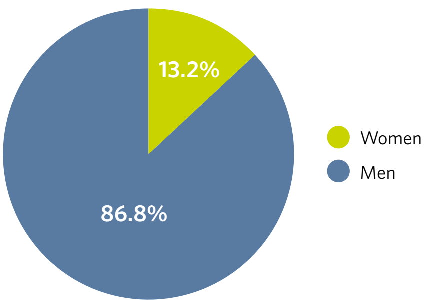
The mining sector, one of South Africa's largest sectors in terms of contribution to GDP (7.9 per cent in 2015/16) and one of the largest mineral producers in the world, has since 2011 been faced by a global downturn in demand for commodities, from which it has only recently begun recovering. The sector's growth in real production, however, has still outpaced its growth in employment. With 86.8 per cent of employees being male, it is also very much a male-dominated sector.

Commodity prices (2000 constant US$)



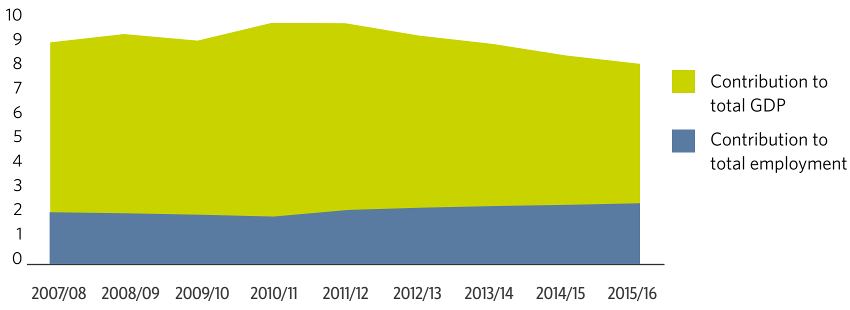
Source: Data tables provided by Trade and Industrial Policy Strategies (TIPS): The Real Economy Bulletin, Second Quarter 2016, Data tables

Employment by gender (percentage)



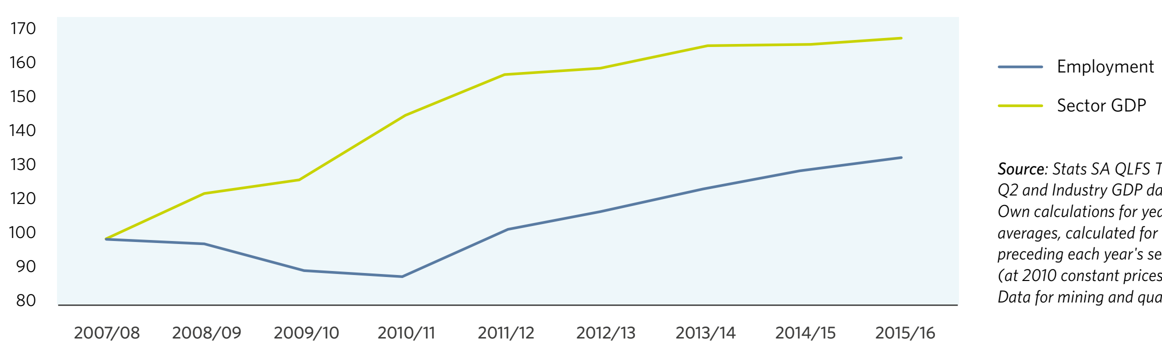
Source: Stats SA QLFS data, 2008–2016 Q2
8-year average from 2008 Q2 to 2016 Q2
Data for agriculture, forestry and fisheries combined

Mining contribution to total employment and total GDP, 2007–2016 (percentage)



Source: Stats SA QLFS Trends 2008–2016 Q2 and Industry GDP data 1993 to present
Own calculations for year-on-year averages, calculated for the four quarters preceding each year's second quarter (at current prices)
Data for mining and quarrying combined

Mining employment and GDP index, 2007–2016 (percentage 2007/2008=100)



Source: Stats SA QLFS Trends 2008–2016 Q2 and Industry GDP data 1993 to present
Own calculations for year-on-year averages, calculated for the four quarters preceding each year's second quarter (at 2010 constant prices)
Data for mining and quarrying combined

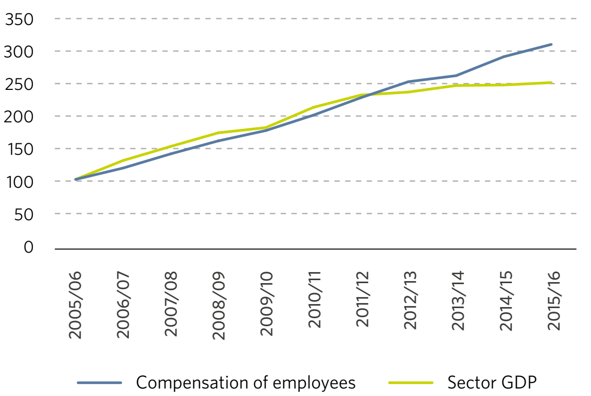
SOUTH AFRICA'S MAIN CONTRIBUTION TO GLOBAL MINERAL PRODUCTION, 2014

Percentage of global contribution and ranking

Source: *British Geological Survey, World Mineral Producation Report 2010–2014*

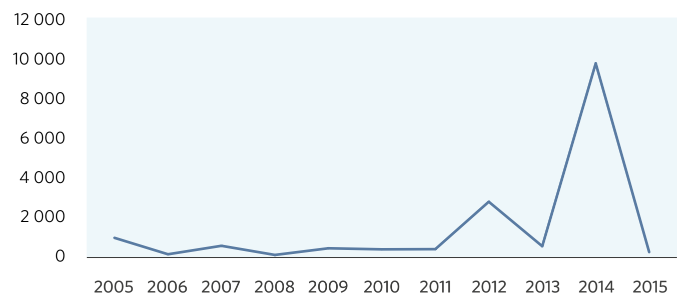
Contributing 39 per cent of all labour strikes over the period 2005–2015, the sector has been a constant labour relations boiling point. In 2014 alone, the sector saw more than 9.6 million working days lost due to strike action. However, the real average wages in the sector have seen significant improvement since 2014, and growth rates for the total compensation for employees have even outpaced the real growth rate in sector GDP. Investment in the sector has not yet recovered to the record high levels of 2008/09.

Mining compensation and GDP growth index (percentage)



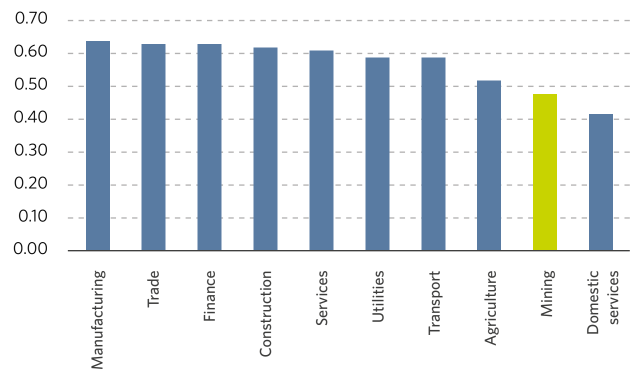
Source: *Stats SA Industry GDP data, 1993 to present*
Own calculations for year-on-year averages, calculated for the four quarters preceding each year's second quarter (at current prices). Data for mining and quarrying combined

Mining sector working days lost to strike action, 2005–2015 (R'000)



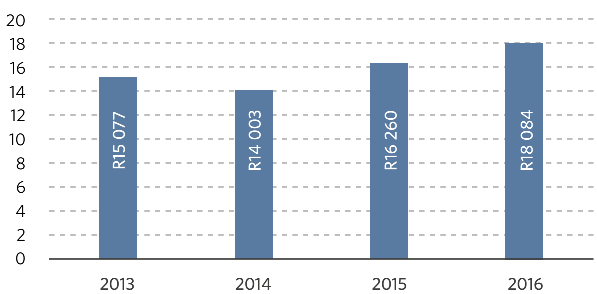
Source: *Department of Labour, Annual Industrial Action Reports: 2005–2015*

Wage inequality per industry by Gini coefficient, 2014



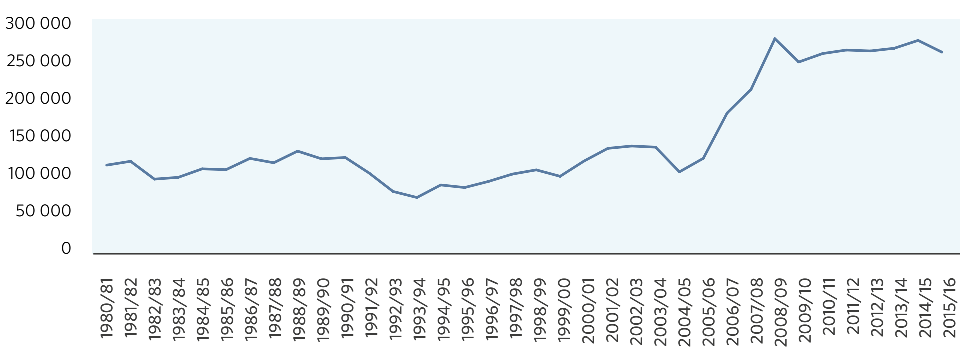
Source: *Finn, A. (2015) A National Minimum Wage in the context of the South African Labour Market. National Minimun Wage Research Initiative Working Paper No 1. University of Witwaterrand. The Gini coefficient measures wage inequality, with 0 being completely equal and 1 completely unequal. As it measures wages, the inequality between employers and employees is not captured in this graph, but only the wage inequality between the various levels of employees in the sector.*

Mining average monthly earnings (R'000)



At 2010 constant prices, calculated for the month of May of each year
Stats SA statistical release P0277: QES June 2015 and June 2016
Data for mining and quarrying combined

Gross fixed capital formation (investment) in mining, 1980–2016 (R'000)



Source: *SA Reserve Bank*
Data for mining and quarrying combined
Constant 2010 prices. Seasonally adjusted at annual rate

5/ KEY INSIGHTS

- Despite its potential to transform the future of the economy, the mining industry's dark history of injustice towards black workers cannot be overlooked.
- Whereas other sectors voluntarily initiated their own sector empowerment charters, the mining sector failed to develop one.
- Despite commitment by the democratic government to equity and redress, the patterns of accumulation and social relations in the mining industry have not changed substantially for the vast majority of mineworkers.
- The mines and their operations are islands in a sea of poverty, where communities live in squalor and suffer from environmental pollution and water shortages as a result of the mining operations.
- In the context of stagnant or volatile global demand for raw materials, mining companies' share performance is especially susceptible to fluctuations in commodity prices and political risk perceptions.
- Many of those who presided over policy setting and regulation of the industry lacked experience, and, at times, the government has preferred ideological hostility to pragmatic engagement and long-term thinking.
- The mining industry is critical because of its forward and backward linkages with manufacturing and tertiary sectors of the economy.
- Politically, international relations may be in for major readjustment, with the USA under Donald Trump, and growing nationalism, exemplified most strongly by the UK's Brexit vote, is likely to reset the tone of domestic politics and economic policies in Europe.

