



THE FUTURE OF SOUTH AFRICA

AN ECONOMY POISED FOR GROWTH



EXPERTS WITH IMPACT



Foreword	4
Executive summary	6
South Africa: An economy poised for growth	8
Looking forward: 2019 and beyond	40
Conclusion	64



South Africa faces a watershed moment. Against the backdrop of political uncertainty, subdued economic growth and major challenges such as unemployment and an energy crisis, our country faces a choice. This choice - between a high road to sustainable growth and prosperity or a low road to slow economic erosion - will determine the future of South Africa for generations to come.

FTI Consulting's 'The Future of South Africa' report explores the emerging trends in the South African economic and business landscape as we head towards this critical juncture.

The aim of the report is to provide insight into whether the mixed mood prevailing across sectors in our economy is one based primarily on emotional and subjective factors, or on objective information and hard data.

We have combined our expertise in economics, public policy, corporate finance and strategic communications to provide an independent assessment of the state of the South African economy. In addition to this we have engaged with some business leaders for their perspectives. They provide an interesting range of views of what is required for the success of South Africa post-election 2019 and beyond.

The report demonstrates that there is a gut feeling amongst many businesses that the stakes are high. Yet, in true South African spirit, there remains a sense of determined optimism. Finding solutions to South Africa's challenges will require compromise and a meeting of minds between public and private sector players.

The report identifies several enablers that will determine whether South Africa can boldly take advantage of growth opportunities, and re-ignite economic growth. It is hoped our research will assist organisations to identify and select areas of focus that can help them to position themselves to help contribute to South Africa's future growth.

FTI Consulting has made the deliberate decision to invest further in South Africa, expanding our operations in Cape Town and Johannesburg and broadening our services. Our message is clear: we have decided to invest in South Africa because we believe in the long-term outlook, despite many of the more immediate challenges.

The report highlights that there is a desire and willingness of South Africans to work together to build a more positive future for the country. Time will tell whether as a country we are able to address and harness the enablers of the future and find solutions to the challenges that will define the next decade.

Petrus Marais

Senior Managing Director and Head of the South Africa Practice
FTI Consulting

As the economic powerhouse of the continent, South Africa is the logical location for the regional headquarters of FTI Consulting and our bridgehead into Africa. Due to its international transport connections combined with its sophisticated financial and business services sectors, South Africa's increasingly diverse economy attracts companies of local, regional and international importance.

FTI Consulting in South Africa has a team of professionals located in our offices in Johannesburg and Cape Town. We entered the South African market in 2005 and currently offer the following services — Strategic Communications, Economic & Financial Consulting, Forensic & Litigation Consulting, Technology and Corporate Finance and Business Consulting.

Our South Africa team has a broad range of experience and has provided solutions to clients in a number of sectors — Banking & Financial Services, Energy, Information Technology, Telecommunications, Healthcare, Pharmaceutical & Life Sciences, Mining, Agriculture, Transportation and Retail & Consumer Products.



EXECUTIVE SUMMARY

South Africa is entering a growth phase and business confidence is cautious but improving

The South African economy is in sync with the global economy. South Africa has experienced the same upward and downward economic cycles as the rest of the world for the past 25 years. The probability is that we will continue to do so, and we are entering a phase of renewed growth. Our economy experienced growth from 1994 to 2007 and this was then stalled by the global financial crisis in 2008/9. As South Africa began to recover, global commodity price decline struck in 2011/12. Although South Africa mirrors world growth, there have been some differences. South Africa experienced less pronounced declines in the late 1990's and early 2000's, South African growth rates have recovered less strongly from the 2009 global financial crisis compared to the rest of the world. Now the economy has entered a new phase of growth, which began in 2016/7. South Africa is currently forecast to accelerate its growth rate from 1.2% over 2014-2018 to 1.7% over 2019-2023.

There is a growing sentiment across business leaders of renewed but cautious positivity about the future. Business confidence in South Africa rose from 2017 to 2018. This was accompanied by a rise in foreign direct investment to 2.25% of GDP, with significant parts of this investment being in capital intensive and manufacturing sectors which are conducive for job creation. Although this sentiment is by no means uniform, it marks a turning point in the South African narrative. We seem more confident in our ability to realise our country's potential and at the same time are open and realistic about the issues we need to face and overcome.

South Africa needs higher growth rates to address our unemployment, poverty and inequality issues

Over the last decade, the total number of people employed in South Africa has increased by 13%, with job creation in areas such as construction, financial services and social services. However, unemployment is high, rising from 31% in 2008 to 37% in 2018, particularly impacting youth and rural areas.

South Africa has made significant progress on improving the well-being of its population, with poverty declining by over 10% in the last 10 years alone. However, 14 million people are still living below the level at which they can afford basic food supplies.

South Africa is the 2nd most unequal country in the world. The inequality is apparent between urban and rural areas, between age groups, those with or without jobs, across race and gender and in standards of housing, health and education

Our issues are persistent, have history and are complex. However, we are making progress on these issues and they are solvable. Growth will play an important part in addressing these issues but will not fix these issues alone. Targeted programmes on skills development, education, supporting small businesses and additional investment and infrastructure development are just some of the levers to be used.

There are several transitions taking place in our country which influence our future growth path

The population of South Africa is urbanising, and at one of the fastest rates in the world. Over half of South Africans now live in urban areas and it is forecast that over 70% will be urbanised by 2030 and 80% by 2050. Urbanisation brings opportunities for greater social and cultural integration. It brings more job opportunities and better access to health and education for those who move. Infrastructure in our cities and towns will need to transition to support the corresponding demands for housing, transportation and utilities.

South Africa has become a service driven economy. The services sectors (e.g. financial services, community services, trade, communications) accounted for 69% of GDP in 2017. Over the last decade, the country has been deindustrialising, whereby there has been a relative decline in the contributions by manufacturing, mining and utilities. Whilst the services sector is positive for a transition to a knowledge-based economy, the producing sectors need to be revived due to their strong employment multiplier effect and ability to lift sections of the population out of poverty.

The march of globalisation and technology bring potential gains and pains to South Africa. The benefits of globalisation can drive further inequalities as the share of capital income relative to labour income is rising. Globalisation also provides trade opportunities and drives us to be more competitive. The 'fourth industrial revolution' increases automation and computers increasingly analyse and use data without human intervention. This changes the future of jobs, the nature of education and how we select which sectors South Africa wants to be globally competitive.

Energy transitions are taking place across the world towards the decarbonisation of energy and the use of renewables. Electricity is playing an increasing role in energy systems, as can be seen in the rise of electric vehicles for transportation, batteries and heat pumps for buildings and industrial use. Additionally, change is taking place in the way electricity is being generated and supplied. Electricity is increasingly being generated from renewables such as wind and solar marking a move of renewables from the periphery to a more dominant share of the energy mix. The days of having a monopoly utility provider as a business model are outdated.

There are five catalysts for growth:

1. **Creating policy certainty would support economic stability**

Policy certainty creates a friendly business environment which promotes commitment and investment in the country over the short and the long term. In recent years investment has been highest in capital-intensive sectors such as mining and quarrying, transport, storage and communication and electricity, gas and water. These are all sectors currently experiencing levels of policy uncertainty, emphasizing the importance of stabilising South Africa's fiscal and regulatory frameworks to attract and sustain investment.

2. **Developing skills and more jobs for now and the future**

Our investment in human capital needs to increase. Taking a multipronged approach of prioritising growth in labour intensive sectors (e.g. agriculture, construction); providing people access to quality, lifelong education to meet the increased demand for skilled workers; and rebalancing our skills towards the jobs of the future such as the encouragement of science, technology, engineering and mathematics disciplines.

3. **Continuing focus on attracting investment**

Investment in South Africa declined between 2014 and 2017, but this trend was reversed in 2018, with a substantial increase in Foreign Direct Investment (FDI) to 2.25% of GDP. The investment drive plus creating the right environment for more private sector investment is likely to be a growth driver.

4. **Encouraging industrialisation to re-invigorate manufacturing and other industrial sectors**

These are drivers of job creation, infrastructure development and improvement of South Africa's trade balances. Putting in place higher impact industrial policy which encourages industrialisation and investment in manufacturing industries will be important. To this end, the Public Private Growth Initiative has identified 19 sectors in the economy to make interventions as required to accelerate growth in these sectors to increase their GDP and employment contributions to the economy.

5. **Ensuring a sustainable energy supply is the lifeblood of the economy**

The recent Brulpadda gas discovery motivates further resource exploration investments and creates the potential for gas to be used for conversion to liquid fuels and power generation. With renewables now being the lowest cost option for new power generation in South Africa and the intent to restructure Eskom, the country could be on a path to minimise the cost of energy and find a long-term solution to its power disruptions.

The country is entering a new phase of growth coupled with a renewed willingness to work together. There has been an erosion of trust in South Africa. Perceptions of government putting party over state; companies putting profits before people; individuals putting self over others; and the magnification of our differences over our similarities are manifest. The recent reframing of the partnership between the public and the private sector is a step in the right direction to fulfil South Africa's potential and tackle the issues head on.

SOUTH AFRICA

AN ECONOMY POISED FOR GROWTH



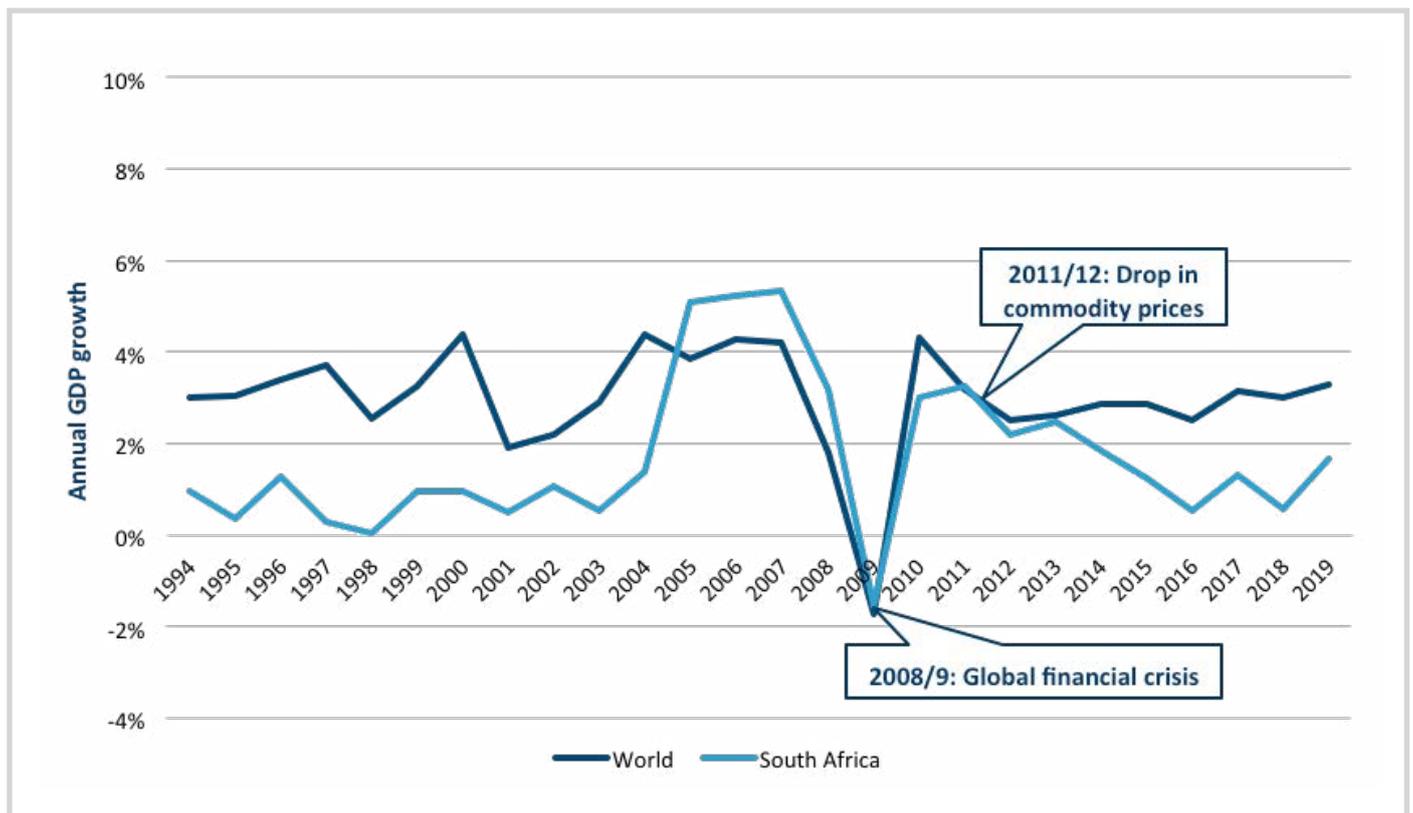
South Africa's growth mirrors global trends

The South African economy is broadly in sync with global economic growth cycles over the last 25 years. South Africa experienced less pronounced declines in the late 1990's and early 2000's but has been recovering less strongly from the 2009 global financial crisis compared to the rest of the world. This is in part due to political instability and the global decline in the prices of commodities which are key exports for South Africa.

South Africa experienced a 0.8% rise in GDP in 2018, compared to a 3% rise globally and a 4.2% rise across other developing economies.

It is the pace of growth which requires focus. Given the recent technical recession in 2018, it is understandable to be cautious and even pessimistic about South Africa's growth prospects.

Figure 1: Annual GDP growth, South Africa and the World



Source: World Bank national accounts data, and OECD National Accounts data files; Statistics South Africa – P4141, FTI Consulting analysis



Adrian Gore
Founder and Group Executive
Discovery

South Africa faces real challenges. GDP growth is at -0.7%; 50% of those aged 15-35 are jobless; we have a bloated public-sector wage bill and a hefty budget deficit to fill; and tragic inequality. But I believe there is room for positivity - not in spite of these challenges, but because of them.

We don't see our country's progress. The fact is, South Africa, like the world, is a fundamentally better place as time progresses. Our GDP is 2.5 times the size it was in 1994 on a dollar basis; formal housing has increased by 131% from 1996 to 2016; new HIV infections are down 60% from 1999-2016; and the murder rate per 100,000 is down 50% from 1994 to 2017.

Gloom and doom is misplaced. Not only are South Africans gloomy about how the world has changed and what the future holds on a broad range of issues, they're also confident in their erroneous perceptions! In a recent survey they gave the least accurate guesses of where the figures on global and national development stood - out of 28 countries.

A 'declinist' view has real and dangerous consequences which impede our progress. As South Africans, we suffer from a declinist view of our country - a persistent and pervasive public pessimism. The major flaw in this narrative is the failure to distinguish between absolute and relative changes: relative decline is interpreted as absolute decline.

Our country is larger and more relevant than we think. Our provinces square up against entire countries in terms of GDP: Gauteng is bigger than Kenya and Ethiopia, and the Western Cape is almost the size of Ghana. We're ahead of other regions when it comes to stocks traded. Our economy is substantial: in terms of stocks traded in 2017 (USD bn), South Africa trumps the Middle East and North Africa region, Singapore and Norway; and holds 82% of the pension fund assets in Africa, 18 times that of its second ranked peer, Nigeria. This is in spite of Nigeria's GDP being larger than our own and their population being 3.4 times larger than ours. This is important structurally, these long-term savings are invested into government and corporate debt and company equity, driving growth.

Business can grow here. Our market also enables massive companies to be built. Discovery's revenue footprint (including Discovery Health Medical Scheme) is more than half that of Mauritius; and both Standard Bank and FirstRand are bigger than all Nigerian banks combined on a Tier 1 capital basis.

Our myopic obsession with the problem of the day blinds us from recognising our progress. Pre-2005, the issue was HIV/AIDS. Then we experienced crime in the early 2000s followed by xenophobia in 2008, and the Eskom power crisis and labour unrest thereafter. In the past few years - Fees Must Fall, State Capture and land expropriation have occupied the public's attention as the issues signalling our impending demise. It is precisely because these problems change, that they cannot be intractable. I'm not minimising these problems, they are tragic and need to be solved. I'm making the point that we have the ability to gain traction on these issues, albeit at times in a messy way.

When we think in a declinist way, we start perceiving our country and its economy as risky. We avoid investing, when the opposite should be the case. South Africa has a relatively stable economy, as seen by its GDP growth which is the lowest in volatility when compared against BRICS peers over 1994-2017. This suggests that we misprice risk and miss opportunities.

The gap between perceived and real risk needs to be addressed. If we consider South Africa as a 'company', we can then use GDP as a proxy for the 'revenue' of the country, and the currency exchange rate as an indicator for the 'share price'. If we then take the standard deviation of our currency over the standard deviation of our GDP - South Africa has the consistently highest ratio over time relative to its BRICS peers over 1994-2017. This suggests a profound gap between perceived risk and real risk.

The fact is, South Africa, like the world, is a fundamentally better place as time progresses.

Economic growth is necessary to address serious challenges. I believe our country has remarkable potential, but we need to deliver economic growth - vital to addressing our serious challenges of unemployment, poverty and inequality - and to delivering real improvements to quality of life.

Counting the cost of the past 10 years. Looking back, had South Africa mirrored the rate of global or emerging market GDP growth, we could have been 17% or 38% bigger (respectively). The Bureau for Economic Research puts the cost of the last ten years at R500 billion, and the opportunity cost at 2.5 million additional jobs. Our basic calculations show this could have had the dramatic effect of halving poverty.

Attitude drives fundamentals, not the other way around. We have a choice: a problem-centric leadership approach, which perpetuates declinism; or a vision-based leadership approach, which is an antidote to declinism. The latter involves acknowledging our country's progress and creating hope; seeing our problems as real, but soluble, and seeking out positive cues alongside negative ones when reading our environment; and recognising the potential of our economy and investing in it. This is how change happens.

The world economy is growing but the rate is slower than expected

Global GDP in 2018 experienced lower than expected growth of 3%. While economic activity in the U.S. was supported by fiscal stimulus, growth in the European region and Japan decelerated, partly reflecting weaker manufacturing activity as global goods trade slowed. Moreover, growth in several emerging and developing economies was weighed down by financial market stress, as investors became risk averse, turning their focus toward country-specific vulnerabilities amid tightening global financial conditions.

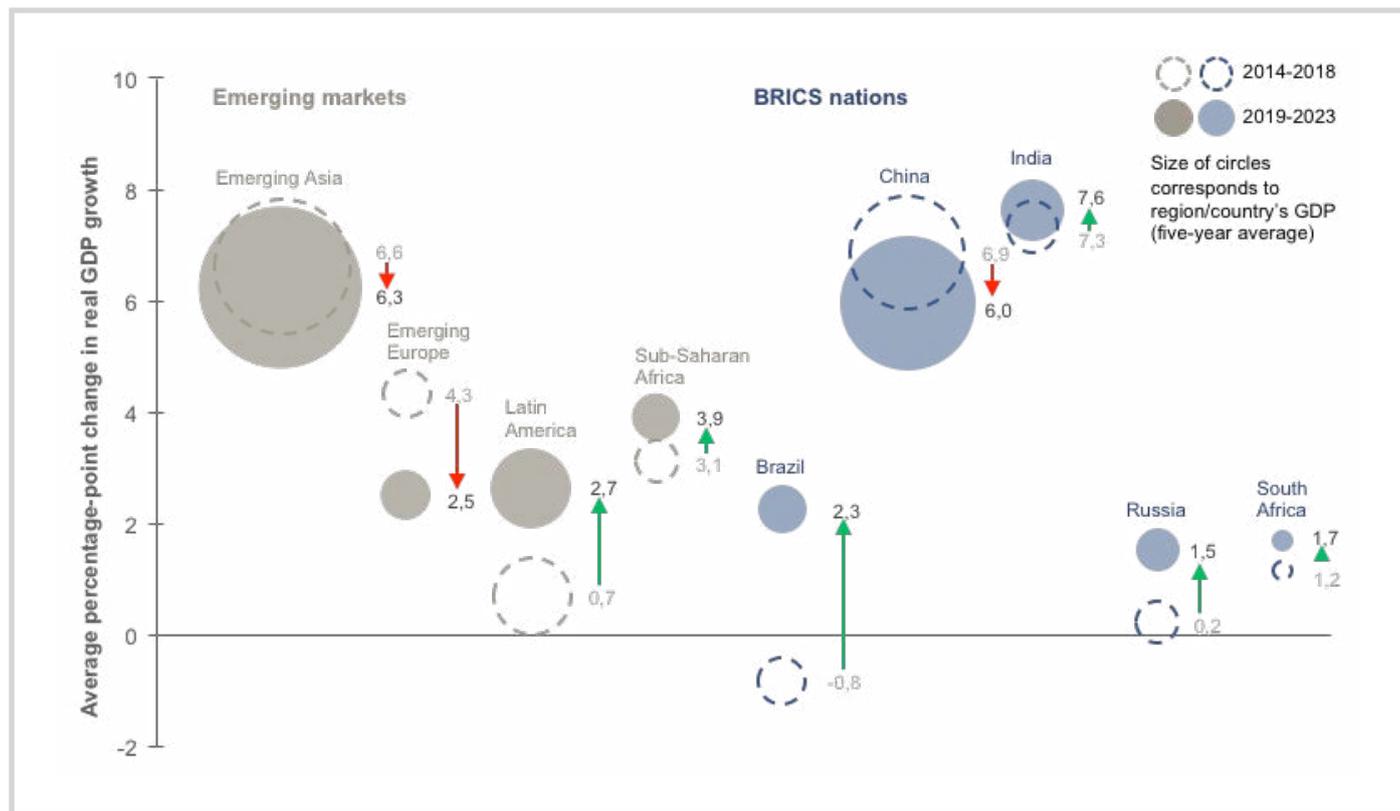
According to the IMF's World Economic Outlook (WEO), global growth should be modest in 2019 and 2020, expected to slow to 2.9% in 2019 and 2.8% in 2020. The projected slowdown in advanced economies outweighs the gradual improvement foreseen in emerging and developing economies. In advanced economies, monetary policy stabilisation through lower spending by government, declining investment growth, and reduced excess production capacity is prompting a gradual slowdown from an estimated 2.2% in 2018 to 1.6% by 2020. Growth in emerging and developing economies is expected to rise from 4.2% in 2018 to 4.5% by 2020, as the cyclical recovery in commodity-exporting countries matures. However, the projected slowdown in advanced economy growth and a reduced appetite for emerging and developing economies' assets will hinder acceleration in emerging and developing economies' growth

South Africa is entering a growth phase, but the growth rate is below the Sub-Saharan Africa growth projection

Figure 2 shows the economic growth prospects for emerging markets, for 2014-2018, and 2019-2023. This illustrates that South Africa's growth prospects have recently been below the growth rate (forecast and actual) in Sub-Saharan Africa. South Africa's slow growth when compared to other emerging markets and BRICS peers – particularly over the last 10 years - has contributed to economic challenges which are largely a legacy of its political and economic history. The landscape has recently been characterised by low growth and low levels of job creation, but significant reform is beginning which is increasing optimism in the economy.

South Africa is currently forecast to accelerate its growth rate from 1.2% over 2014-2018 to 1.7% over 2019-2023, which is positive but this is still not enough to catch up with its peers across the BRICS nations and other emerging markets.

Figure 2: Economic growth prospects for emerging markets and BRICS nations



Source: IMF, World Economic Outlook Database (2018), FTI Consulting analysis
 Notes: GDP based on current prices was used to create weighted markers for the regions. Real GDP growth data from the IMF was averaged for the five-year periods 2014-2018 and 2019-2023.

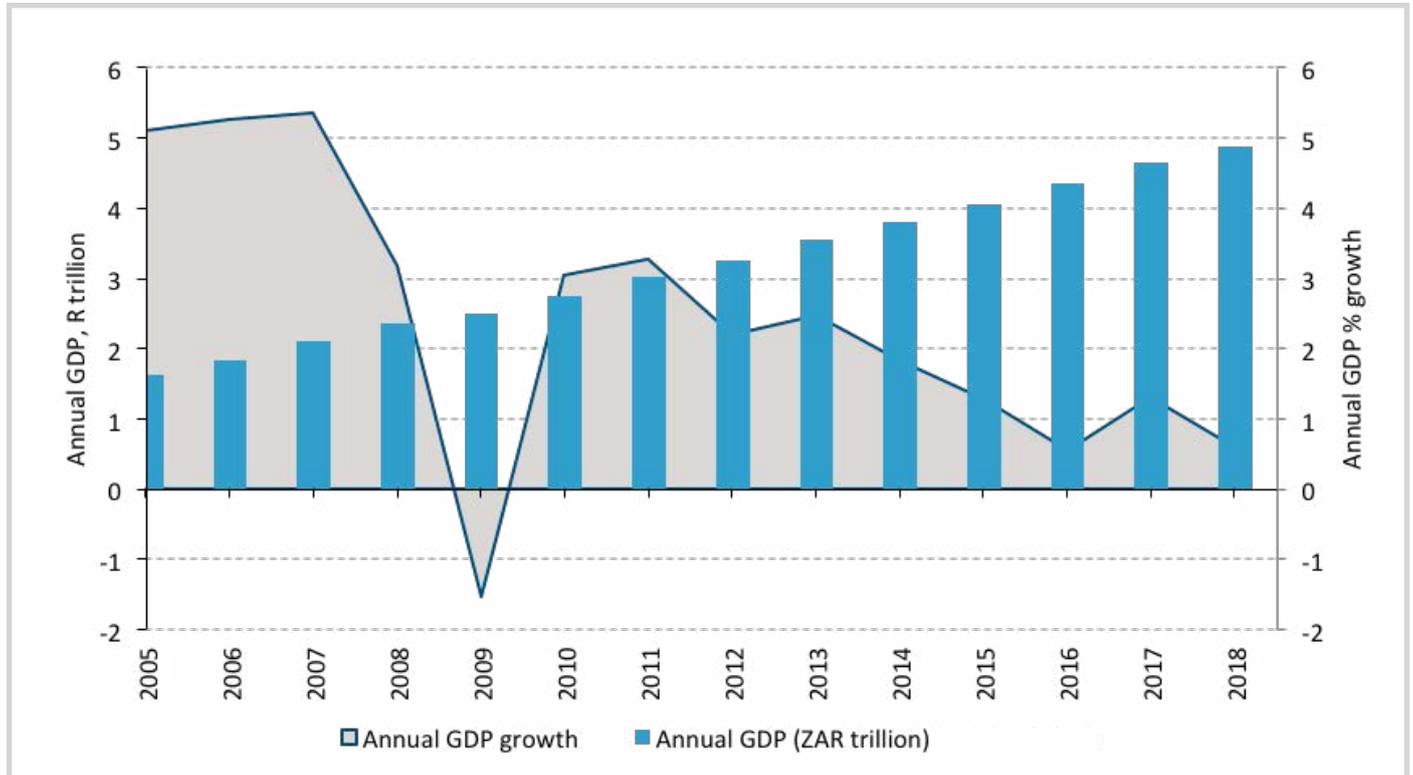
Slow growth since 2015, but improving

Since 1994, a succession of economic policies have been introduced by the government in a bid to restore South Africa's macroeconomic stability, position the country as a global and regional trade partner, and attract foreign investment.

However, systemic issues in the application of these policies over the last decade has meant that the level of inclusive growth to address South Africa's most pressing issues and match global growth rates has not been attained.

Prior to 2015, South Africa's growth rate reached 5% from 2005 to 2007 and recovered to over 3% in 2010 and 2011 after the global financial crisis. However, since 2015 GDP has grown at an average of only 0.9% per year, including two consecutive quarters of negative growth in 2018. GDP has since recovered slightly and is forecast to reach 1.5% in 2019.

Figure 3: South Africa GDP growth performance, 2005-2018

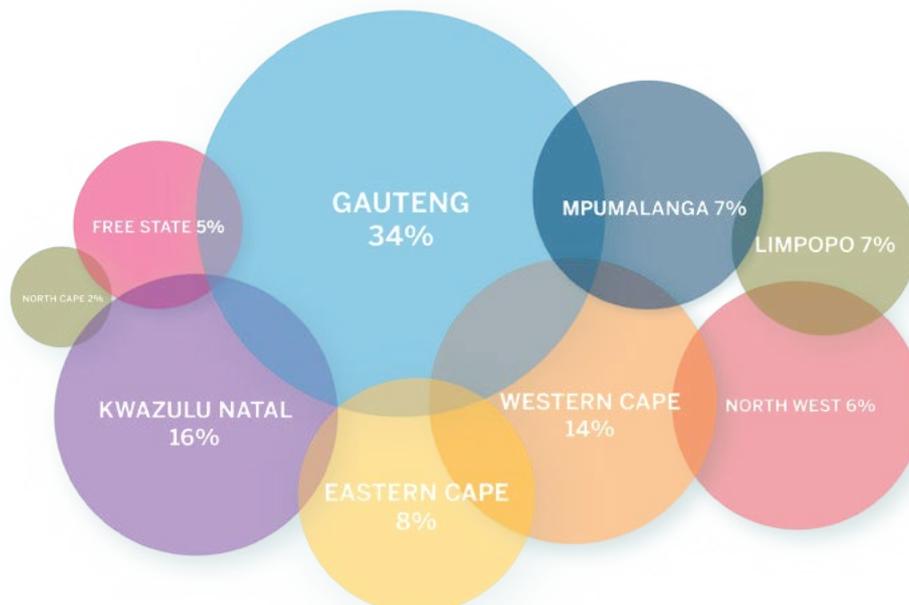


Source: Statistics South Africa – P4141, FTI Consulting analysis
Notes: Based on 2010 constant prices

Growth is concentrated in three regions

Growth in South Africa remains concentrated in regions, primarily in the economic and industrial hubs of Gauteng, Kwazulu Natal and Western Cape.