The national wealth of our country, the heritage of South Africans, shall be restored to the people. The mineral wealth beneath the soil, the banks and monopoly industry shall be transferred to the ownership of the people as a whole. All other industry and trade shall be controlled to assist the wellbeing of the people. All people shall have equal rights to trade where they choose, to manufacture and to enter all trades, crafts and professions. The Freedom Charter (1955)

Introduction

In 2015, the mining industry contributed about 7 per cent to South Africa's gross domestic product, and accounted for about 25 per cent of its exports. Unlike the manufacturing sector, most of its operations are broadly distributed, creating jobs and adding value to poor provinces and many small towns. Historically, the industry has been a major source of foreign direct investment, contributing 15 per cent in 2015, of which 20 per cent came from private investors. In the same year, it accounted for 1.4 million direct jobs (CMSA 2016).

While its contribution to the economy may have diminished over the years, it still has the potential to be a major catalyst for inclusive economic growth. In this regard, it has been argued that more than half of the priorities of the National Development Plan (NDP) could be tackled by the mining industry (CMSA 2016). These include:

- the economy and employment;
- economic infrastructure – the foundation of social and economic development;
- environmental sustainability – an equitable transition to a low-carbon economy;
- an integrated and inclusive rural economy;
- positioning South Africa in the world;
- transforming human settlements;
- improving education, training and innovation; and
- promoting health.

However, despite its potential to transform the future of the economy, the mining industry's dark history of injustice towards black workers cannot be overlooked. Rooted in colonial and apartheid exploitation, this stubborn legacy continues to manifest itself, as inhabitants of land endowed with mineral riches hardly share in the proceeds of mining. They are often powerless to negotiate equitable deals with mining companies, making the creed of the *Freedom Charter* that all shall share in the country's wealth a distant dream.

One of the post-apartheid developments that sparked hope for many South Africans, and which depended on the mining sector, was the passing of the Mineral and Petroleum Resources Development Act 28 of 2002, which came into force in 2004. Its adoption meant that custodianship of mineral resources would henceforth reside with the South African government. It was envisioned that this would allow the state to play a key role in guiding the direction of growth and development, through a new licensing regime and by ensuring a business climate conducive to trading.

This transformative potential has never fully been realised, and most mining communities continue to exist in conditions of social and material deprivation. A glance at the birthplace of mining in South Africa, Kimberley in the Northern Cape province, is dispiriting. Despite the fact that the discovery of diamonds there opened up the pathway for mining development in South Africa, providing mining magnates with the finance and leverage required to unleash gold mining in Johannesburg, Kimberley remains economically marginalised. According to Stats SA (2015), the Northern Cape has a youth unemployment rate averaging above 40 per cent. Similar observations can be made in respect of the North West province and its mineral wealth.

Instead of generating prosperity, mining has intensified uneven patterns of development and inequality. Nowhere has this been more glaringly highlighted than in the Marikana Massacre (and the events leading up to it) in the North West in August 2012. This tragic event shed light on the living conditions of mining communities, and made it quite clear that not enough has been done to change patterns of economic growth and development in South Africa.

This paper, firstly, provides a historical background and a review of the Constitution and other laws that have impacted on the industry since 1994. It, secondly, provides an institutional review to lay a foundation for a discussion on the developments that led to the Marikana Massacre. Thirdly, the paper looks at global trends in mining, and the impact of the Chinese economic slowdown on the industry. Fourthly, the paper critically reviews the mining Operation Phakisa, and looks at how a different mining industry, founded on partnerships involving a wide range of stakeholders and interests, including the community, state, business, workers, customers, suppliers, the environment and sustainability, might be created. It concludes by re-emphasising the importance of the sector and its prospects in the light of such partnerships.

Background

The ANC's developmental framework

Unlike the Afrikaners who pursued a mixed approach to development, which combined the creation of powerful state enterprises that supported fledgling private concerns to uplift poor Afrikaners, the ANC in the transition period between 1990 and 1994 favoured a more concerted state-led approach to development. This was informed by the nature of the 1994 political settlement, which explicitly prioritised the protection of both individual and property rights. The ANC-led government, moreover, inherited a weak balance sheet, which limited its ability to achieve redress. As a result, it abandoned programmes such as the Reconstruction and Development Programme (RDP), which focused on addressing issues like shelter, poverty and inequality, in favour of the more open, business-friendly approach of the Growth, Employment and Redistribution (GEAR) policy (see Habib 2013; Marais 2011; Desai 2002; Bond 2000).

This policy shift by the ANC relied heavily on the assumption that white big business would invest in the economy to generate profits for its shareholders, and create employment for workers, with both paying taxes to the government. For its part, the state committed itself to creating an enabling environment for business and the privatisation of key assets to bolster its finances and strengthen competition, particularly through foreign direct investment. These interests were embodied in the GEAR macroeconomic strategy, for which the ANC-led government was heavily criticised by its communist, labour and community-based allies.

In subsequent years, the ANC used its political clout to pass a myriad of laws to promote black advancement and redress in the economy. Section 9 of the South African Constitution provides for special measures to promote equality and to redress disadvantages deriving from past unfair discrimination. This foundation for affirmative action (one of the measures to promote redress) is explicitly contingent on the persistence of disadvantage due to unfair discrimination. Legislation such as the Employment Equity Act 55 of 1998 and the Broad-based Black Economic Empowerment Act 53 of 2003 provide in greater detail (e.g. both codified a scoring system to quantify empowerment) for the achievement of the values enshrined in Section 9.

Unfortunately, the expected rates of investment by white business in the economy never materialised, and the complexion of ownership hardly changed. In the first democratic presidential transition, from Mandela to Mbeki, the seeds for more urgent, legislated means of empowerment were planted. Whereas other sectors voluntarily initiated their own sector empowerment charters, the mining sector failed to develop one, which is still a source of consternation between the government and business. With the leadership of the then Minister of Minerals and Energy Phumzile Mlambo-Ngcuka, the state intervened by passing the Mineral and Petroleum Resources Development Act 28 of 2002 (MPRDA). The legislation roused substantial objection, with white business terming it 'nationalisation through the back door', while many black role-players felt that the measures were merely cosmetic.

The MPRDA sought to facilitate the meaningful participation of historically disadvantaged South Africans (HDSAs) in the minerals and mining industry. Section 100(2)(a) of the MPRDA, in particular, laid the foundation for the creation of a Mining Charter as an instrument of transformation. However, amendments to the MPRDA have been in the works for almost two years, creating a great deal of uncertainty in the sector.

Shaking the world

Despite commitment by the democratic government to equity and redress, the patterns of accumulation and social relations in the mining industry have not changed substantially for the vast majority of mineworkers. The migrant labour system, black cheap labour and the compound system continue to exist. The changes that have occurred are in the realm of black ownership, particularly in listed companies, led by an elite, arguably with no organic links to where the mines are located. Moreover, there is very little, if any, participation by the communities who own the land. The mines and their operations are islands in a sea of poverty, where communities live in squalor and suffer from environmental pollution and water shortages as a result of the mining operations.

However, in line with the MPRDA, some companies have accommodated workers by way of Employee Share Ownership Schemes (ESOPS). Compliance with the MPRDA's 26 per cent shareholding requirement has been varied. ESOPS have attempted to align the interests of employees with those of employers and shareholders, by allowing employees to share in the company's growth through (share) capital appreciation. However, share appreciation is not driven only by efficiencies brought about by high levels of productivity as workers seek to maximise returns on their equity investment, but also by the demand for the commodity.

To date, the most successful example of this is the Kumba Iron Ore Envision ESOPS, which transferred about 3 per cent of Kumba's equity to more than 6 000 non-management employees in 2006. Five years later, on the back of increased production and high share prices, the ESOPS yielded R2.6 billion to its beneficiaries, each of whom received more than R500 000 in pre-tax dividend pay-outs (Sogoni 2016).

In another instance, more than 9 600 below-management employees of Exxaro each received a dividend of R135 000 at the end of the five-year vesting period in 2011 (Sogoni 2016).

Unfortunately, successes of the likes of Kumba, Exxaro and Sasol run counter to a more discouraging pattern of underperforming ESOPS. In the context of stagnant or volatile global demand for raw materials, mining companies' share performance is especially susceptible to fluctuations in commodity prices and political risk perceptions. The problem lies with the debt-based equity-funding model underpinning most ESOPS. In these transactions, low-interest debt is used to purchase the ESOPS' stake in the company. This means that the ESOPS' equity structure consists of a combination of unencumbered (free) and encumbered (loan) shares (Segoni 2016).