Figure 4: Gross Value Added (GVA) contributions by province, 2017



Source: StatsSA, P0441
Notes: Based on current prices



Colin Coleman
CEO, Sub-Saharan Africa
Goldman Sachs

Institutional investors are essentially interrogating the same question: what is going to happen after the elections in South Africa? While they have a comprehensive set of questions about every economic factor affecting South Africa and what this means for structural reform, their discussions have unexpectedly been dominated by the outcome of the elections and the implications for economic growth, asset prices and the pace of transformation.

Judgements will be quickly formed on the back of the outcome of the election and composition of the administration. Whether you're a multinational or institutional investor wanting to price assets, currencies, equities or bonds, or whether you are a South African wanting to make personal investments or career decisions, by the end of May 2019, people will have a much clearer picture of the way forward.

Some of the key policy areas I see as critical to growth include: Home Affairs and reforming the visa regime; the Finance ministry and fiscal consolidation; Communication and spectrum policy; Energy and policy around Independent Power Producers; Trade and Industry and Industrial zones as well as tax incentives for foreign investors. **All of these policy areas require coordinated, clear policy.** You have to have a coordinated economic cluster that drives highly determined outcomes in a co-ordinated way. You can't have a little bit of good and little bit of bad and get a good outcome.

A 'good' outcome is to get back to 3% economic growth, quickly. During the Thabo Mbeki years, we were growing at 4% and during the Jacob Zuma years, at 1.5%. Over the combined period we had an average 3% growth rate.

The market is anticipating growth rates of 0.8% off last year, with 1.5% growth in 2019 going to 2% in 2020/21. Remember population growth is 1.5% so any growth rate below that is disappointing. **Goldman Sachs** is actually more bullish. We anticipate 1.9% growth in 2019, going 2.5% in 2020 and 2.8% 2021. The rate of acceleration is about 1% above the market on aggregate.

On average we need to get back to about 3% economic growth within a 3-4 year period. This is what institutional investors care about. They don't care about this year so much, they care about the medium-term trajectory and the plot of how fast we can accelerate back. The view on the election outcome is so important because people think there's a corollary between the quantum of growth and the extent to which President Ramaphosa is able to get a better administration outcome out of the election mandate or not.

If there is no policy coherence and a weak administration, it feeds lethargy. Lethargy in turn, feeds a lack of confidence, which means people don't invest. If we don't invest, we don't get economic growth and unemployment goes up. That leads to social tension which in turn feeds racism. Ultimately, you then get a society that is spiralling into a race to the bottom. The administration chosen after elections will determine which path we take.

Fiscally, Tito Mboweni has done a fantastic job in talking truth to the nation about our fiscal position in the budget. The net effect is that in order for us to maintain our investment rating, there is no more room to slip. We are at that point where we have to hold firm. This means that we can't keep kicking the can down the road on indebted State Owned Enterprises such as the SABC, DENEL, and SAA. These are what I term 'un-strategic' holdings of the State.

Eskom is strategic, we have to have a national electricity utility as well as a transport utility that works and delivers for corporates and others. But we can get someone else to fly our flag on a plane, we can get someone else to run radio and television stations and we don't really need an arms company. We are at that point where there is no more room. Whoever the Finance minister is come June they will have a tough time holding the line.

There is no question that in order for us to get performance going, we are going to have to break down ideological barriers

I'm not a person who favours the unbundling of Eskom. We have a crisis that cannot wait three or four years of market restructuring. As we've seen from overseas markets, you need real transactional capabilities to unbundle even less complicated structures than Eskom successfully. My bias is for a vertically integrated entity. Nothing replaces good management, independent of the market structure, in a crisis.

The reality is that public sector wages have run away, the public sector wage bill is too high and we don't get bang for our buck. You just have to look at any ratio of education and health spend versus output to see this. Our spend on education and health is fantastic - yet our outputs amongst the worst. Around 80% of our education budget is spent on the salaries of teachers and administrators and 90% of these are unionised.

There is no question that in order for us to get performance going, we are going to have to break down ideological barriers. But when you actually sit down and talk business to labour there is a lot more in common and a lot more rational behaviour than meets the eye and that comes across in the press. I'm not convinced that business has tested the common ground in our ability to get rational outcomes with the unions, there is still a lot more we can do between business and labour.

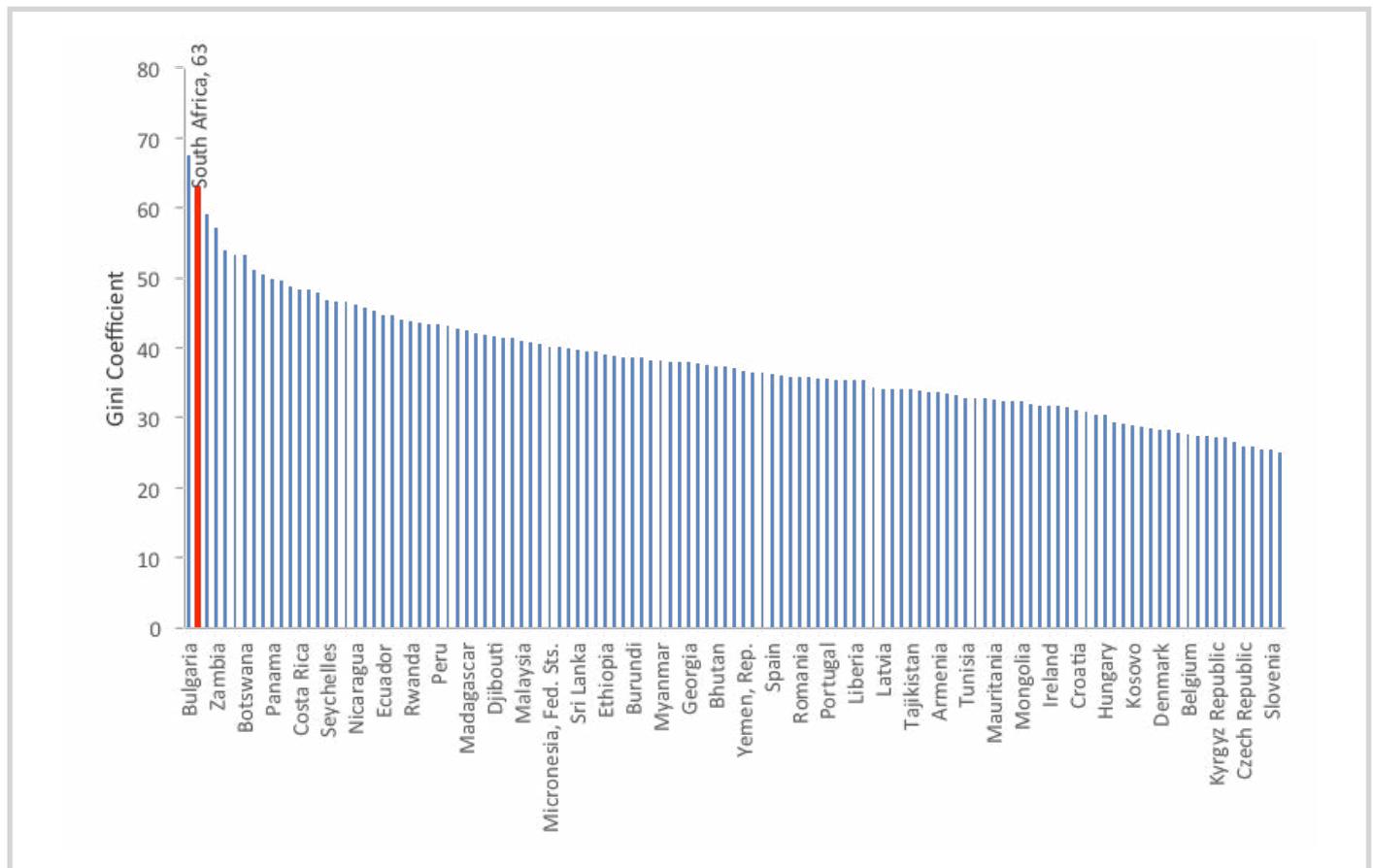
When it comes to land expropriation, depending on the election outcome, the upside is that it could be managed with elegance. If there is firm control within government, property rights and security of tenure will be protected. A judicial process will provide for circumstances where expropriation without compensation will be permissible. I believe with the right administration in place, expropriation without compensation is likely to be the exception, rather than the rule. Having said that, expropriation without compensation is something to watch since it represents not only property, but capture and ownership in the economy more broadly by vested interests.

Among the most unequal countries in the world

One of the most pressing issues facing South Africa is high unemployment, which in turn contributes to high poverty levels and persistent inequality within the country.

Across the world, the gap between the haves and have nots is getting wider. South Africa is one of the most unequal countries in the world, ranking 2nd according to the World Bank in 2019.

Figure 5: Gini coefficient international comparison, 2019



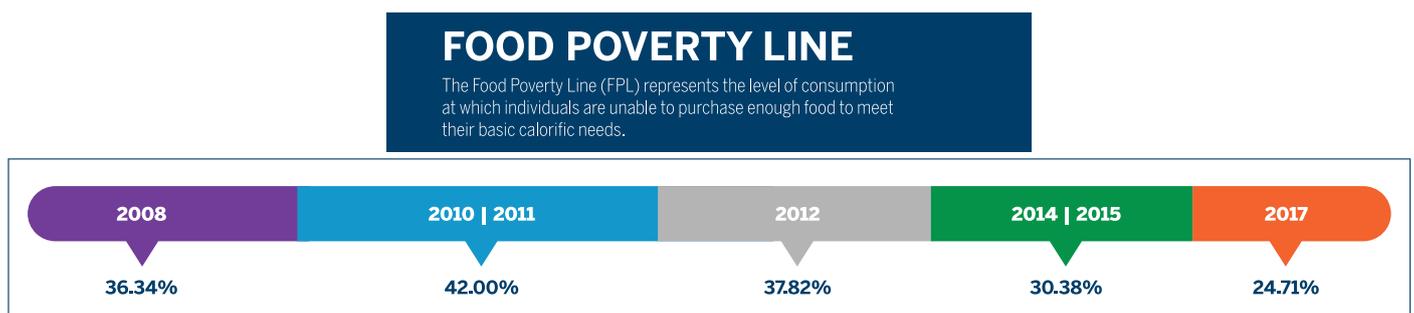
Source: World Bank 2019 – World Development Indicators

The Gini coefficient is a measure of inequality where zero expresses perfect equality and one expresses total inequality. It is estimated that South Africa’s Gini coefficient was 0.59 in 1993 and increased to 0.63 in 2019. This is despite government interventions providing social grants to millions of South Africans, poverty reduction initiatives and improved access to employment opportunities for groups that were previously excluded from certain parts of the labour market.

Poverty is declining

Since democracy, South Africa has made progress on improving the well-being of its population, but this progress needs to accelerate. Poverty is declining in South Africa but there are almost one quarter of the population (14 million) of people - living below the level at which they can afford sufficient basic food supplies (R515 per month).

Poverty rates (%) in South Africa, 2008 - 2017

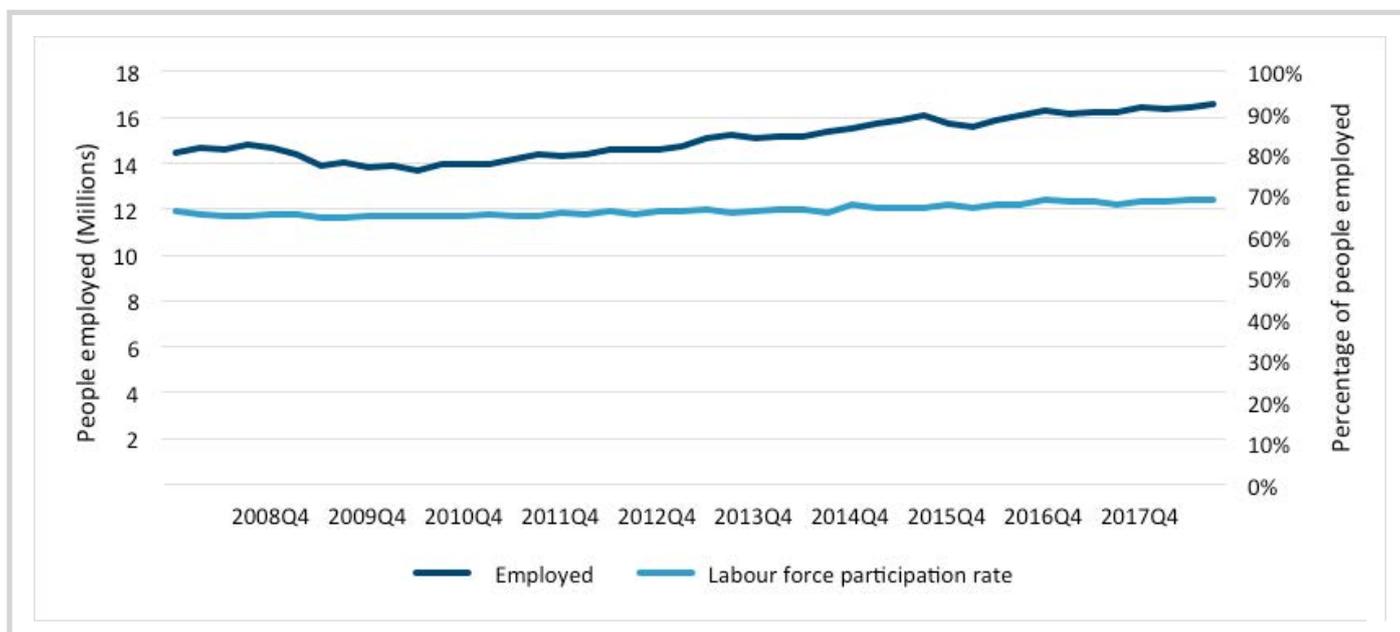


Job have increased, but many people are not economically active

Over the last 10 years, the number of people employed has increased by 13%, with a slight increase in the labour force participation rate from 65% to 68%. Whilst showing a more positive picture than headlines may suggest, as South Africa's population grows there is still some catching up to do to reduce unemployment and ensure that all people can make a positive contribution to the economy via meaningful employment.