Often, the loan shares constitute the largest proportion of equity held in ESOPS' trusts, and the loan is expected to be repaid from dividend returns. Although no capital injection is required from beneficiaries, the compromise is that they can derive the full value of share ownership only once the debt tied to encumbered shares is fully repaid. The risk lies in the fact that ESOPS depend 'on rising commodity prices to result in value-creation for beneficiaries', as the Chamber of Mines concedes (Segoni 2016).

In many democratic regimes, these challenges would have fostered a culture of partnership among various stakeholders to tackle them. However, in South Africa, it has led to antagonism, finger-pointing and paralysis. On the one hand, the mineowners are calling for certainty in the mining law; on the other hand, workers and communities are demanding higher percentages in the ESOPS. The government would like to see the industry deracialised and, as such, wants to pass amendments to the existing legislation.

Various scholars have argued that the elitist nature of the political settlement has shaped these realities, suggesting that the ANC had choices but took the easiest path to appease business (see Habib 2013; Marais 2011; Desai 2002; Bond 2000). Sampie Terreblanche (2002) probably articulated this sentiment most strongly, writing that the ANC caved in at their discussions with business about the economy for a democratic South Africa hosted by the Oppenheimer-funded Brenthurst Foundation in Johannesburg, bending to the interests of capital, with their consciences softened by the lunches offered by their hosts.

Strained relations among key stakeholders

Despite their close relationship, the members of the Chamber of Mines and the National Union of Mineworkers (NUM) have made little headway in addressing the historical legacies in the industry. Some contend that the NUM has become too embedded within the capitalist system and has lost the autonomy necessary to represent workers effectively (Evans 1995). Even at the height of the commodity cycle, between 2001 and 2007, where the mining corporates were returning capital to shareholders, very little was done to improve the living conditions of the workers and the communities within which they lived. Instead, mining companies repeated the refrain that they contributed significantly to direct and indirect employment, generated large foreign exchange earnings and added to tax revenues by way of corporate tax and royalties. These are, however, basic social returns expected of any corporate citizen. Given the privileged position of the industry in South Africa, and the historical injustices it has wrought in the past, much more should be expected. Instead, captains of industry have a siege mentality, failing to explore innovative approaches to the

CAPTAINS OF INDUSTRY HAVE A SIEGE MENTALITY, FAILING TO EXPLORE INNOVATIVE APPROACHES TO THE CREATION OF SHARED PROSPERITY.

creation of shared prosperity, while viewing the government as intent on frustrating their interests. This is not to suggest that the state is beyond reproach. Politicians have not made the effort to understand the industry, its nuances and the challenges it faces, especially when dealing with tough external conditions. Ministers have been changed with regularity. Many of those who presided over policy setting and regulation of the industry lacked experience, and, at times, the government has preferred ideological hostility to pragmatic engagement and long-term thinking.

The relationship between the state and business between 2001 and 2007 remained strained as a result of mistrust, particularly in the period leading up to the adoption of the Mining Charter, when a leak relating to drastic industry changes, which included the suggestion that control of all new mining projects would have to rest with black business within ten years, scared off investors. On the side of industry, proposals that the government should invest in infrastructure in both the Sishen-Saldanha iron ore railway network and the Mpumalanga-Richards Bay coal network were rejected by the state-owned company Transnet. As a result of these tussles, underpinned by a lack of trust between stakeholders, South Africa incurred a huge opportunity cost, since output, employment and investment did not grow at the same pace as those of its peers at the height of the commodity cycle.

When the commodity cycle began to swing downward after the global economic and financial crisis of 2008, the distance between workers in the mines and union officials widened, as did the relationship between the state and business under the leadership of Minister of Mineral Resources Susan Shabangu. This was exacerbated by the Sishen Iron Ore debacle when an unknown entity, Imperial Crown Trading, was awarded the prospecting rights on an operational mine owned by Kumba. Business questioned the efficiency and the transparency of the processes involved in awarding prospecting and mining rights by the Department of Mineral Resources. Then, there were calls by the Department of Mineral Resources to amend the MPRDA because many companies were perceived to be non-compliant as a result of the collapse of black economic empowerment (BEE) partners due to the global crisis.

The South African mining industry presented a united response to the global economic and financial crisis by forming the Mineral Industry Growth, Development and

Employment Task Team (MIGDETT). In June 2010, the stakeholders represented in MIGDETT, including the Department of Mineral Resources, the Chamber of Mines, the South African Mining Development Association, NUM, the United Association of South Africa and Solidarity, reaffirmed their commitment by signing the 'Declaration on the Strategy for the Sustainable Growth and Meaningful Transformation of South Africa's Mining Industry'. The Declaration formed the basis for the Mining Charter review and amendment. The amended Charter was published in September 2010.

The external environment and social challenges in the mining sector

The global economic and financial crisis led to retrenchments as companies cut costs to compensate for falling commodity prices. Having witnessed how supernormal profits were distributed to shareholders and senior managers, while their salaries were merely adjusted for inflation, and having seen how some of their counterparts in the iron ore sector had participated in the sharing of the supernormal profits, workers in the platinum sector started to turn their backs on NUM. This disenchantment with the NUM leadership, whom many believed had got too cosy with employers, resulted in the emergence of the Association of Mineworkers and Construction Union (AMCU). AMCU grew rapidly, and its mobilisation led to the 2012 strike for better wages in the 'Platinum Belt' of the North West province.

Miners rallied around the call for a minimum wage of R12 500, which amounted to an increase of R8 000 for a mineworker earning R4 500, the lowest on the income spectrum, and an increase of R4 500 for a mineworker earning R8 000, the highest on the income spectrum. This translated into wage increases of 178 per cent and 56 per cent for the lowest and highest earners, respectively (Potenza n.d.).

In the context of mistrust between the industry and the state, the unions and employers, and the workers and their unions, the situation started to resemble a Molotov cocktail that was ready to explode. After a series of violent confrontations between striking platinum mineworkers and the South African Police Service at the Marikana Mine in the North West province, police shot and killed 34 miners on 16 August 2012. Including the deaths in the days that led up to the massacre, the total number of fatalities was 44 (Setou 2015).

This represented the bloodiest suppression of protest since the end of apartheid. In its immediate wake, the gravity of the events brought together several mining stakeholders, including the unions, the communities, corporates and the Chamber of Mines. The mistrust between AMCU and the ANC government, particularly its alliance with the COSATU affiliate, NUM, and Deputy President Cyril Ramaphosa's involvement, made it very difficult for the government. The presence of both the United Democratic Movement (UDM) and the Economic Freedom Fighters (EFF) on the ground, side by side with communities, made Marikana a no-go zone for the government. It is in that respect that the government was conspicuous in its absence. The deputy president, then a director of Lonmin, which owned the Marikana Mine, was alleged to have precipitated the police action when he called for more forceful action to end the strike. However, the Farlam Commission of Inquiry, which was appointed by President Zuma to investigate the incident, did not find any wrongdoing on the part of the deputy president.

The strike resumed in the first five months of 2014 and saw 70 000 mineworkers from major platinum producers such as Impala Platinum, Anglo American Platinum and Lonmin Platinum Mines, based in the North West province town of Rustenburg, down tools. These mineworkers belonged to AMCU, under the leadership of Joseph Mathunjwa (Setou 2015). The affected mines lost around 40 per cent of platinum production as a result of the strike and the subsequent shutdown. The strike took around 440 000 ounces of platinum out of production, and the three companies mentioned above suffered a total revenue loss of about R24.1 billion, with a further R10.6 billion being lost in wages.

The strike had a profound impact on the livelihoods of workers. During these five months, mineworkers' dependence on credit increased and they were forced to borrow for basic necessities, which had severe implications for their personal debt situation. It was estimated, furthermore, that miners lost, on average, around 45 per cent of their annual income, which would take roughly 2.5 years to recoup through the negotiated wage increase (Setou 2015).

In May 2014, the newly appointed Minister of Mineral Resources Ngoako Ramatlhodi appointed a task team to revive negotiations in search of an amicable solution. On 7 June 2014, Ramatlhodi announced that he would pull out of negotiations if a deal was not reached by

Box 1: Backward linkages

Backward linkages (suppliers of goods and services)

- machinery and equipment
- transport equipment
- wood products
- fabricated metal products
- non-metallic minerals
- chemicals and petroleum
- electricity
- water
- transport services
- construction and civil engineering
- finance and business services

Box 2: Forward linkages

Forward linkages (consumers of mineral products)

- basic metals
- motor vehicles and components
- chemicals
- petroleum refineries
- electricity
- construction and civil engineering

9 June 2014. In June 2014, AMCU argued for a fixed wage increase over four years to meet the R12 500 goal by 2017. On 24 June 2014, the deal was officially signed and workers started to return to work on 25 June 2014. AMCU announced that it would continue to agitate for an increase in the minimum wage to R12 500 by 2017. By the time a deal was reached, the strike had become the longest and most costly in South African history.

In 2015, an initiative aimed at stimulating growth in the mining sector under President Jacob Zuma, was launched by Ngoako Ramatlhodi. There had been other initiatives aimed at bringing stakeholders together to work for the development and competitiveness of the sector in the MIGDETT, but the MIGDETT stakeholders were not of the same mind on the principles applicable to assessing the ownership element in terms of the amended MPRDA. In an attempt to promote regulatory certainty, Ramatlhodi agreed in 2015 to approach the courts for a declaratory order as to the correct interpretation. However, he could not conclude the legal process because President Zuma replaced him as minister of mineral resources with Mosebenzi Zwane in September 2015. This move, again, added a disruptive dimension of uncertainty to a very volatile sector.

The current state of play

The mining industry is critical because of its forward and backward linkages with manufacturing and tertiary sectors of the economy. More than 80 per cent of overall spending by the mining industry on its input requirements is sourced from domestic suppliers of goods and services. The mining industry spend in the local economy (backward linkages) and supply to other sectors (forward linkages) is depicted in Box 1 and Box 2. These are not necessarily exhaustive but are presented as indicative of the critical nature of the industry and its multiplier effects.