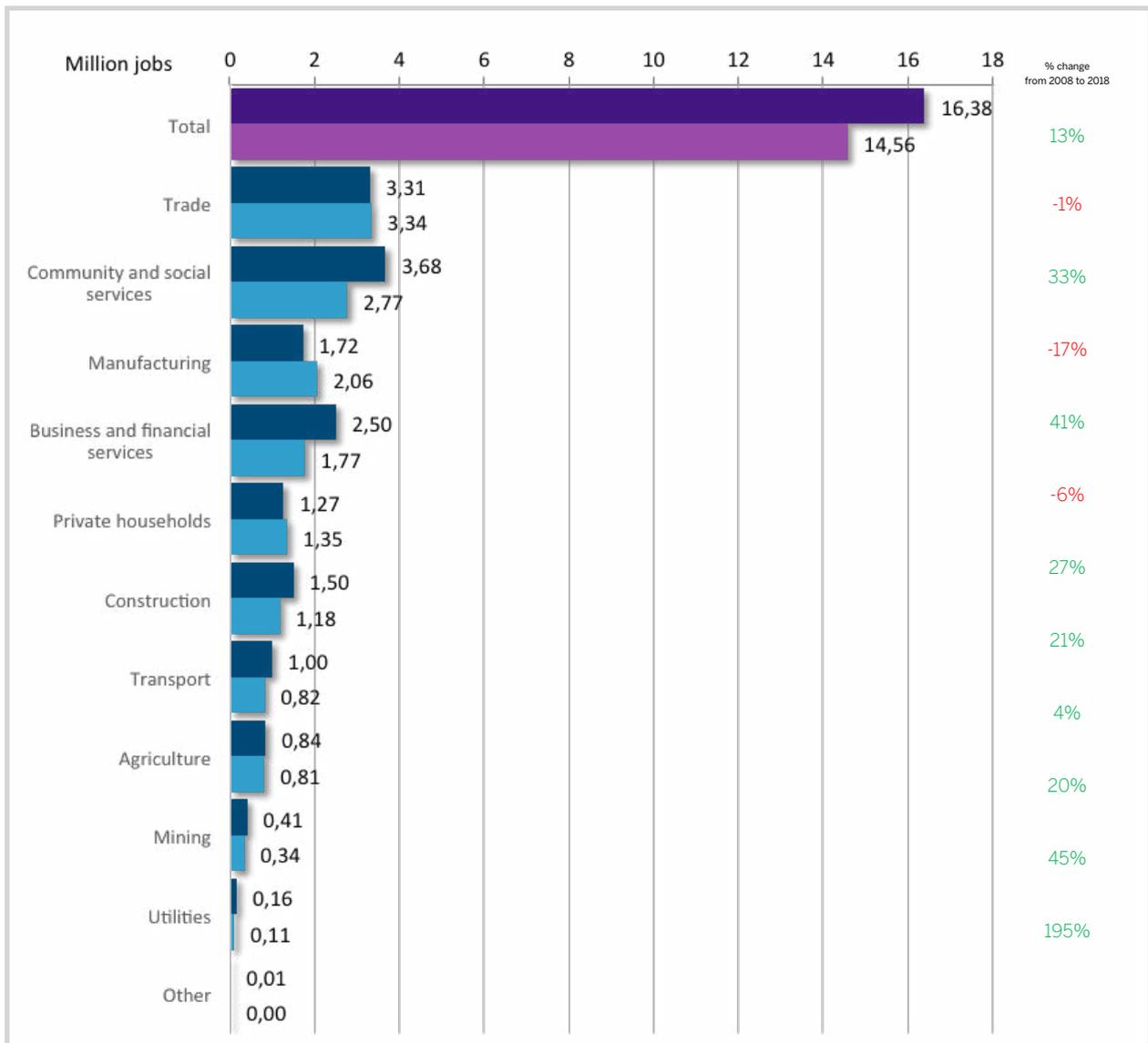
TERM	DEFINITION
EMPLOYED	Individuals employed in both the formal and informal sectors of the economy
UNEMPLOYED (narrow definition)	Individuals who are not employed in either the formal or informal sectors of the economy
UNEMPLOYED (broad definition)	Individuals who are unemployed plus those who are available to work, but who have not actively looked for work, often referred to as "discouraged workers"
LABOUR FORCE PARTICIPATION RATE	Defined as the section of working population in the 16-64 age group in the economy currently employed or seeking employment. Used to evaluate the working-age population in an economy, excluding those who are studying, retired or unavailable for work

Figure 6: Employment and labour force participation rates



Source: Stats SA QLFS 2018Q4

Figure 7: Millions of jobs by sector, 2008 vs 2018



Source: StatsSA, QLFS trends, FTI Consulting analysis

■ 2018 ■ 2008

The top 5 sectors for employment in 2018 are:

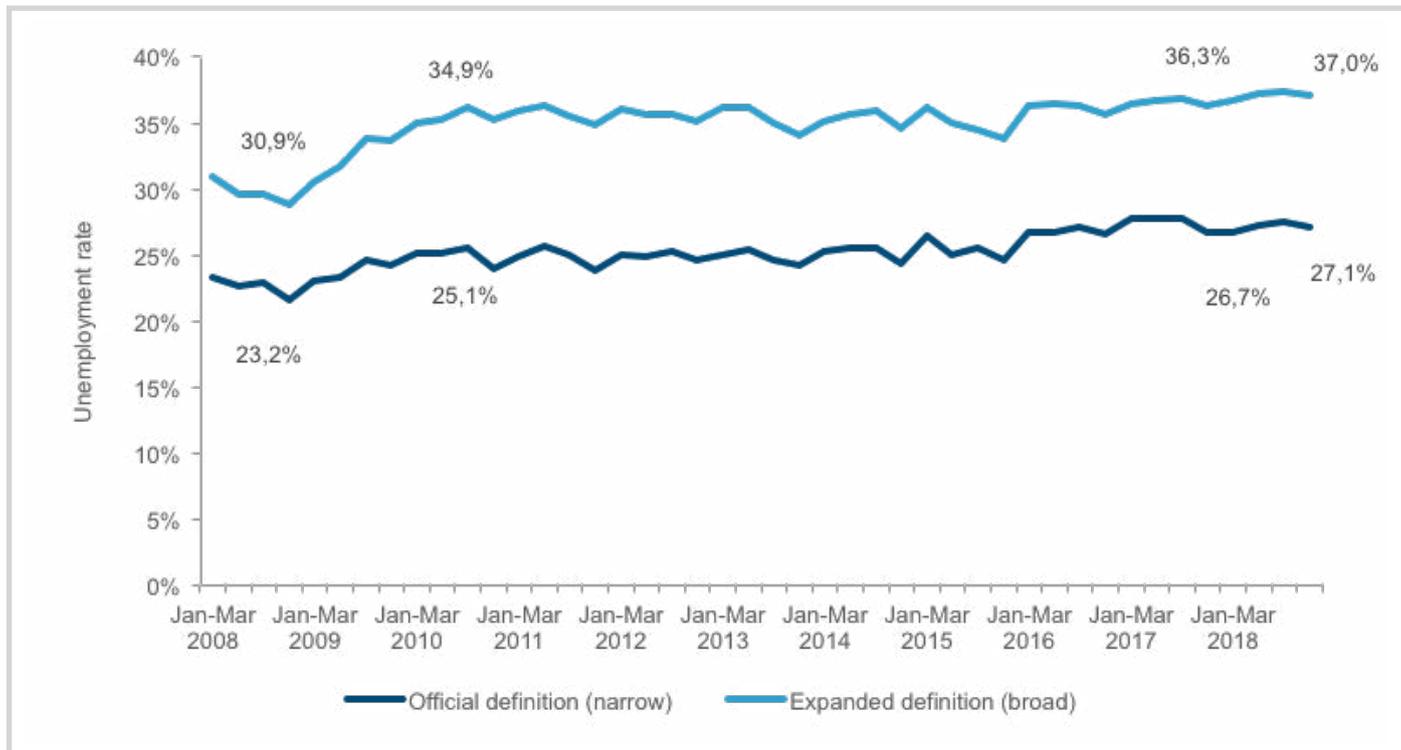
- Community and Social Services, which includes public administration, defence, education, health and social work
- Trade, which includes wholesale and commission trade, retail trade and repairs of goods, sale and repairs of motor vehicles, sale of fuel, hotels and restaurants
- Business and financial services, which includes finance, insurance, real estate and other professional services
- Manufacturing
- Construction

Unemployment is high

Unemployment is high in South Africa, as shown in Figure 8 from 2008 to 2018. At the end of 2018, unemployment (narrowly defined) reached 27.1%. The expanded definition of unemployment (which takes account of discouraged workers in calculating unemployment) was 37%.

These rates have increased significantly over the last decade, from 23.2% and 30.9% respectively in 2008, with over 68% of those unemployed having been out of work for a year or longer.

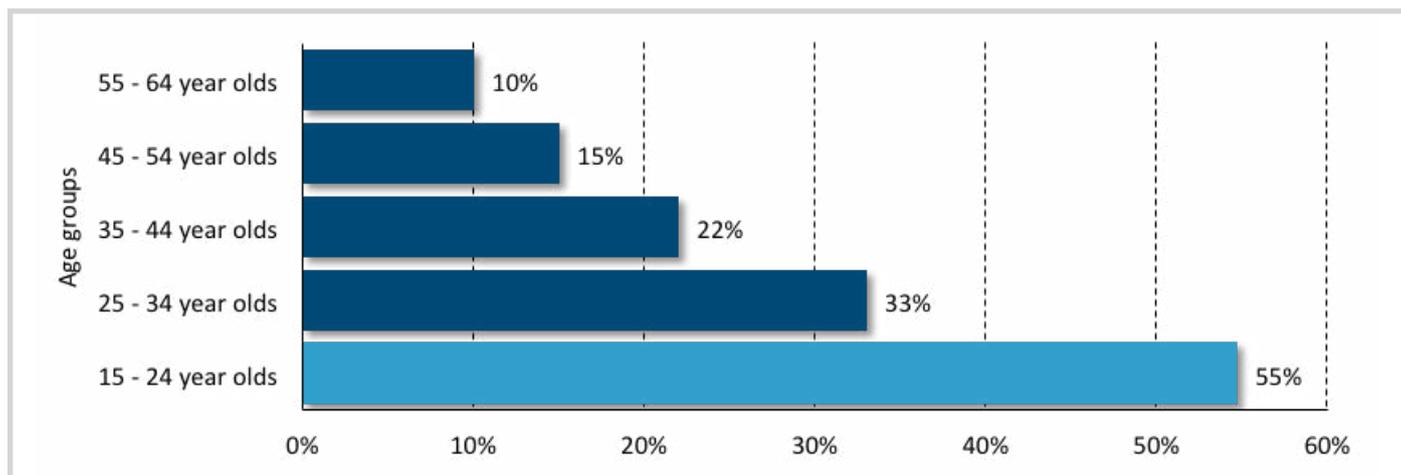
Figure 8: South Africa's unemployment rate (narrow and broad definition), 2008 - 2018



Source: Stats SA Quarterly Labour Force Survey (2008 - 2018)

Youth unemployment is an issue, with over half of 15 - 24 year olds unemployed. This compares to 22% of 35 - 44 year olds and 15% of 45-54-year olds being unemployed.

Figure 9: South Africa's unemployment rate (narrow definition) by age group, 2018



Source: Stats SA QLFS, 2018Q4



Lungisa Fuzile
CEO
Standard Bank South Africa

To investors, South Africa is not just a country of 57 million people, it also provides access to a market of more than 375 million middle class consumers across the continent. Africa is a continent with favourable demographics, rising incomes and whose potential remains largely untapped.

Of course, this is not to say that South Africa does not have its challenges which must be addressed. There are aspects of our education system that need urgent improvement. But in recognising this, there are pockets of the public schooling system which produce good grades. Tertiary education institutions continue to provide solid, world-class research – necessary to support both business and innovation. This is also an important consideration for foreign investors and companies, as this reduces the reliance on imported skills. Investment security is important, but physical security is also of paramount importance. High crime rates need a concerted response. The issue of property rights has also been elevated as an issue that needs to be resolved. But it is more than likely that the South African spirit will prevail, and an elegant solution, which is consistent with the letter and spirit of the country's constitution will be reached on the land reform issue.

We should not lose sight of the fact that international investors have played an important role in the economic success of the country following the democratisation process. Investors, after all, buy future growth – and once capital is here, it tends to stay. Some of the most attractive investment opportunities for these investors lie in sectors that aim to address the country's infrastructure deficit, including renewable energy, transport, as well as Information and Communications Technology (ICT). The energy sector – especially renewables – has proven a magnet for investment. Round after round of the Renewable Energy Independent Power Producer Procurement Programme (REIPPPP) has been fully subscribed, demonstrating that not only is there interest by foreign investors, but that there is a willingness to commit to investments with long return horizons.

The recently updated Integrated Resource Plan will set the path for the future energy mix in South Africa. Not only will this ensure the diversification of the country's energy supply to include renewable energy sources, it will also provide South Africans with sustainable, secure and affordable sources of energy for the future.

In addition, South Africa's infrastructure deficit offers huge potential for foreign investors. The ICT sector, for example, requires investment to shift the country from 4G to 5G as the country undergoes unprecedented digitisation and broad-band penetration begins to reach all classes of society in the country. Water and sanitation, human settlements, transport and education all require massive investment if the country's growth targets are to be met.

Compared with other emerging markets, it's not difficult to differentiate South Africa. Whilst we cannot deny that our country has experienced bumps, twists and turns, there is plenty of evidence to show that our country is a resilient, stable, maturing democracy that stands apart from other emerging markets.

Regular, free and fair elections that have seen peaceful political transition take place within the framework of the law. This has been backed by consistency in terms of macro-economic management – sound fiscal policy under National Treasury and consistent monetary policy managed under the steady hand of the independent South African Reserve Bank.

Our legal system is strong and presents those that invest in our country an opportunity to seek legal recourse in court if necessary. Our courts remain known for taking decisions without fear or favour.

The fact that South Africa has been able to finance elevated deficits at a reasonable cost for a considerable amount of time without yields rising, is largely due to the openness and depth of our capital markets. Government remains committed to policy regulation that has consistently moved towards exchange control relaxation which is vital for attracting foreign capital.

The Economic and Stimulus Recovery Plan shows government is intent on removing roadblocks to investment. The domestic financial sector now needs to step up to the plate too as an effective market maker and source liquidity to turn this plan into reality. South Africa's banking system will have to provide the systems and networks to facilitate basic transactions, and also assist investors looking for guidance on the broader economic, legal and political landscape of the country as well as provide value-based services across research, hedging and settlement capability.