In 2015 the mining industry contributed about 7 per cent to the GDP. It is also a critical contributor to South Africa's balance of payments, accounting for about 25 per cent of its exports. Unlike manufacturing, most of its operations are distributed provincially, creating jobs and adding value to less-developed provinces. Table 5.1 shows the mining industry's contribution to the GDP and employment of selected provinces in 2012.

Table 5.1: Mining's contribution to GDP and employment by selected provinces, 2012

Province	GDP	Employment
Limpopo	29.4%	12.9%
Mpumalanga	24.9%	11.3%
North West	33.6%	28.7%
Northern Cape	26.7%	10.5%

Source: IDC (2013)

In June 2016, PricewaterhouseCoopers (PwC) released its annual publication *Mine*, which focuses on the Top 40 global mining companies by market capitalisation. These companies represent about 80 per cent of global mining production, and compare favourably with the JSE-listed mining companies with a market capitalisation of more than R200m. PwC (2016) shows that the Top 40 global mining companies by market capitalisation incurred a collective loss of about US$27 billion in 2015. Their market capitalisation declined by 37 per cent and in certain cases fell below book value. Of all the listed companies, the Top 40 global mining companies had the lowest return on capital employed and were heavily indebted. In this adverse environment, mining companies have been focusing on cost cutting, productivity improvements, and capital discipline and adjustments.

With the exception of gold, the rand price of export commodities also dropped significantly in South Africa (see IMF 2016). However, there has been a recent resurgence in the price of some export commodities, such as iron ore and manganese, but questions remain about the sustainability of this revival. The sharp rise in domestic costs is of concern for the South African mining industry. Electricity prices, for example, have trebled since 2009, wages have increased, and the cost of stores and materials have also gone up by more than 10 per cent. These cost increases have not been matched by productivity gains. In the platinum-group metals (PGM) sector, for example, platinum output per worker declined by 49 per cent, whereas real labour costs per kilogram increased by more than 309 per cent between 1999 and 2014. Gold, a typical investor resort in volatile periods, remains resilient in the face of continuing global economic and political uncertainty. Projections for global economic growth are subdued. Emerging economies have lost their lustre, with China, in particular, having to adjust to its 'new normal' of more modest growth. Politically, international relations may be in for major readjustment, with the USA under Donald Trump, and growing nationalism, exemplified most strongly by the UK's Brexit vote, is likely to reset the tone of domestic politics and economic policies in Europe.

In 2015, mining continued to be an industry in decline, with an aggregate net loss of R37 billion, compared to the R10 billion loss in 2014 (see IMF 2016). Several companies are battling to stay afloat in the current crisis, inevitably leading to retrenchments. Employment in mining has plummeted, with approximately 59 407 jobs lost between January 2012 and December 2015. The multiplier effect of these losses indicates 180 000 jobs being lost in other sectors linked to mining. This requires urgent attention, and new approaches to doing business in the sector. The Mining Operations Phakisa was launched to address the challenges faced by the sector, which relate to social inclusion, efficiency and competitiveness in the face of falling commodity prices.

While there was a slight recovery in the sector toward the latter part of 2016, views on the sustainability of coal, iron ore and manganese prices are divergent.

A new mining industry

The mining Operation Phakisa has managed to draw together all stakeholders with a vested interest in the mining industry. This joint platform has provided the opportunity for a process that led to the development of an action plan for growth and transformation, which encourages investment. The industry agreed on a 20-year plan to modernise, localise the sourcing of machines and mechanisation to reduce fatalities and improve productivity. It is envisaged that the sector could add 10 per cent to its contribution to GDP, while creating jobs and wealth at the same time. Tax revenue could also grow as a result of increased investment and productivity.

However, the mining Operation Phakisa recommendations, scheduled for presentation to Parliament in February 2016, were scuttled, as were the proposed amendments to the MPRDA. These amendments are based on a self-assessment report of 29 March 2015 conducted by the Department of Mineral Resources without the industry's participation, and sought to do away with the principle of 'once empowered, always empowered' by forcing companies to go through the process of selecting BEE partners again should they not have the required 26 per cent broad-based black

THE CHALLENGES IN THE MINING SECTOR HAVE ALSO BEEN EXACERBATED BY THE REVELATIONS IN THE PUBLIC PROTECTOR'S *STATE OF CAPTURE* REPORT.

shareholding, rather than dealing with the immediate challenges facing the industry. In terms of the assessment, the following has been achieved:

- *Housing and living conditions* – Only 63% of mining right-holders with hostels have converted the hostels into family and/or single units. The drive to improve the living standards of mineworkers has not fully been realised. More needs to be done to address the broader objective of ensuring that mineworkers live in decent accommodation.
- *Employment equity* – the percentages of right-holders that met the 40% target for each category are:
  - top management (Board) – 73%
  - senior management (EXCO) – 50%
  - middle management – 56%
  - junior management – 68%
  - core and critical skills – 79%
- *Procurement and enterprise development*:
  - 42% met the target of procuring capital goods from HDSAs.
  - 33% met the target of procuring services from HDSAs.
  - 62% met the target of procuring consumables from HDSAs.
- *Human resources development*:
  - 36.8% of companies have spent the targeted 5% of total annual payroll on training.
- *Mine community development*:
  - 47% of mine community development projects are between 75% and 100% completed.
- *Sustainable development:*
  - As a whole, the performance on sustainable development has not met expectations.

The Chamber of Mines, through its president Mike Teke, has been engaging the government on the potential damage the amendment to the MPRDA, should they be passed, could inflict on the industry. This uncertainty has had a negative impact on the industry, particularly in attracting foreign direct investment, based on the existing shareholder base, which is pivotal as the industry mechanises. The goals of the NDP are being shifted, making it difficult to revive the industry and create employment. The challenges in the mining sector have also been exacerbated by the revelations in the Public Protector's *State of Capture* report, particularly as it relates to the alleged role of the minister of mineral resources role in the acquisition of a Glencore mine by Tegeta, a company owned by the Gupta family, with whom he is alleged to have close fraternal and business relations, and which subsequently won an Eskom tender to deliver coal to one of its power stations (Public Protector 2016).

Despite the acrimonious relationship between the government and the mining industry, the industry is functioning in the spirit of the mining Operation Phakisa. State-supported bodies, such as Mintek, academic institutions and original equipment manufacturers also are forging ahead with research and development relating to the localisation of manufacturing.

Conclusion

The mining industry is pivotal in the South African economy. It creates jobs, through its forward and backward linkages, pays taxes and contributes about 25 per cent to the country's balance of payments. The industry can do much more than every big company does in the course of generating profitability – providing employment, contributing to GDP and paying taxes. It can be a force for substantive and long-lasting social change. To this end, it needs to imagine a different future for South Africa, to rethink its own position in the broader social structure, to engage honestly with stakeholders (including the government, workers and communities) and to provide solutions for driving the progress that would lead to shared prosperity. For as long as it remains inward-looking and perceives itself to be under siege, it will not have the creativity and goodwill required to produce long-term structural change.

The president wants fundamental change in the structure, systems, institutions and patterns of ownership, management and control of the economy. Communities are longing for their land (The Presidency 2017). Mining companies want to get on with it and do what they know best. Given these different policy positions, a new political settlement is required for a new mining industry. Former Deputy Finance Minister Mcebisi Jonas has made the call for such a change. According to him, a critical mass in society – emanating from within the state, the higher education sector, the business sector (established and new), labour and civil society, including the media – must be mobilised to support policy choices that can rapidly transition the economy out of its low-growth and high-inequality trajectory (Jonas 2017).

South Africa needs a new economic consensus, as espoused by Jonas, but, without strong leadership among all formations, it might not happen. It remains to be seen which political and social formations will gather at the negotiating table. Tougher economic times and an even weaker ANC government may be just what it takes to get the 'new deal' on the go (Mondi 2017).

In the absence of a new deal, the industry – in partnership with the state, labour, communities and business, original equipment suppliers and customers – has an important role to play in the forward planning for a more inclusive economy. For example, through the Mining Phakisa, the old Chamber of Mines Research Organisation initiative to develop hydraulic technologies has been restarted in less than six months. Other initiatives are underway and, perhaps, when the new deal is tabled and the minister of mineral resources plays his/her proper role as a partner to the industry, the mining sector will change as envisaged by all stakeholders.

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CHAPTER SIX CASE STUDY

LESSONS FROM A PUBLIC–PRIVATE PARTNERSHIP IN THE RENEWABLE ENERGY SECTOR

Christopher Wood

Introduction

With a tightly constrained fiscus and a number of looming development challenges to tackle, the government is tasked with producing better results from a shrinking pool of resources. Such an environment demands innovation in how the government approaches many of South Africa's most pressing concerns, and requires broader cooperation with various groups in society, including the private sector. Among the options available to drive such cooperation, public–private partnerships (PPPs) are often regarded as some of the best delivery mechanisms to help governments to implement their commitments. They offer a way to offset the burden on the government by de-risking private investments and, thereby, channelling private resources to productive endeavours. There are any number of models on offer for PPPs, but all pose a tricky balancing act between creating adequate incentives for private involvement and assuring a competitive result for the government.

The Renewable Energy Independent Power Producer Programme (REIPPP) represents, in many ways, an almost ideal form of the type of public–private collaboration promoted by advocates of partnerships between the state and the private sector. Stemming from commitments to integrate green sources of energy into South Africa's coal-based energy grid, the REIPPP began in 2008, and since then has completed four full rounds of bidding, adding 6 318.2 MW in capacity to the grid (by comparison, the mega coal plant project, Kusile, the fourth largest such plant in the world, will have a maximum capacity of 4 800 MW).[1] The Department of Energy, in cooperation with the National Treasury's PPP management unit, overseas the process, with the guaranteed support of the National Treasury, while Eskom is charged with imple-

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menting the integration of private suppliers into the grid. Supporting programmes, such as local procurement and incentive packages offered by the Department of Trade and Industry, and funding offered by the Industrial Development Corporation (IDC), help smooth implementation, while the development of the actual renewable energy generation plants is overseen by private suppliers.