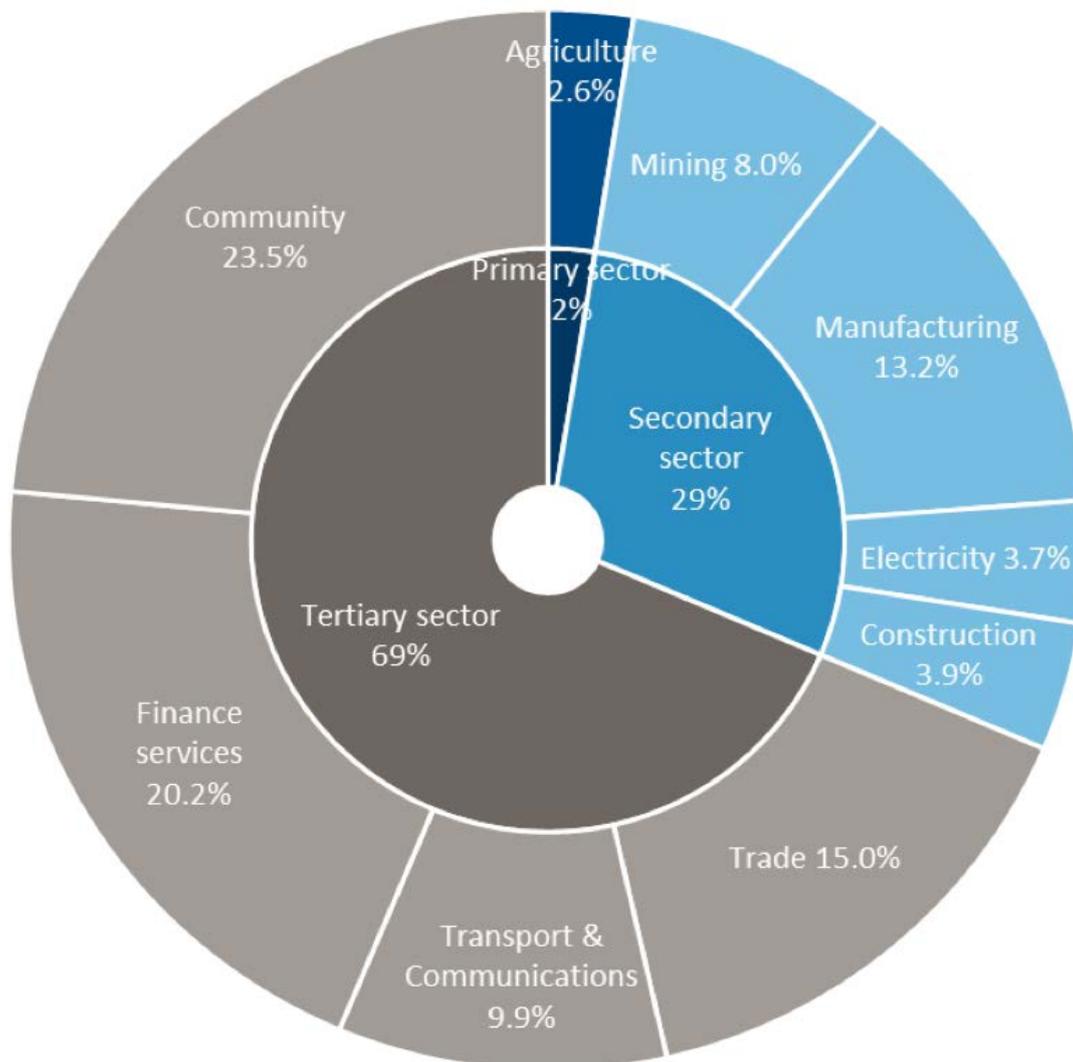
Both the public and private sector have a role to play in unlocking South Africa's potential and turning government's recovery plan into reality. It is up to all of us to collectively invest in our country's future.

To investors, South Africa is not just a country of 57 million people, it also provides access to a market of more than 375 million middle class consumers across the continent.

A service driven economy

Since the early 1990s, economic growth in South Africa has been driven mainly by the tertiary sector, which includes community services, financial services, wholesale and retail trade, tourism, transport and telecommunications.

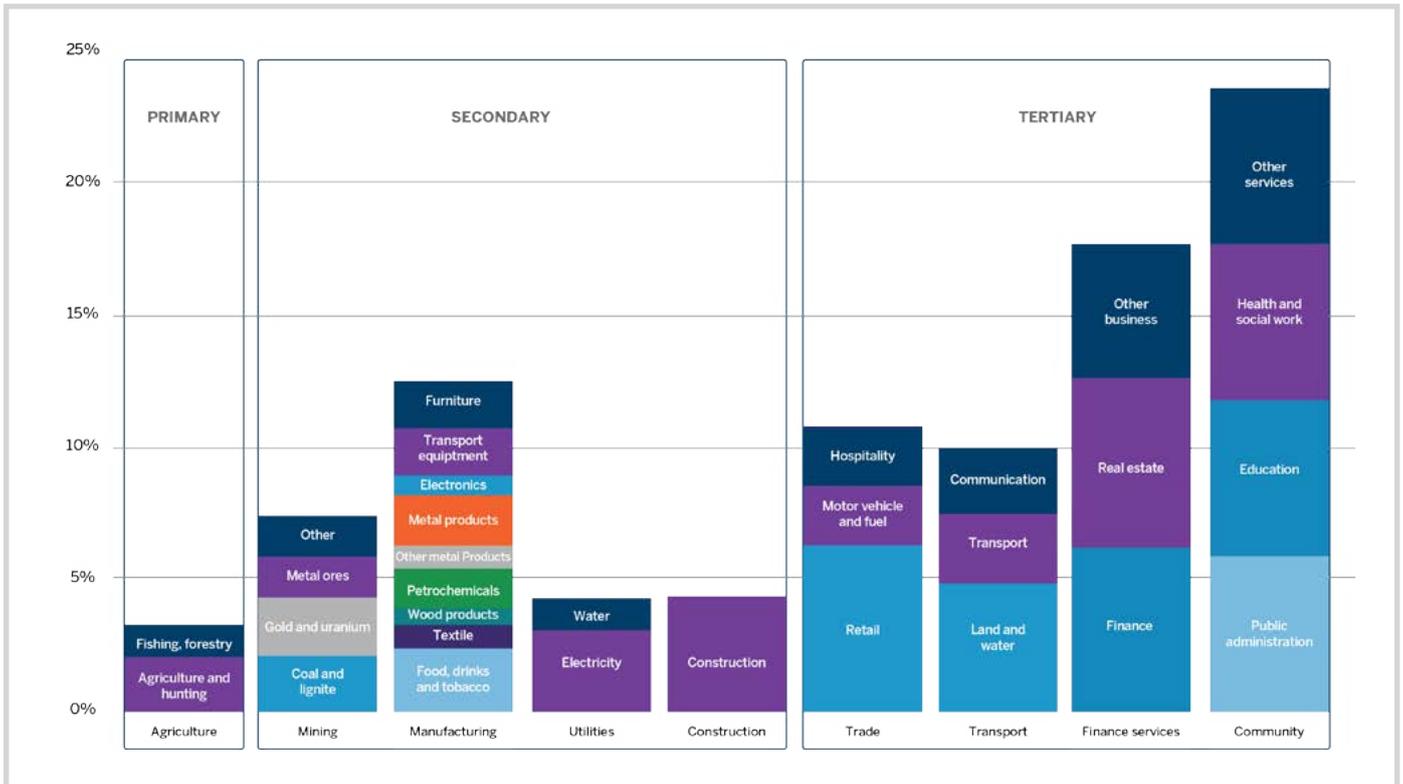
Figure 10: Contribution to national Gross Value Added (GVA) by economic sectors



Source: IHS Markit Regional eXplorer 1570 (2.6d)

Community services are the biggest contributor to the South African economy, followed by finance services and trade

Figure 11: Contribution to national Gross Value Added (GVA) by detailed economic sectors



Source: IHS Markit Regional eXplorer 1570 (2.6d)

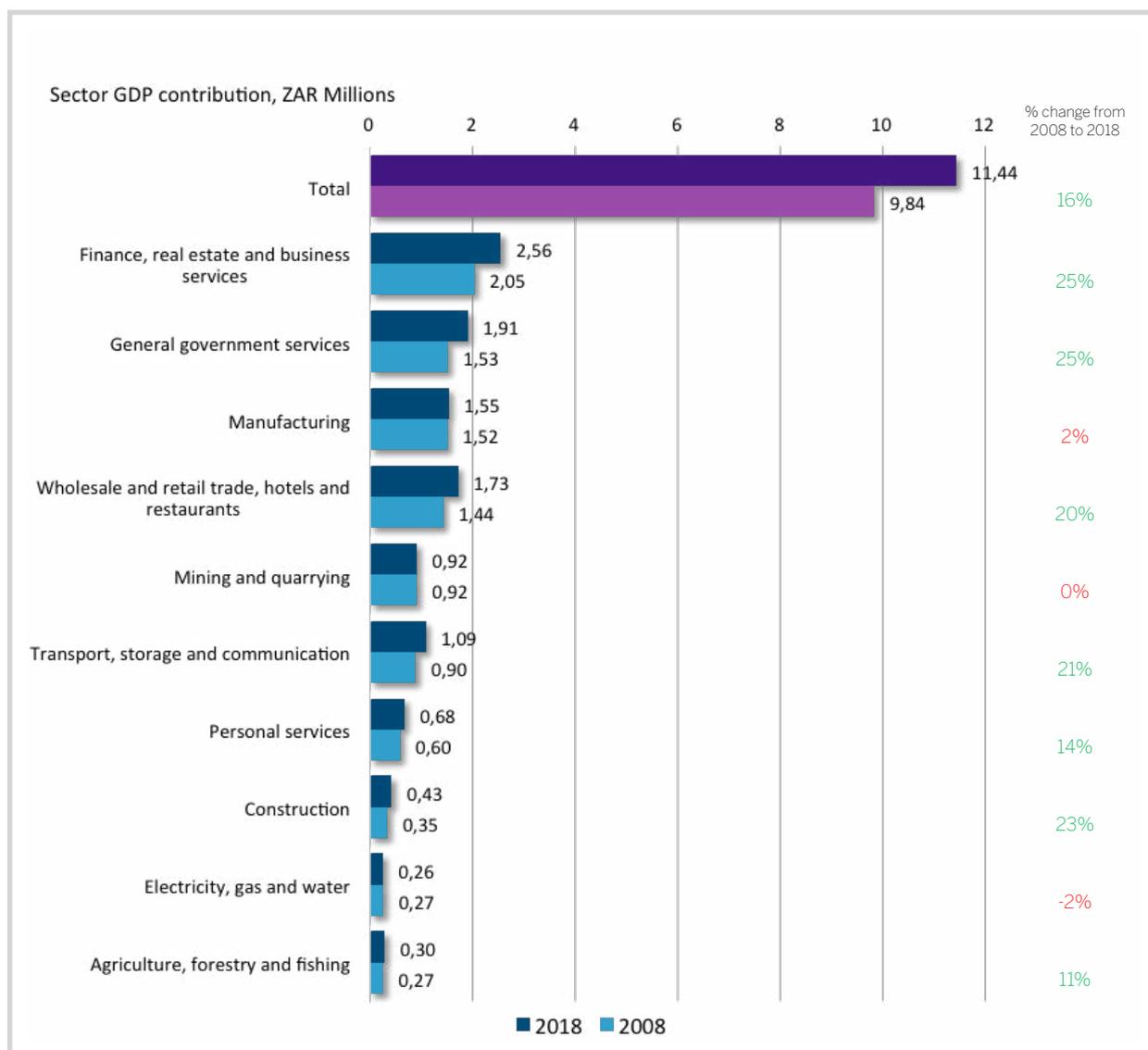
Nine sectors were significant in 2018 in terms of national Gross Value Added (GVA), all contributing at least 5% to GVA:

- | | | |
|--|--|---|
| <ul style="list-style-type: none"> Finance and insurance Retail trade and repairs of goods Public administration and defence activities | <ul style="list-style-type: none"> Education Land and water transport Health and social work (which includes private hospital services) | <ul style="list-style-type: none"> Real estate activities Other business activities Wholesale and commission trade |
|--|--|---|

In addition, several sectors stand out as significant contributors to the country, not exclusively because of the size of their GVA contribution, but because of their necessity in an environment conducive to investment and economic growth. These are:

- | | |
|---|---|
| <ul style="list-style-type: none"> Education (6.7%) Health and social work (6%) | <ul style="list-style-type: none"> Electricity, gas, steam and hot water supply (2.9%) Post and telecommunications (2.1%) |
|---|---|

Figure 12: Sector contributions to GDP, 2008 vs 2018



Source: Statistics South Africa – P4141 & P0441, FTI Consulting analysis
Notes: Constant 2010 prices

When looking at each of the sectors and their contributions to GDP over time, some trends emerge:

1. Manufacturing

Manufacturing regained some momentum in 2018, growing faster than the overall economy, an average growth rate of 0.9% in the first three quarters of 2018. Past investment in local vehicle manufacturing and the entry of the Chinese car manufacturer BAIC Group is bearing fruit, with the number of vehicles produced in South Africa expected to increase by 8.6% in 2018. Data on investment and imports show that the industry has been purchasing new machinery, a leading indicator for production expansion. Economic development initiatives in the automotive sector have been particularly successful. They have focused on manufacturing competitiveness to help address margin squeeze, increasing the sector's profitability in South Africa and encouraging further investment.

2. Finance, real estate and business services

Finance, real estate and business services grew by 1.8% in 2018 and by 25% from 2008 to 2018, above the average sector growth rate. This was driven primarily by the acceleration of credit growth and trading in international markets, but also by growth in the insurance, real estate, and business services subsectors.

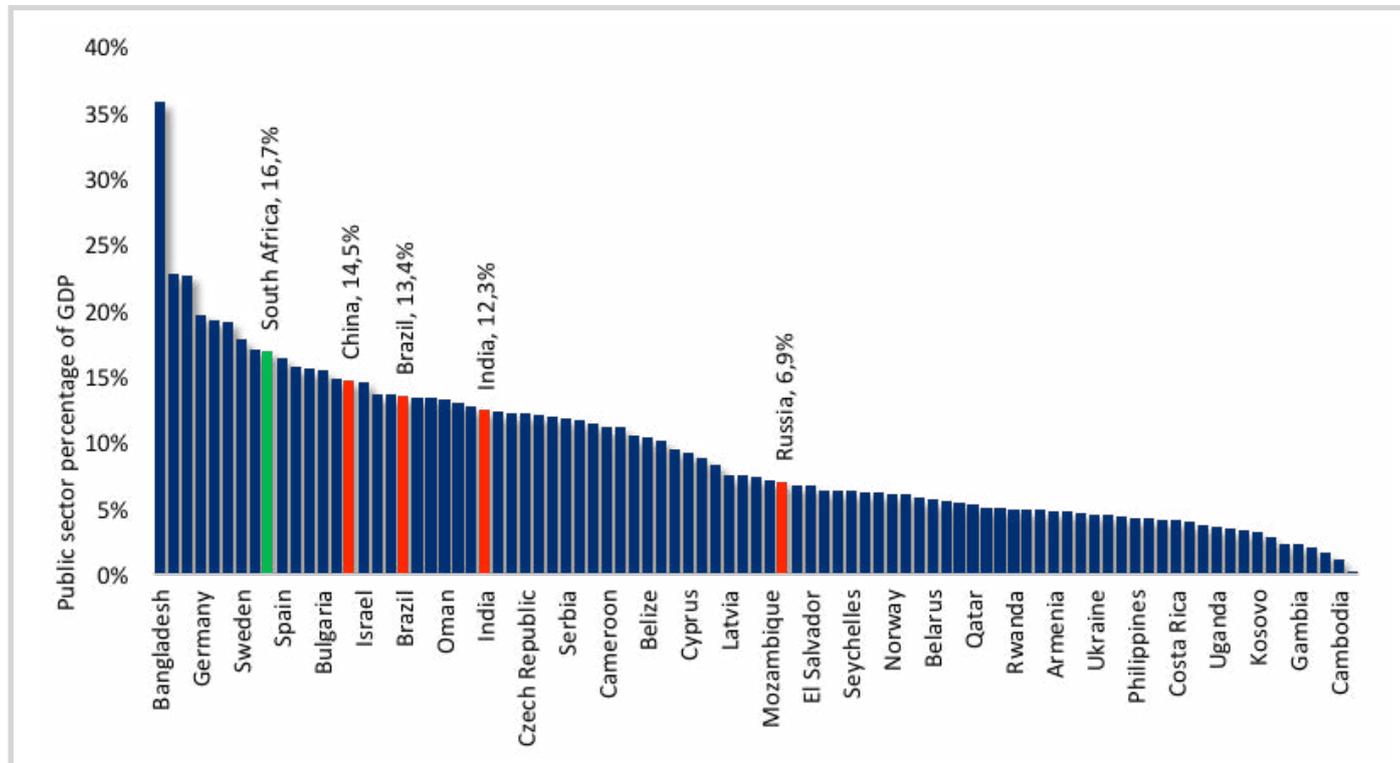
3. Electricity, gas and water

Electricity, gas and water has been adding less and less value to the economy over the last decade, mainly due to power supply constraints and ailing water infrastructure at the provincial and municipal level.

The public sector is expensive

In South Africa, the government sector comprises 16.7% of GDP and the private sector is 83.3% of GDP. When compared to other countries around the world, the size of South Africa's government sector is higher than most and is the highest of among the BRICS peer group.

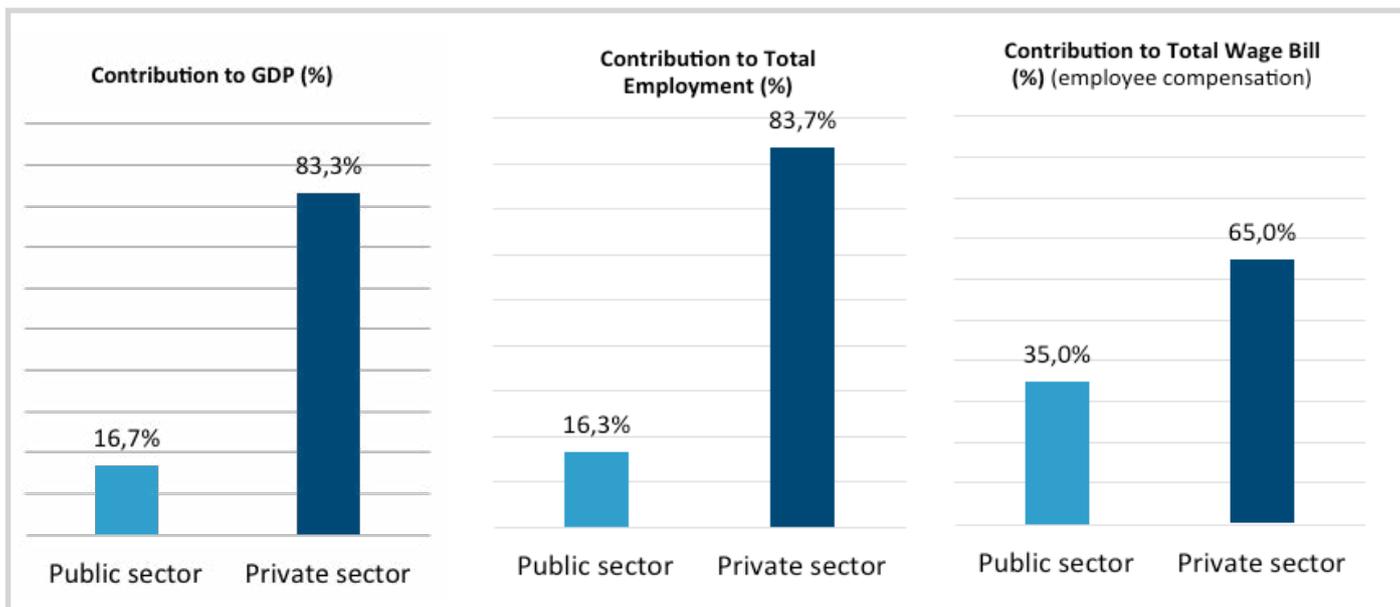
Figure 13: Public sector share of nominal GDP by country, 2017



Source: CIA Factbook (2019), Trading Economics (2019)

When comparing public and private sector employment growth, public sector growth has slowed since 2014, while private sector employment has remained flat. In 2018, private sector jobs represented 83.7% of total employment in South Africa, indicating that the private sector will be an important engine to create jobs.

Figure 14: Public and private sector contributions



Sources: CIA Factbook 2019, Trading Economics 2019; International Labour Organization, ILOSTAT database, 2019; IMF, Government Finance Statistics, FTI Consulting analysis

The public sector contributes 16.7% to GDP and 16.3% to employment, but takes a 35% share of South Africa's total wage bill. This is a financial strain on public finances and reigning this in will be the litmus test of whether the government is taken seriously on sound economic management. There is a growing public perception that the public sector does not provide value for money for the services delivered.



Annabel Bishop
Chief Economist
Investec Ltd

The current business environment is a tough one for South Africa. Business confidence is depressed, most recently dropping to the levels of the global recession in 2009, SA risks credit rating downgrades on the weakness of government and key SOE finances; while growth concerns on the global economy have built. The private corporate sector has been increasingly crowded out by the substantial fiscal expansion of the past ten years, as government debt has escalated rapidly, the budget deficit has widened and government expenditure consistently exceeds revenue. Foreigners hold close to 40% of government debt, the rest is held by South Africans, mainly via pensions and financial and other monetary institutions. With household savings otherwise low, other than pensions, corporates are key savers and financial investors in SA.

There has been a broad based weakness in economic activity in South Africa, a persistent decline in economic growth and competitiveness on average over the past ten years. However, in contrast the decade before that, the 2000s saw economic growth average around 4.0% y/y as good governance, well managed government finances (resulting in credit rating upgrades) and strong private and public sector fixed investment occurred. Economic growth rose to average 5.0% from 2005 to 2008, with the private sector effecting fixed investment on behalf of government with payments typically occurring in full and on time. After the advent of the global financial crisis in 2009 there was a brief bounce back from the recession, but by 2012 economic growth was waning, on a downward trend since 2011, which has persisted. Last year SA GDP growth averaged 0.8% y/y, with this year likely to produce around 1.0% y/y as well. Business confidence is at 28 which means 72% of businesses in the South African economy are currently dissatisfied in SA with prevailing business conditions.

South Africans have faced rising taxes over the past decade, which have eaten into disposable incomes and hence demand, tax buoyancy has declined, indicating less tax revenue is now being collected as taxes have increased this decade. Additionally, incomes have suffered due to the weakening economy with rising unemployment, lower bonus payments, modest salary and wage increases, with fewer individuals also being assessed for tax as SARS weakened capacity may have allowed tax avoidance to flourish. Furthermore, rapidly rising state administered inflation such as water and electricity tariffs have added to the financial burden households face. Unemployment is now close to 30%, well up from nearer 21% reached towards the end of the 2000s. Very weak demand, reflected in weak economic growth rates is a legacy of the decline in competitiveness of SA's economy over the past ten years. The World Economic Forum's (WEF) latest Global Competitiveness Survey shows South Africa's institutional ranking dropped to sixty seventh, from thirty ninth. South Africa has seen businesses profit margins narrowing on weak demand as many businesses battle to pass through higher operating costs to financially vulnerable consumers. This has limited, if not eliminated, the desire for many businesses to expand operations and so lift fixed investment to expand capacity for production, among other factors.

SA has a number of key strengths which it can build on going forward, including a strong, capable world-class private business sector, with well managed equity exchanges and strong foreign interest in SA listed equities. It has incubated a large number of companies to large scale, international level, and is part of the global automotive supply chain. SA has prudent monetary (independent) policy, an independent judiciary, and a well regulated financial services sector. It is also a mineral rich, endowed country, with likely substantial gas and oil reserves and world-class private sector education and healthcare. There is a significant tourism opportunity for employment, particularly as SA is a youthful population. Leveraging these strengths, consolidating government finances and vastly improving governance at key government SOEs and key government institutions will strengthen SA's economic outlook noticeably. The recent improvement in governance in SA, evidenced so far by Cyril Ramaphosa's Presidency, is anticipated to escalate – we expect GDP growth to run at 3.0% y/y in five years time.

Additionally, SA is land, wind and solar resources rich, representing substantial investment opportunities for renewable energy, and related renewable energy-intensive industries. The world is increasingly moving in the direction of renewable energy generated electricity, particularly wind and solar, which make up a very small % for SA currently. South Africa's IRP (Integrated Resource Plan) details the increasing mix needed for renewables, particularly given their relatively more labour-intensive nature. The move towards clean energy globally means funding for coal fired power stations is more difficult to obtain. As technology advances at an increasingly rapid rate, the infrastructure costs of renewable energy generation decline, making it increasingly affordable, particularly for new builds. Additionally, technological advances also increase/ensure security of supply from a mix.

SA has a number of key strengths which it can build on going forward, including a strong, capable world class private business sector

SA also currently seeks to restore investment and exploration levels through the revised mining charter, and has recently scrapped the previous minerals and resources petroleum bill in view of seeking more investor friendly legislation. Relatively high oil/gas production may be possible for SA on the Brulpadda find, with exploration yielding significant potential so far, which would be bolstered by supportive legislation. Government needs to offer mines significant regulatory and tax relief, particularly for new mines and exploration, in order to provide support to the sector, and so to jobs in the sector. The most recent iteration of the mining charter is seen as a good departure point for further negotiations. SA remains a net commodity exporter; commodities are a substantial part of exports.

Investment originates from Foreign Direct Investment (FDI) and domestic savings from South African individuals, companies and the government

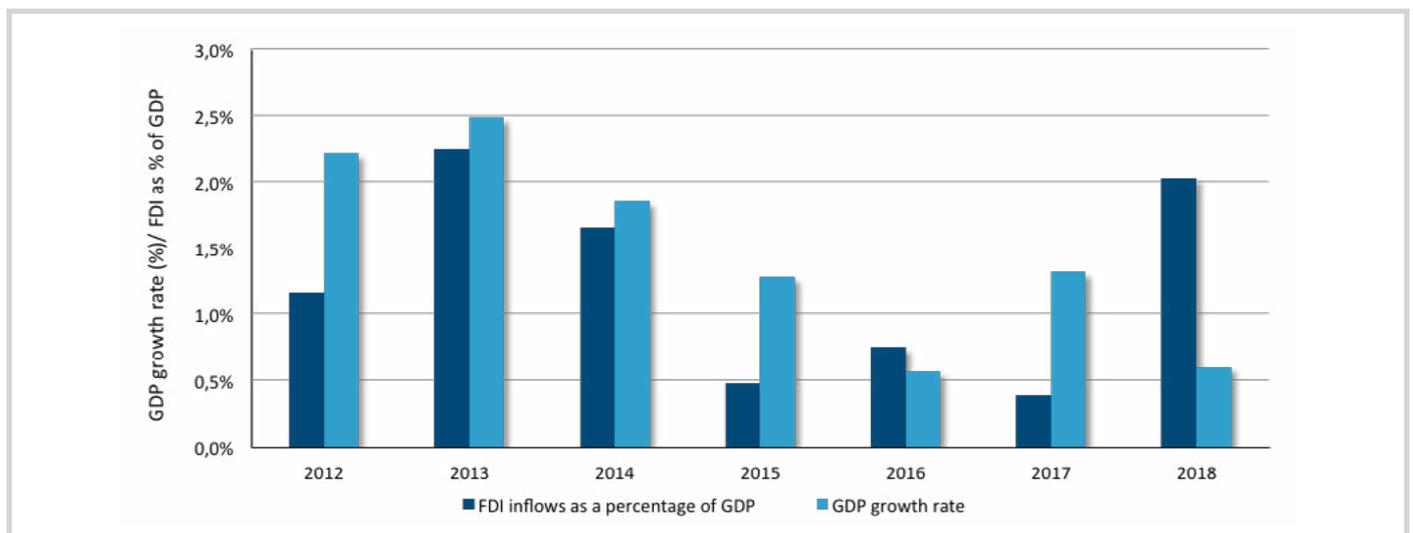
Recent investment optimism

Investment originates from Foreign Direct Investment (FDI) and domestic savings from South African individuals, companies and the government.

South Africa has been a relatively attractive investment destination, but experienced declines from 2014 to 2017 due to dampened investor confidence in the country. This decline trend was reversed in 2018, with a substantial increase in FDI to 2.25% of GDP, largely being driven by optimism about President Ramaphosa's investment drive and belief in his ability to set the economy back on a growth path. Examples of foreign investments committed to in 2018 include:

- R 193bn in new investments from China
- R 140 bn in the energy sector (refineries, petrochemicals and renewables) from Saudi Arabia
- R 10 bn announced by Mercedes Benz

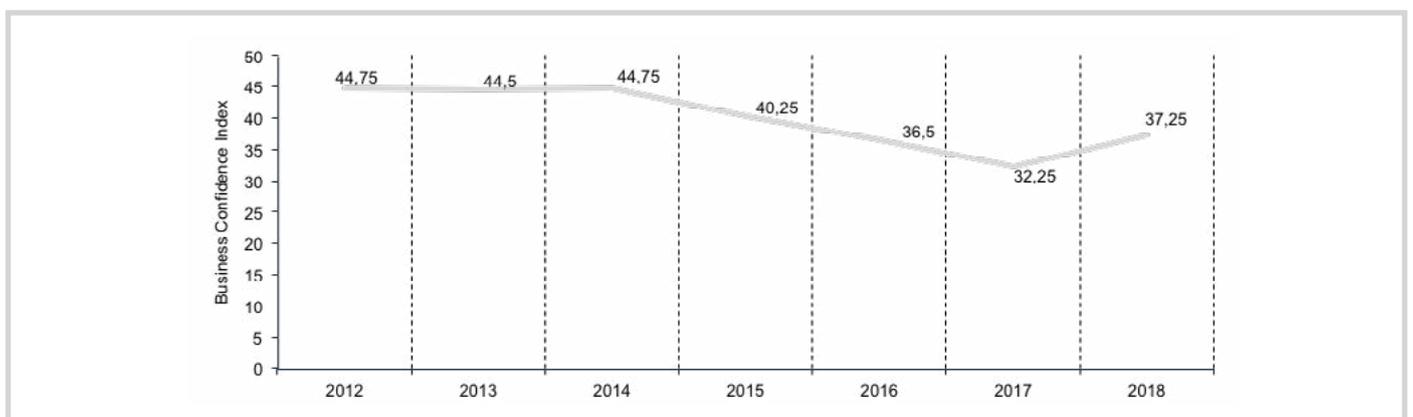
Figure 15: Foreign Direct investment and GDP, 2012 – 2018



Source: World Bank Data and Bureau of Economic Research

The growth in investment was also accompanied by growth in business confidence in 2018. The Business Confidence Index rose to 37.25 in 2018 from 32.5 in 2017.