The programme should represent a win–win scenario for the parties involved. For the Department of Energy it helps stave off energy deficits, meets international carbon reduction commitments, and achieves the long-stated aim of diversifying energy supply. For the government's economic cluster, it represents a job-creation opportunity, both directly from the producers and indirectly through the production of renewable energy equipment, without overloading the strained fiscus. For private energy providers and equipment manufacturers, it represents a sustainable future for their industry. Finally, the programme shores up energy supply to consumers.

Nevertheless, the REIPPP is fast becoming a cautionary tale on the complexities of maintaining PPPs in the face of vested interests and instability in the application of policy. While the official government line has remained steadfast in its support of the programme – with President Zuma offering his full support to the programme in the State of the Nation Address[2] in February 2017 – pushback from Eskom has thrown the future of the programme into doubt, with the power utility refusing to sign off on purchase agreements that were awarded in the fourth bidding round, and coming out strongly against the continuation of the programme.[3] Beyond the refusal to sign off on agreements, Eskom has threatened to trigger a clause that would place the cost liability for the projects on the government,[4] and has threatened further to shut down a number of coal plants, triggering protest action from coal truck drivers[5] and condemnation from a number of unions.[6] The resulting uncertainty has stalled development of the final round of projects, while also sparking a pullback of local renewable energy manufacturers. SMA Solar, the world's largest solar manufacturer, plans to shutter its Cape Town manufacturing operations only two years after opening.[7] Other local investments – by Jinko Solar, SolaireDirect and ARTsolar – which total R245 million in respect of facilities, are currently only seeing 2 per cent of their production capacity taken up by local demand, requiring taking on the difficult export market.[8]

With Eskom moving so strongly against the programme, it seems that REIPPP's successes will not be enough to keep the programme alive and, beyond REIPPP, the programme's collapse could deepen uncertainty around the working relationship between the government and the private sector.

This paper examines the REIPPP as a case study of a PPP. It looks at why the programme worked and what went wrong, and offers some suggestions on how future initiatives could be structured to avoid political instability while ensuring effective delivery of government services or development projects. It proceeds in four parts. Section 1 introduces the REIPPP in the context of the energy sector in South Africa. Section 2 examines the positive side of the relationship, assessing why take-up was so positive and what lessons can be learned. Section 3 examines the recent problems, and what went wrong. Section 4 concludes and offers some policy lessons.

REIPPP and energy supply in South Africa

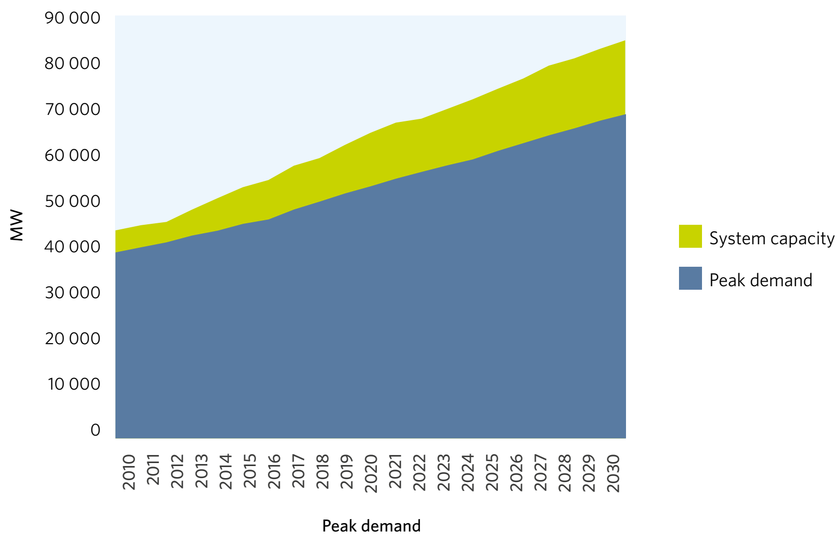
South Africa's post-apartheid energy system was forced to grapple with four major transformation challenges.

First, there was the need to drastically expand the supply of energy to under-served communities, and transform an energy network built for the minority of the population into one that could support the entire country. This involved both the rollout of distribution infrastructure to millions of new households, many in rural areas and townships, and the transformation of energy supply to a rapidly-changing industrial base, which featured heavy new demands on the grid from the likes of steel smelters and expansion in the mining economy. The Department of Minerals and Energy's post-apartheid energy policy was guided by the 1998 White Paper on Energy, which sets out its objectives as being to promote 'access to affordable and sustainable energy services for small businesses, disadvantaged households, small farms, schools, clinics in our rural areas and a wide range of other community establishments' (Department of Minerals and Energy 1998: 10). Initial expansion was slow, with access to energy growing from 65 per cent to 66.1 per cent between 1990 and 2000, but sped up dramatically in the following decade, with access to energy expanding from 66.1 per cent to 82.7 per cent from 2000 to 2010, with an addition of 13 million people to the grid.[9] While there are still problems – with over 8 million still not connected and 43 per cent living in energy poverty (defined as spending more than 10 per cent of net income on energy costs) – the rapid addition of households to the grid, combined with the shifting structure of the South African economy, led to increased demand on the grid (International Energy Agency 2014).

Second, and closely related, was the need to put in place a plan to deal with a limited energy supply infrastructure and an ageing fleet of power stations. This was not an easy undertaking for energy administrators. Eskom and the Department of Energy had experienced the challenge of load-shedding back in the 1980s, when massive overinvestment in power stations resulted in excess supply and rising energy tariffs.

In succeeding years, the government was daunted by the task of expanding energy supply. Policies such as the Growth, Employment and Redistribution (GEAR) programme were limiting, and addressing the growing energy demand was largely postponed. This was despite Eskom's increasing warnings to the Mbeki administration, for which the former president later apologised, stating that 'Eskom was right and government was wrong'.[10] The result was a winnowing out of prudential buffers, the gap between energy generated and energy demanded. Power stations are traditionally built to run at between 80 per cent and 85 per cent of their potential output, to prevent excessive wear and tear and reduce the risk of breakdowns. This buffer was increasingly crushed by growing energy demand and a lack of investment in new generation capacity, resulting in load-shedding to prevent the risk of a shutdown of the grid.

Figure 6.1: Projected peak energy demand versus supply



Source: *Department of Energy (2011)*

Third, there was a need to address Eskom's monopoly – the company produces 96 per cent of the total power in South Africa (Steyn n.d.). Dealing with the energy monopoly had been a core issue envisioned by the original White Paper on Energy, but has since emerged as one of the most divisive and complex matters facing the sector, with a wide range of opinions on how to proceed. Some argue that the energy sector effectively represents a natural monopoly, one in which a monopoly energy utility is the most effective form of distribution. Others argue for a breaking up of Eskom's generation and distribution functions, splitting them into two separate companies. Still others argue for the creation of competing generators, or the introduction of independent power producers that work with Eskom. Finally, yet others point to the need to decentralise Eskom's energy generation, which remains clustered in the inland mining areas. On balance, however, the approach adopted by the government has been to regulate monopoly issues through pricing controls (via the National Energy Regulator of South Africa, NERSA), regulatory powers (through the Department of Energy), and a range of additional interventions.

Fourth, and a more recent challenge, was the need to address South Africa's carbon-intensive energy production structure. This stems, in part, from a range of international commitments, including South Africa's participation in the United Nations Framework Convention on Climate Change (UNFCCC), and particularly through the Conference of the Parties (COP) meetings. South Africa has made a number of commitments under the COP meetings. For example, in line with the Copenhagen Accord of 2010, South Africa developed an indicative strategy geared towards reducing emissions by 34 per cent below the 'business as usual' level by 2020, and 42 per cent by 2025. More recently, South Africa reiterated its pledge in respect of the 2015 Paris Agreement, through which South Africa undertook to hit peak carbon output between 2020 and 2025, plateau for a decade, and then begin to fall (Eberhard, Kolker & Leigland 2014). This is particularly important for South Africa, where carbon intensity is estimated to range between one-and-a-half and four times higher than the Organisation for Economic Co-operation and Development (OECD) average.

The REIPPP programme, first introduced in 2008, looked set to contribute to addressing almost all of these problems. It was not only going to help the government meet its objectives of security of energy supply, but also reduce South Africa's carbon footprint. This is consistent with the strategic objectives set out in the New Growth Path and the National Planning Commission's National Development Plan to build a low-carbon growth trajectory. Renewable energy would relieve some of the strain on traditional generation sources, increasing supply during the day, and allowing better opportunities for maintenance and relief at the plants that generate baseload energy for the night-time hours. Meanwhile, the increase in renewable energy generation would reduce the carbon-heavy nature of South Africa's energy grid, while the introduction of private producers would be a first step in long-running attempts to loosen Eskom's monopoly grip. While the programme would not change the fundamentals of expanding access, it would help to develop renewable energy technology and create a domestic production base, both of which would improve products that could be used for off-grid power solutions to rural and underserved communities.

The programme originally took the form of the Renewable Energy Feed-in Tariff (REFIT) programme, which aimed to follow the more established route of offering a set tariff for renewable energy, and opening the potential for firms to sell into the national grid. A draft policy was put together by NERSA,[11] but ran into problems regarding compliance with procurement regulations, as the programme failed to live up to the requirement for competitive bidding. REFIT was replaced by the REIPPP in 2008 (Eberhard et al. 2014). The programme proceeded through four main bidding rounds (with some supplementary rounds). By the end of the final round, 92 bidders had been identified, together generating 6 327 MW, as can be seen in Table 6.1 and Figure 6.2.[12] These were split just about evenly between wind and solar (including both photovoltaic and concentrated solar power), with the remainder including some small hydro, biomass generation, co-generation, and landfill gas – as can be seen in Figure 6.3.