Figure 16: Business Confidence, 2012 – 2018



Source: World Bank Data and Bureau of Economic Research



Nigel Casey CMG, MVO
British High Commissioner to
South Africa

Beneath the headline figures about low business confidence, the trend that stands out for me is a shared determination by the business community in South Africa. They are giving President Ramaphosa full support to turn around the economy after some difficult years. They're willing to stand behind the president's agenda of trying to reboot the economy and rebuild public institutions and his efforts to make a serious dent in the country's very high unemployment rate.

It's unusual because you don't see this sense of 'Team South Africa' in many other countries. In South Africa it's evident when the business community accompanies the president to the World Economic Forum in Davos and everyone in the team is wearing South African scarves. They see themselves collectively as ambassadors of South Africa.

I know business and government have robust discussions in private, but in public they present a united front. I haven't seen many other countries where the government has succeeded in developing such a close relationship with many of the leading figures in the private sector and effectively persuaded them to present a united front on roadshows around the world. Whether in Davos, London or New York, this is really positive and reflects well on government's engagement with business.

South Africa, like many other economies around the world, has suffered from the long tail of the 2008 financial crash and associated commodity price crash. Commodity prices have not fully recovered and have hit the mining sector, a mainstay of the South African economy. This effect has continued over the past decade.

If you look at where growth is coming from in the South African economy, it's clearly coming from the services sector. Consumer services have grown, but there's been contraction in more traditional parts of the economy like mining. There is growth, but it is differentiated by each sector.

South Africa has had real success in the automotive sector, where it has a very determined sectoral policy and works closely with industry. As a consequence, South Africa has a high-end, high-skilled, relatively high-wage, automotive sector which is exporting to the U.S. and Europe.

It is possible to grow manufacturing, but it certainly requires a clear regulatory and policy framework set by government and active partnership with industry. This can help create an environment for particular sectors to thrive and sustain growth, particularly export-led growth.

Policy certainty has been a big focus for this presidency. There has been some progress in sectors such as mining. Important regulatory decisions in sectors such as telecoms and mobile telephony could unlock much new investment. There are definitely opportunities for economic growth. South Africa has been a high growth economy in the not-too-distant past. In the first decade of this century it achieved high relative growth and was creating jobs on a sustained basis.

There are no structural reasons the country can't get back onto this high growth path. Of course, it will require difficult decisions and these need to be mediated with major stakeholders not only with the business sector, but with trade unions and other social partners.

South Africa is lucky to have a president who is uniquely experienced. Having served in government, business and the trade union movement President Ramaphosa is extremely well placed to lead the process. I have no doubt with the right framework and a committed partnership between business, labour and government, South Africa can chart its way back to high growth.

South African business leaders regularly note the skills shortage as a barrier to growth. Government and particularly the president have identified improving skills for employability as a priority to ensure a ready supply of skilled labour.

It's unusual because you don't see this sense of 'Team South Africa' in many other countries. In South Africa it's evident when the business community accompanies the president to WEF, they see themselves collectively as ambassadors of South Africa

Trade investment has held up well despite the difficulties. Trade between South Africa and the UK is £10bn a year which is extremely well balanced. There has been real growth in SA exports to the UK, particularly in the agri-food sector and automotive sector. There is significant additional potential both for South Africa and for its neighbours to exploit in the current trade agreement that we have with the European Union, which we are seeking to replicate after Brexit.

There is room for increased trade between South Africa and the UK. The UK government is looking to increase outward investment into Africa in general, including to South Africa. We're hoping to host a major African investment summit later this year or early next year.

The difference between the UK and the likes of China or the Gulf states investing in South Africa is that we don't undertake state-directed investment. Instead, we use the tools at government's disposal to help support outward investment. In Africa that includes the resources of the Commonwealth Development Corporation, UK Export Finance which has been underutilised in recent years and the Private Infrastructure Development Group as well as other government-backed initiatives which can help leverage additional private sector engagements. We're confident having looked at the detail that if we bring these all these to bear as fully as we can, we can become the leading G7 investor in South Africa by 2022.

Investment is private sector led

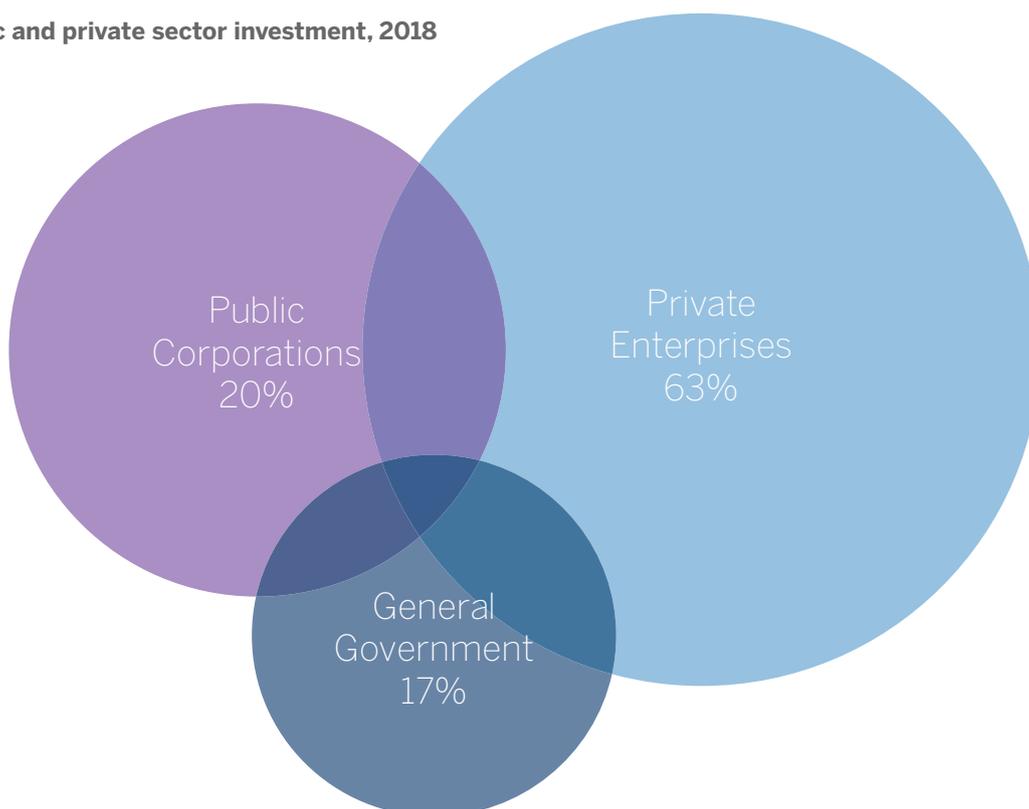
Most investment is driven by the private sector, with 63% (R383.8 billion) of investment in the last quarter of 2018 being made by private enterprises. Public corporations and general government are the source of the remaining 37%.

In the public sector, the trend has been to focus relatively more investment in utilities and transportation infrastructure, and relatively less on social infrastructure such as hospitals and schools.

Given the constraints – such as debt servicing – on government expenditure it is unlikely that there is scope to increase the relative contribution of government to overall investment in the near future. Therefore, private sector and international investment are increasingly important to drive South Africa's investment needs over the next 3 years.

More recently, there has been a shift in the relationship between the public and private sectors in South Africa. Various forums have been established to foster greater engagement and cooperation between the sectors such as the Public Private Growth Initiative. More private sector executives are becoming members of boards of State-Owned Enterprises to share their experience and expertise.

Figure 17: Public and private sector investment, 2018



Source: SARB (2018)

Notes: General government includes the central, provincial and local governments. Public corporations are organisations such as Eskom, Transnet and South African Airways



Mohsin Cajee
Investment Principal
Old Mutual Private Equity

The last five years have been the toughest for South Africa due to a combination of weak macroeconomic conditions, the volatile political environment and high levels of corruption across public and private institutions.

There's clearly a hope and belief that under the stewardship of President Cyril Ramaphosa there will be improvement in the economy and consequently a positive boost in financial and overall conditions within the country.

To change and improve the outlook, we require decisive leadership, policy certainty and clear direction on a number of the key challenges.

These include high unemployment and inequality; the land issue; and sustainable solutions to the state of Eskom and State-Owned Enterprises amongst others. Some of the key risks and challenges we face in SA are not unique. Other African countries face similar challenges of corruption and political risk. What is positive about South Africa is the determined effort to ensure greater transparency at government level, improving the red tape around investments albeit slowly, and increasing regional trade discussions.

Resolving the governance and deep-rooted issues at Eskom and State-Owned Enterprises is key for future growth. Not finding a solution to this massive problem will have far reaching consequences.

The private sector also has a crucial role to play and the recent commitments made by the sector to invest in fixed capital projects should have a positive impact if properly understood and effectively implemented. We need to stop scoring own goals and create conditions that make it easy to do business, create employment and make us an attractive destination for foreign investment. There have been positive efforts by government to act and attract foreign investment, however, it will take time to realise the full benefits.

Economic growth remains muted, political uncertainty will remain until the May elections, and possibly beyond, and the high unemployment rate continues to be a major concern.

However, these factors notwithstanding, we are positive that the Private Equity environment remains conducive for further investments because we usually take a medium to long-term view.

I expect to see an active private equity market in the medium term.

There is a large amount of unspent capital that private equity firms need to deploy and there remains an uptick in the number of new funds being raised.

An improved investment climate is essential for attracting investments and fostering economic growth.

One simple yet effective way of improving the investment climate is by strengthening corporate governance principles in both the private and public sectors.

Private equity funds, as providers of capital to businesses, should continue to work towards improving governance standards to optimise the management of and return on investments made. At Old Mutual Private Equity a focus on Environmental Social and Governance criteria is core to our investment thesis and we see that where this is well demonstrated, it fosters greater investment flows to the economies concerned and creates greater acceptance of private equity capital.

Emerging market risk appetite is waning, with developed markets offering much higher returns than in Africa.

Investors see the obvious growth prospects offered by many African countries but are grappling with the inability to extract attractive returns in these geographies. This impacts foreign investment into South Africa and rest of the continent. The risk is that exiting private equity investments, specifically larger ones, becomes much more challenging due to the inability to attract foreign buyers into any exit process.

Economic growth remains muted, political uncertainty will remain until the May elections...

At a business level, technological risks are prevalent across most businesses today. Private equity managers need to ensure that they embrace the risk of digital and other related threats and consider the impact on their own business as well as companies they invest in.

At a fund level, some African fund managers may need to remain invested in assets for longer than the traditional 5-7 years. This is due to investments not yielding the requisite returns for a variety of reasons. Conversations have centred around extending fund tenures to possibly 13-15 years or finding alternatives to traditional funds such as Permanent Capital Vehicles.

Different vehicles such as a Permanent Capital Vehicle, may offer benefits for Public Private Partnerships. These are in areas where the traditional 10-year investment is not viable such as renewable energy, water projects or desalination initiatives. Many infrastructure funds to some extent already provide this as an alternative.

The YES job initiative and SA SME Fund are other examples of proactive public private cooperation. I sense it may be too early to comment on the success of this but more initiatives like this should propel economic transformation as intended.

Government needs to prioritise growth and investment and demonstrate government's willingness to clamp down on corruption and deal with it effectively.

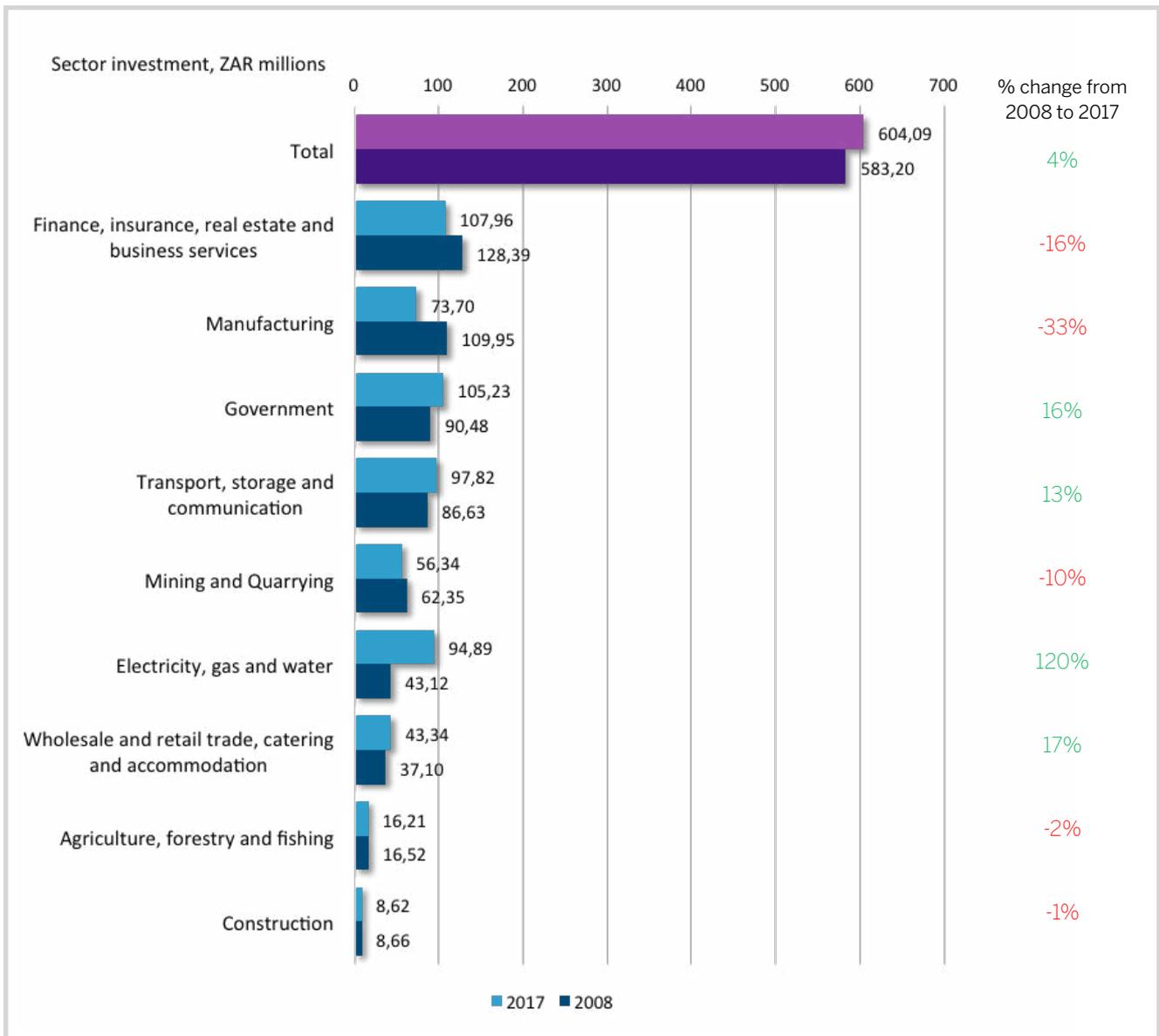
This means restoring the credibility of the justice system and other key areas within government. Reduce the regulations, bureaucracy and cost of doing business, especially at the SME level. Appoint effective and skilled management across State Owned Enterprises and in local municipalities which remain a big risk to the economy.