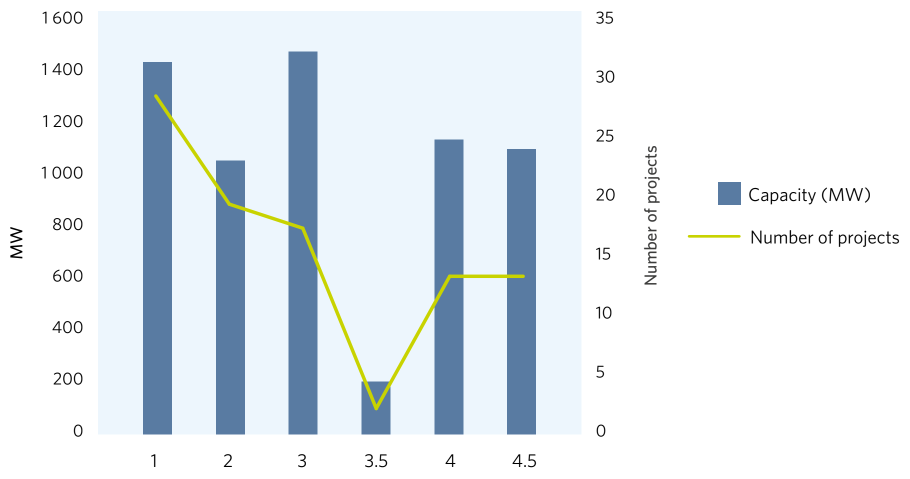
Table 6.1: REIPPP bidding rounds

	Submission date	Preferred bidders	Contracted capacity
Bidding round 1	4 November 2011	28	1 425 MW
Bidding round 2	5 March 2012	19	1 040 MW
Bidding round 3	19 August 2013	17	1 457 MW
Bidding round 3.5	31 March 2014	2	200 MW
Bidding round 4 (incl. 4.5)	18 August 2014	26	2 205 MW

Source: Department of Energy (2015)

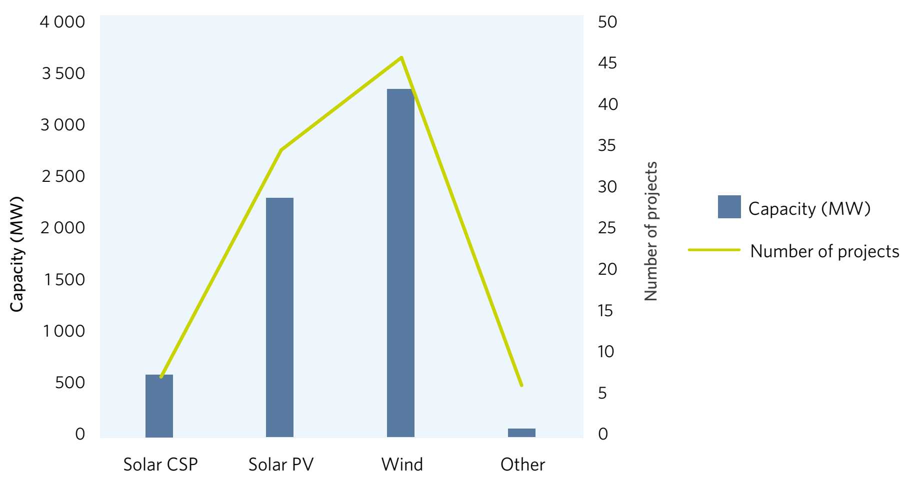
In addition to the direct energy benefits, the REIPPP required bidders to meet a comprehensive economic and community development scorecard. Potential bidders were selected on a 70/30 split, between the price and economic development factors, a more intensive division than the typical government 90/10 split (Eberhard et al. 2014). These economic development considerations were split into three broad categories: empowerment requirements (similar to general BBBEE requirements on ownership, management control and preferential procurement), local content requirements (aimed at encouraging local manufacture of renewables), and community development requirements (including local job creation and a requirement to set aside a portion of project revenue for local development schemes) (See Table 6.2). The results of these requirements are mixed, with some concerns raised about local

Figure 6.2: Capacity and number of projects per bidding round



Source: *Author's calculations based on REIPPP Projects (2016: 10)*

Figure 6.3: Capacity and number of projects by generation type



Source: *Author's calculations based on REIPPP Projects (2016: 10)* content (see below), the strength of the socio-economic development programmes, which bidders often struggled to adequately define, and whether jobs created were sustainable in the long run (WWF 2015). Nevertheless, over the first three rounds alone, R1.17 billion was set aside for local community development. This amount is particularly important given that many REIPPP projects were based in communities with few other development opportunities, and while there are still questions on how this funding will be spent, it holds substantial potential to assist communities that rarely see much investment.

Table 6.2: Economic development criteria, initial REIPPP, 2011

Economic development elements	Minimum threshold	Maximum target
Job creation (SA)	**Various indicators**	
Job creation (local area)	12% of RSA employees	20% of RSA employees
Local content	**Differs by technology**	
Ownership (BEE)	12%	30%
Ownership (community)	5%	2.5%
Management control	0%	40%
Preferential procurement	**Various indicators**	
Enterprise development (ED)	n/a	0.6% of project revenue
Socio-economic development (SED)	1% of project revenue	1.5% of project revenue

Source: WWF (2015)

Early successes of REIPPP

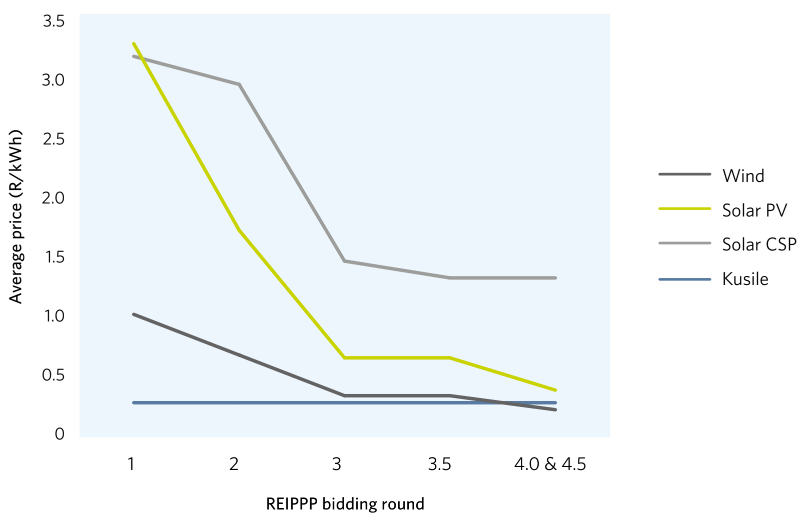
It is widely recognised that the above development and investment outcome reflects a major success for the programme. Initial concerns regarding the availability of interested bidders were swept away by the overwhelming response to the programme. The initial briefing on Round 1 saw more than 500 participants, and the ultimate bid winners met the conditions in terms of supply and mix of generation type. REIPPP's success offers a number of lessons for future collaboration between the public and private sectors. This success is the result of a vast and complicated range of factors, of which three are particularly important.

High tariffs

The first factor concerns the basic economics of the programme. REIPPP was introduced at a time when many of the most difficult development phases of renewable energy development had already been completed, largely at other countries' expense. Efforts by countries like Germany, which was an early adopter of renewables when renewable energy was clearly still more expensive than alternatives, had led to investment in the global industry, and rapid development in the productivity of the technology. The result was a rapid reduction in renewable energy costs. Such was the speed of transformation in solar and wind energy that the South African government's initial plan for renewable energy barely contained the two sources and, instead, focused on energy generated from sugarcane bagasse, tapping into the hype of the biogas industry of the time (Eberhard et al. 2014).

Low generation costs were complemented by generous tariffs offered by the initial renewable energy programme. The first iteration of the programme, the REFIT, offered a very generous 3.94 R/kWh for solar photovoltaic (PV), compared to a Megaflex rate (a measure of Eskom's energy costs) for the same year that ranged between 1.40 R/kWh and 0.13 R/kWh.[13] The initial rate was calibrated to bed-in the industry, and required that the government accept much higher energy costs than traditional sources like coal. This pattern of high tariffs was carried over to the REIPPP. While each round saw declines in the average cost of energy, the first round tariff for solar PV was 4.5 times greater than the estimated cost from the new-build Kusile coal plant, while the rate for wind was 1.8 times higher, as can be seen in Figure 6.4.

Figure 6.4: REIPPP average prices (R/kWh)



Source: *Department of Energy (2015)*

While the REIPPP probably did require these high feed-in tariffs to essentially create an industry, the high cost of the programme would not represent a successful model for government policy more generally. Using high government incentives is a viable option for industries that require additional support for an initial period, but persistent high tariffs would simply represent a misallocation of industrial resources. From Eskom's perspective, renewables represented a more expensive generation option, particularly in the early rounds, and were not adequately positioned to provide energy during the crucial peaking periods that were the cause of load-shedding. The utility argued that 'the exorbitant Renewable Energy Independent Power Producers Programme (REIPPP) tariffs from bid windows 1 to 3.5 continue to be unaffordable and require a revised funding model that does not prejudice the consumer'.

Structure of the public–private partnership

Much is made of how to structure various PPPs, and it certainly is important. However, it should be noted that the basic economics detailed above are likely to be the decisive factor. Nevertheless, structure matters, and a number of factors helped the REIPPP to compete.

The programme was run through the Department of Energy, an important development in the first place, given that it moved direct control away from Eskom, which continued to have doubts about the costs involved in the programme. The department itself has deep problems – having been plagued by capacity restrictions, frequent changes in executive leadership, fragmentation of regulatory capacity (largely shared with NERSA), and accusations of state capture, and may have elicited some concern about embedding the process in a political department. This was circumvented largely by the establishment of a semi-independent ad hoc PPP unit for the programme. The project office was staffed by a range of PPP and energy professionals, with the credibility of the team going some way in avoiding the distrust that is characteristic of many government-business relations. In addition, the PPP unit was well capacitated by an R80 million loan from the Development Bank of Southern Africa (DBSA) and a further R100 million commitment from the National Treasury in 2011. The funding allowed the avoidance of many of the core barriers facing projects that stall because of a lack of project preparation funds. The sum of these structures was a body that was more credible, more agile and less dependent on lengthy processes of approval from state-owned enterprises and other government departments.

Project design was complemented by clever financial design. The programme was already an attractive target for financing, with winning bidders effectively guaranteed a reliable source of income. The key to unlocking this finance was the credibility of the power purchase agreements. This was achieved by the Department of Energy underwriting the Eskom contracts and guaranteeing that they would be paid even if Eskom were to default on its obligations. The programme also still benefits from Eskom's exemption from some of the stricter procurement processes required for government tenders. This facilitated the crowding in of a large amount of private funding, with local financiers providing the bulk of funding for the projects. As Eberhard et al. (2014) note, 'the majority of debt funding has been from commercial banks (ZAR 57 bn) with the balance from Development Finance Institutions (DFIs) (ZAR 27.8 bn), and pension and insurance funds (ZAR 4.7 bn)'. The private funding itself played an important role, since bidders were required to submit letters proving that they had acquired adequate funding. Obtaining these letters meant that banks were incentivised to complete extensive due diligence on the projects, and effectively outsourced this task to the private sector.

Context factors

Beyond the basic attractiveness of the tariffs, and the structure of the project, a number of context-specific issues assured the success of the REIPPP bidding rounds. First, there were extremely pressing energy demands with the load-shedding threat looming. With Eskom scrambling to improve generation capacity, and being forced to run extremely expensive diesel-power stations just to fend off a system shutdown, any available additional capacity would have been welcome. Renewable energy was especially viable for the demands of that moment, with most projects able to be scaled up far faster than traditional generators like large coal plants. A programme that promised to rapidly alleviate some of the strain was too good to miss.

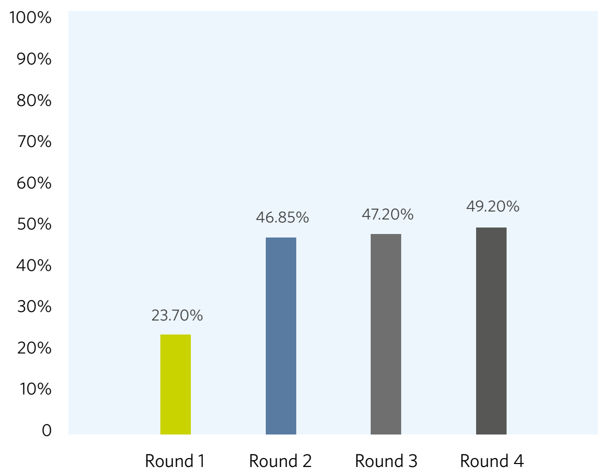
Second, the South African economy was still enjoying good times. While the global financial crisis had hit in 2008, the spillover effects were yet to be fully felt in South Africa. Large energy users like the steel industry and the mines were still healthy, and there was a lack of understanding of their impending decline, sparking concerns that energy demand would continue to grow apace.

Finally, the programme coincided with a powerful moment for the global renewables market. Growing competitiveness of the technology combined with a number of policy initiatives to foster a global boom in renewable energy. There was rapid rollout of high renewable feed-in tariffs in many developed countries. Others (notably China) offered massive manufacturing incentives. Further, there was also growing political pressure for green transformation, both domestically and in international agreements such as the Paris Agreement. South Africa's programme took off as that boom was cooling in other parts of the world, and firms were looking for new markets to supply. The REIPPP was a welcome opportunity for many of them.

Concerns and the future of REIPPP

While the results of REIPPP are impressive, there are some immediate concerns that are worth raising. First is the underutilised local procurement component of the programme. This is by no means an outright failure, as renewable components were eventually designated for local procurement, and there was a large share of local value in all the projects (see Figure 6.5).

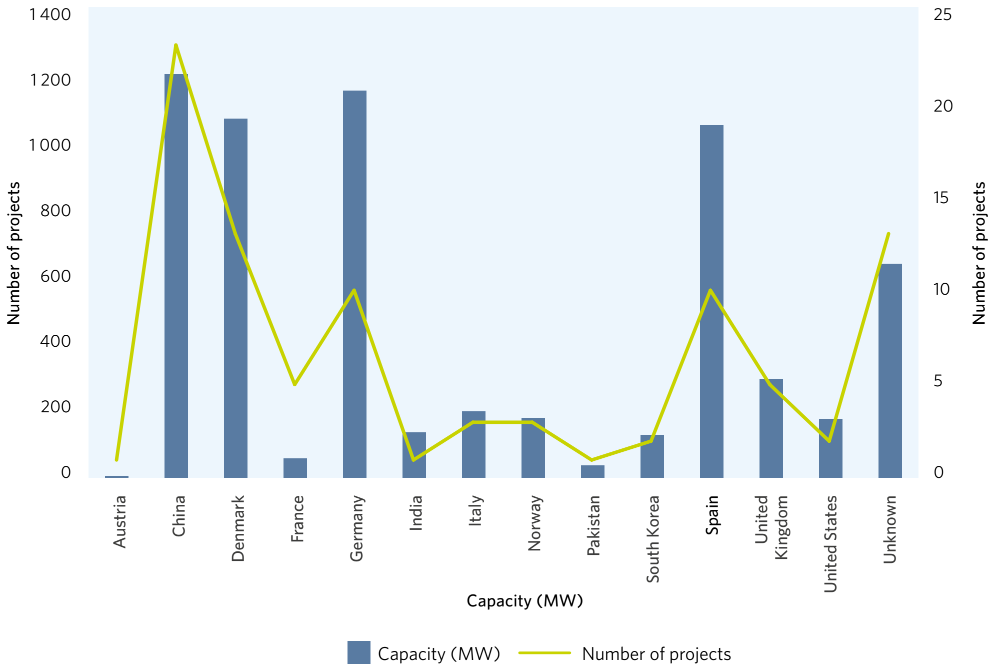
Figure 6.5: Local content share of value of projects by bidding round



Source: *Van der Merwe (n.d.)*

Nevertheless, as can be seen in Figure 6.6, the technology for the various projects was sourced overwhelmingly from abroad. Much of the local content, therefore, went to either simple assembly or basic parts, with more complex aspects of production, such as solar panel modules, not being manufactured locally. This meant that local capacities were not built to the extent it was hoped they would be when the programme was launched. The result is a programme that certainly created local benefit, but perhaps had an under-realised spillover effect in terms of guaranteeing technological development and creating an independent local industry.

Figure 6.6: Country of origin of renewable technology

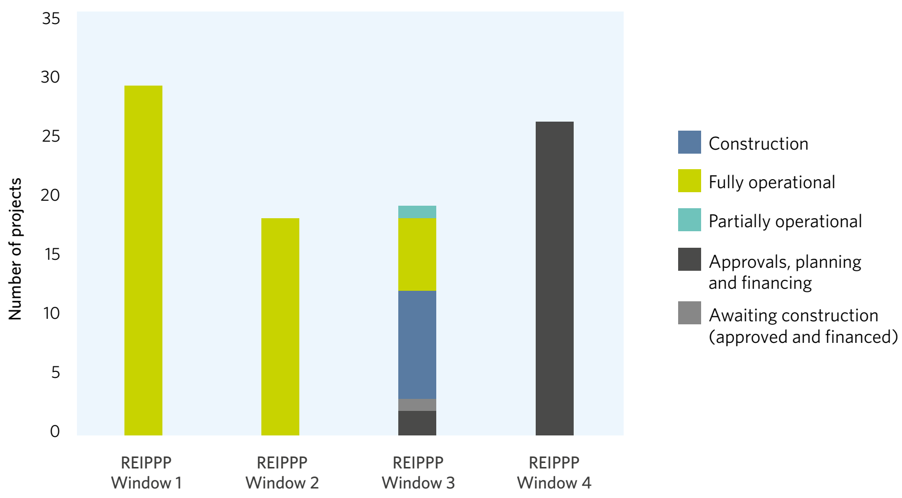


Source: *Author's calculations based on REIPPP Projects (2016)*

Second, are concerns about the cost of energy. As mentioned above, the first round tariff was particularly high, and locked Eskom into procurement deals that were more expensive than alternatives. Perhaps, this explains the build-up of resentment at the public utility. While this declined over time, these costs cannot be ignored. In a sense, this higher tariff is not a failure, but rather a necessary cost borne to bed-in a new industry, with new and rapidly evolving technologies. Early adopters face such necessary costs to bed in the technology, and while later adopters, to some extent, can free-ride on this initial investment, it is particularly difficult to judge when exactly a technology is mature enough to be procured without these development costs. Wait too long, and the efficiencies offered by renewable energy can be missed; strike too early, and the installed technology can be expensive, inefficient and unreliable. Nevertheless, the end tariff used for many of the bidding rounds is high, and the cost is real, representing both the risks and benefits of PPPs. Private firms, faced with uncertainty as to technology and costs, probably would have held off on early installation of renewable capacity. The state's industrial policy and energy efficiency considerations make the calculation quite different for them, but it does mean that the costs involved in the rollout of renewables are higher than might otherwise be the case.

Third, there were some problems with the rollout of the programme after the bidding round. While the first two rounds' projects advanced rapidly – achieving connection to the grid and financial close in 335 days for Round 1 and 353 for Round 2 (as can be seen in Figure 6.7) – there have been much more substantial delays for Rounds 3 and 3.5. This mirrors broader concerns about the state of the distribution network, given the overwhelming focus on expanding generation capacity, in light of load-shedding. Supplementary concerns also limited the impact of the REIPPP, notably the rollout of energy storage programmes. While Ingula, a pumped storage programme in KwaZulu-Natal, did come online in 2016, earlier rollout of similar initiatives could have made REIPPP a more useful provider during the periods of peak energy demand in early morning and late afternoon.

Figure 6.7: REIPPP projects by construction status



Source: *Author's calculations based on Energy Projects Database, http://www.energy.org.za/knowledge-tools/project-database*

These concerns are relatively minor. The benefits generated by the programme naturally come at a cost but, in effect, they still have created a new industry, and started the difficult process of radical change in the electrical mix. None of these difficulties is insurmountable. The major problem has to do with the standoff between REIPPP and Eskom.

The trouble started in August 2016, when rumours emerged that Eskom had approached the Department of Energy for talks on the future of the REIPPP.[14] Eskom officially declared that it had no position on the programme, and would do as the Department commanded; however, doubts were growing.. These concerns were seemingly confirmed in October 2016, when Eskom officially announced that it would not sign the already accepted bids from Round 4 of REIPPP, with an initial delay pushing signature of the contracts back to 31 March 2018.[15] The 37 IPPs that were to be delayed could inject R58 billion into the economy (both directly and through spillover benefits).[16] In addition, the delay derailed the 5th bidding round. While Eskom initially claimed that their refusal to sign the contracts was due to liquidity concerns, Eskom's head of generation (and currently interim CEO) Matshela Koko quickly came out with a more substantive argument, claiming that renewables are simply too expensive.[17] Koko went further to assert that the rising energy price is partly due to the rising costs of renewables, even though much of Eskom's tariff request is based on the massive costs of their coal build programme. Eskom has since hardened its position, and is determined not to proceed with the REIPPP, despite coming under significant pressure to do so.

The Department of Energy has repeatedly clarified that Eskom must sign on the bid winners, with Minister Tina Joemat-Pettersson reiterating this most recently on 1 March 2017.[18] In his State of the Nation Address, President Zuma stated emphatically that 'Eskom will sign the outstanding power purchase agreements for renewable energy in line with the procured rounds'.[19] Renewable energy producers announced they were taking matters into their own hands, and threatened legal action if Eskom refused to sign off on the contracts.[20] In the meantime, Eskom's position was further muddied by the loss of yet another CEO, with Brian Molefe's resignation. In addition, the issue has taken on an increasingly political tone, with coal-truck drivers blockading the City of Tshwane in protest against renewable energy.[21] This was followed closely by an Eskom announcement that it would speed up plans to close four coal-fired power stations, blaming the need to make space for renewable generation.[22] The announcement was long planned, and does not alter Eskom's intention to expand the overall role of coal in the energy mix, and to add nuclear generation; but it did succeed in further politicising the issue by eliciting condemnation of the closures by COSATU[23] and NUMSA.[24] Most recently, Eskom has threatened to trigger the government guarantees on its renewable contracts, shifting the costs of the projects onto the Treasury.[25]

Over the course of nine months, the REIPPP has gone from being the darling of public–private collaboration, to being on the verge of collapse. The startling turn-around raises the question: What happened? The problem is the result of a complex mix of factors, many of which are muddied by the complexities of politics and the management of an unwieldy bureaucracy.

The clearest driver has been the surprising drop in energy demand for the broader South African power grid, leading to Eskom accumulating excess capacity. Energy demand went from the need for extensive load-shedding to excess generation. This is the result of both demand-side management, through energy efficiency initiatives, and from the weakening of the economy. Load-shedding itself demanded substantial changes for energy-intensive users, with the steel industry, in particular, either shedding capacity or converting to gas-based boilers. The explanation is, however, incomplete. It would be understandable if a large-scale shift in demand resulted in a reconsideration of the country's energy plans, but renewables alone seem to have been identified as in need of change. Eskom maintains its plans for huge expansions in coal, gas and nuclear power; and it is unclear what is driving the growing opposition from within Eskom to renewables, in particular. One possible explanation is that other industries, such as nuclear, are being promoted because of the political support they have received.

The stand off between Eskom and the Department of Energy is one example of how politics and weak institutional mechanisms on the part of the government can undermine even well-thought-out PPPs. The mismanagement of REIPPP raises political risk concerns, and undermines the government's credibility. While it is easy to identify Eskom as a problem, and to call for radical reform of the utility and of the structure of energy provision in the country, policymakers have to make decisions on the basis of the environment in which they find themselves. For the time being, at least, Eskom is a fixed reality in the South African energy space, and cannot be avoided. Lessons drawn from the showdown, therefore, need to take the current institutional or structural features as fixed, and plan around them. There are clear limits to this. If Eskom continues to defy its political principals, there is little that can be done without substantial intervention. If politics prevent this from happening, the situation is unlikely to improve.

Policy lessons

A number of lessons can be drawn from South Africa's REIPPP mechanism. Five are particularly important.

First, the government may not have full control of how PPPs are managed. There is an inherent problem of understanding causality when judging government policy. The success of REIPPP was partly driven by government policy, but a lot depended on a confluence of factors that fell right for the programme. These included major concerns such as load-shedding, which led to the build-up of support for additional generation. Major booms like rapid technological progress can create incentives for the adoption of independent power producers. REIPPP succeeded because it was well set up, both technically and legally, but even then it might have failed had the technology stalled or had coal power remained sufficient to power the country. PPPs need to be flexible enough to adapt to such changing circumstances, and they need to be formed at the right moment. If REIPPP had come about too soon, it would have locked the government into very expensive energy costs; if it had come too late, it probably would have been undermined by Eskom's new-build programme. Timing was crucial and, for many factors, very hard to judge.

Second, there is a need to maintain a balance between incentives and overspending. The mass take-up of REIPPP by the private sector was facilitated by the programme offering very large returns for firms; the power purchase agreements were especially attractive. This points to a challenge for PPPs: any programme can succeed with enough money and commitment from the government. However, government support is not sufficient to create lasting benefits. The government needs to carefully consider the benefit of programmes like REIPPP against the costs of cheaper alternatives, and has to constantly look for other innovative ways of securing access to energy supply at an affordable price. There remains a lack of clarity as to what such a calculation would look like. It is not simply a matter of finding what is cheapest, since programmes like REIPPP offer many complex benefits in the form of job creation, environmental protection and diversification of the energy grid. Building a methodology to grasp this issue in a transparent and flexible way would assist in building PPPs that do not come at the expense of large subsidies for private sector participation.

Third, commitments must be guaranteed. Issues related to finance as well as to support of bidders are clearly important, but most of these challenges can be overcome if there is sufficient indication that the government's commitment will be sustained. In the case of REIPPP, the trust the private sector had in such commitment to the programme facilitated a large role for the financial sector, both in direct financing and in terms of working with projects to prepare their bids. The commitment is strongest when it is underwritten by a government department rather than a state-owned enterprise, since the legal responsibility then falls on an agency that is sure to be able to pay. Legal commitments do need to be flexible, to avoid being locked into unfair agreements and to avoid such commitments being abused; nevertheless, guarantees are essential.

Fourth, benefit-sharing helps to hedge political bets. Beyond legal commitments,

6

ensuring that PPPs are supported by multiple state stakeholders can hedge the risks involved in dealing with such programmes. In the case of REIPPP, the delayed introduction of local content provisions for renewable energy meant that there was less of a local manufacturing base with a vested interest in the programme. Nevertheless, the later provision of such requirements brought in the likes of the Department of Trade and Industry as a supporter of the programme, and created the type of broad-spectrum political support that is vital to assuring continued faith in the government's commitment.

Finally, PPPs cannot be completely divorced from the prevailing politics of the day. Despite the legal protection underpinning the REIPPP, a programme of this nature cannot be unaffected by the political context in which it operates. Ultimately, the prominence of Eskom, both in the energy sector and in terms of its vast political influence, could not be ignored. Even commitments from the highest level (the president in the State of the Nation address) have yet to see Eskom sign the remaining Round 4 purchase agreements. While it seems likely that the agreements will ultimately be signed, the opposition from the utility does threaten to put an end to the REIPPP for the time being. While political circumstances may still change, there is realistically little that could have been done to avoid Eskom from being in this position. Long-term changes, like restructuring the energy grid, might have been able to alter this scenario, but that is not a realistic consideration for a policymaker needing to roll out a programme in the short term. Political risks of this sort are as inherent as is basic counterparty risk when working with other firms, and must be dealt with through risk management systems in a similar way. PPPs should acknowledge this inherent risk (as private firms should in all their dealings), and build adequate buffers and insurance systems to prevent them undermining faith in the programme.

Conclusion

PPPs are often discussed as a distinct phenomenon, a new approach that can radically change how governments and businesses cooperate to address development needs. In reality, the type of relationship witnessed in PPPs is an unavoidable part of policymaking in a market economy. It is inconceivable for a government to develop an electrical grid – or undertake industrial policy, education policy, or health policy – without cooperating with the companies that provide the technology and expertise to make public plans a reality. The benefit of explicit engagement with PPPs is in allowing for greater thinking on how we structure that inevitable relationship, and in directing it towards the most socially beneficial outcome. The REIPPP went a long way towards demonstrating how powerful that could be. The programme transformed a single aim – sourcing electrical power – into something that could build new industries, develop new technologies and move the economy onto a more sustainable footing. In the structure of the PPP, the government can direct the actions of the private sector. This can be used to good ends, but it also exposes these programmes to the complexities of politics, and sets of aims that are not always just about maximising the public interest. If PPPs are to offer a role to channel the private sector towards improved development outcomes, the public aspect of the relationship must be open, transparent and held to rigorous account.

ENDNOTES

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2016 Transformation Audit

Opportunity for change: The private sector's role in inclusive development

This year's edition underscores the need for two key social actors – business and the government – to pool their collective resources and forge a new consensus for long-term social and economic change. This, in all likelihood, will require a strengthening of mutual trust, as well as the setting aside of vested interests that impede the alignment of resources in society. In the South Africa of today, the business of business cannot only be business.

This publication was made possible by the generous project funding from the Open Society Foundation – South Africa (OSF-SA), as well as continued support from core donors: the Embassy of Finland in Pretoria, the Swedish Development Cooperation Agency (SIDA) and The Royal Norwegian Embassy in Pretoria.

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