South Africa expected to increase vehicle manufacturing by 8.6% In 2018. Data on investment and imports also show that the industry has been purchasing new machinery, a leading indicator for production expansion

Investment growth varies across sectors

Investment growth has plateaued since 2013, increasing by 4% from 2008 to 2017. The increases in government (16%), transport (13%) and trade (17%) investment have been offset by decreases in sectors such as financial services (16%), manufacturing (33%) and mining (10%). Of particular note is the 120% increase in investment in electricity, water and gas from 2008 to 2017, largely due to the ongoing construction of the Medupi and Kusile coal-fired power plants, which started in 2007 and 2008 respectively.

Figure 18: Investment by sector, 2008 vs 2017



Source: Quantec Industry Trend Tables, FTI Consulting analysis
Notes: Constant 2010 prices

Small businesses drive growth and employment

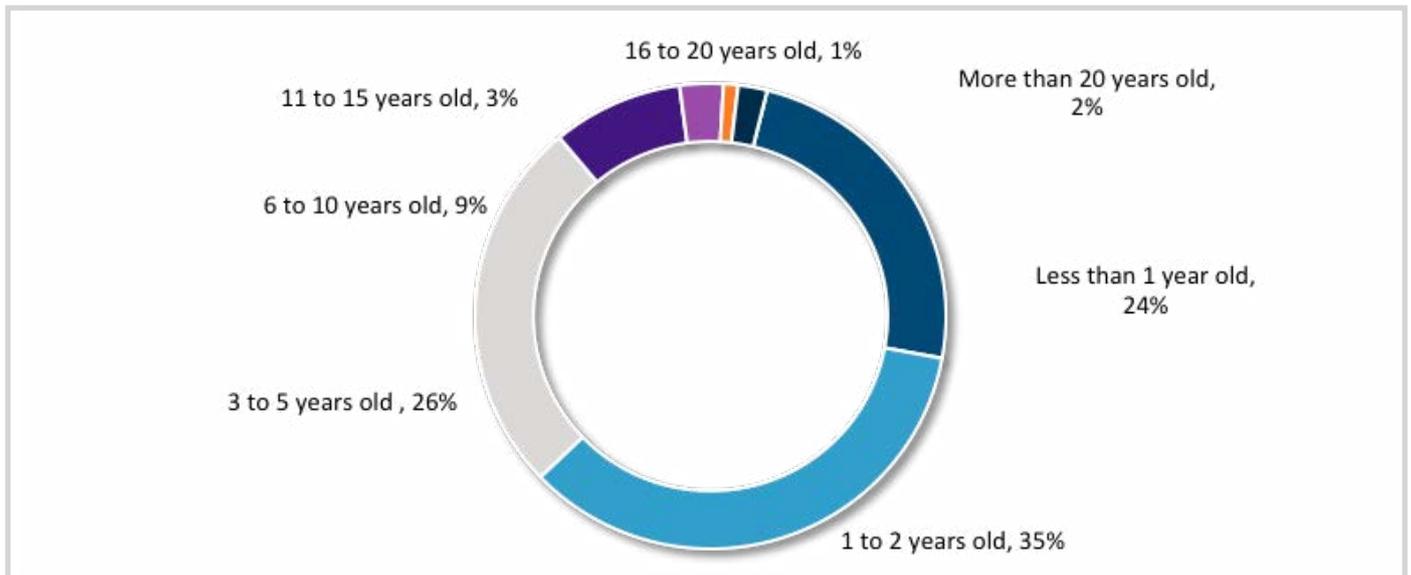
Small businesses are recognised as being engines for growth, employment and economic diversification, particularly across emerging markets. In South Africa, small business contributions are not uniformly measured and only estimates exist on their contribution to the economy.



Most small businesses are less than 5 years old

Small businesses in South Africa are typically young businesses with 85% being less than 5 years old.

Figure 19: The age of small businesses in South Africa

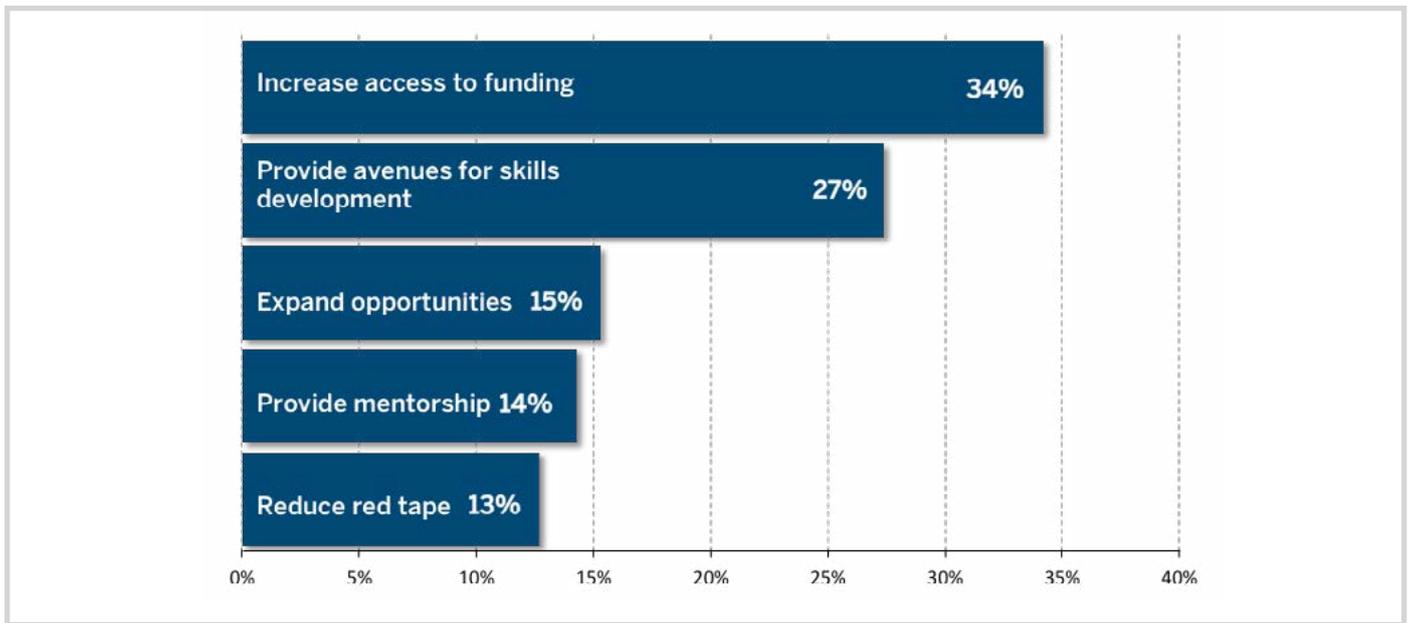


Source: SME South Africa and In On Africa (IOA) (2018).

Small businesses need support

The nurturing of small business would go a long way to help this important sector grow in the economy. Figure 18 shows areas of support cited by small business owners in South Africa. A focus on these areas may help to incubate small businesses past the first 3 years of existence into a phase where meaningful contributions to economic growth and employment may be achieved.

Figure 20: Areas of support required (cited by small business owners)



Source: SME South Africa and IOA (2018).

In a recent survey, small business owners cited increased access to funding as the top area for change. Many small businesses can struggle with initial funding as well as ongoing cash flow issues which make it tough to reinvest in growth. Raising awareness on sources of funding, customers making commitments to pay on time and larger customers offering longer term contracts are a few examples to support small businesses. Providing avenues for skills development was the second most cited area for support. Addressing these barriers will help to provide small business with the support needed to harness South Africa's entrepreneurial potential.



Clark Gardner
CEO
Summit Financial Partners

I believe entrepreneurs can deliver high impact solutions in businesses that can have significant positive impact on society. For example, our employee benefits business, Summit Financial Partners, looks after employees' financial health primarily through debt relief and financial protection solutions. We regularly use the courts to rebalance power inequality between the sophisticated and highly sales-driven financial services industry and the largely financially illiterate consumer market – even if it means going to the Constitutional Court.

South African entrepreneurs come with a greater dose of resilience and problem-solving abilities than those in other countries. South Africans grow up developing amazing instincts and characteristics of survival, problem solving, courage and independent thought.

The challenges presented by South Africa for entrepreneurs are all hurdles that can be overcome. The requirement of 51% black ownership contained in the Broad Based Black Economic Empowerment Codes are more of a challenge for an entrepreneur compared to, say, a publicly listed financial services company, but as entrepreneurs we look for solutions and try to stick to what we can control. It is definitely easier to start and build businesses in SA versus the developed world and first mover advantage is rewarded. So perhaps we need to accept some of the additional challenges as part of the privilege of doing business in South Africa.

By their nature, entrepreneurs have a healthy dose of optimism that ensures they believe anything is possible. But if you're going to be a successful entrepreneur in South Africa, you need to pursue a problem or product that is both unique and of great interest to you. This means products that can't be commoditised, that you believe in and that allow you to get in the game and start learning.

As business owners we tend to take 10 year-plus views on the economy. There is relief that we are rebuilding South Africa from a political and government point of view. There is now hope and an element of trust that the public sector problems causing the downward spiral are being addressed. However, the lack of leadership in the private sector from an integrity point of view in some of the biggest private companies and firms, is also a concern. We need business builders who focus on long-term results and who make sound decisions from a position of integrity.

Today, South Africa is reeling from the after-effects of a decade of political and economic mismanagement. Five years ago, there was evidence it was happening, but we were able to stick our head in the sand. Now we have to confront our challenges head on. Five years ago, businesses were satisfied with focusing solely on South Africa with spare cash being deposited offshore as an insurance policy, but as we buckle up and prepare for a bumpy road ahead, more businesses are looking to externalise their earnings and tap into new markets. Today we are aggressively pursuing business opportunities either outside South Africa or aimed at foreign consumption within SA.

There is definitely more positivity about South Africa's long-term future, but uncertainty in the immediate term may hold back the timing of our recovery. As an entrepreneur I am torn between relief that our president is prioritising our country's best interests on the one hand and the immediate need of our businesses to navigate the short term economic hardship on the other. The next few years will require much sacrifice as we pay for the past 10 years of mismanagement.

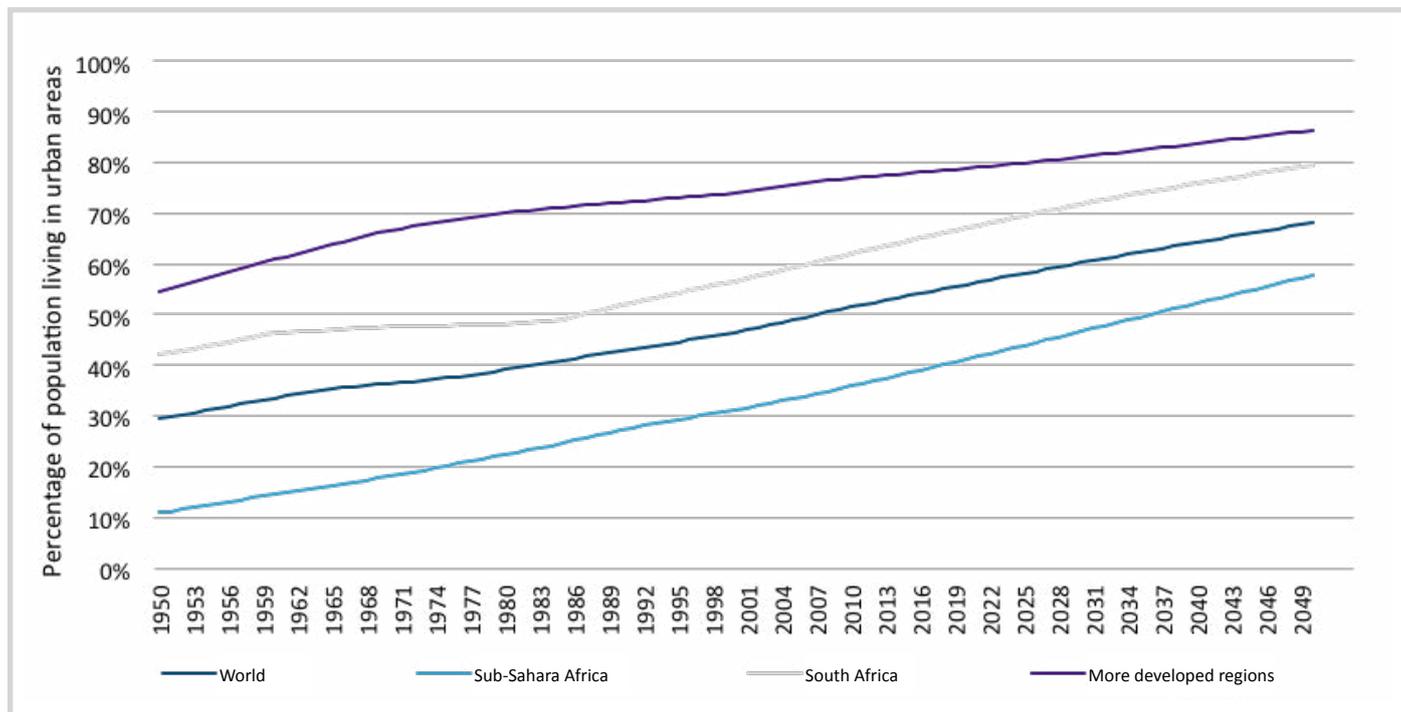
The challenges of our country present entrepreneurs with amazing opportunities. For instance, providing 21st century-type education to foundation and intermediate phase children is fantastic both from a business point of view, but also from a country perspective. So many young learners are leaving our education system too early as a result of an over-emphasis on curriculum and exams, instead of creating a thirst for learning and curiosity.

It is definitely easier to start and build businesses in SA versus the developed world and first mover advantage is rewarded

Urbanisation continues in South Africa

The world is increasingly, and rapidly urbanising, with South Africa being no exception to this transition. More people are being born in cities and there is the continued movement of people from rural areas. Urbanisation levels in South Africa are currently higher than the rest of Sub-Saharan Africa and the world average, with the country forecast to close the gap towards levels seen in the more developed regions of the world.

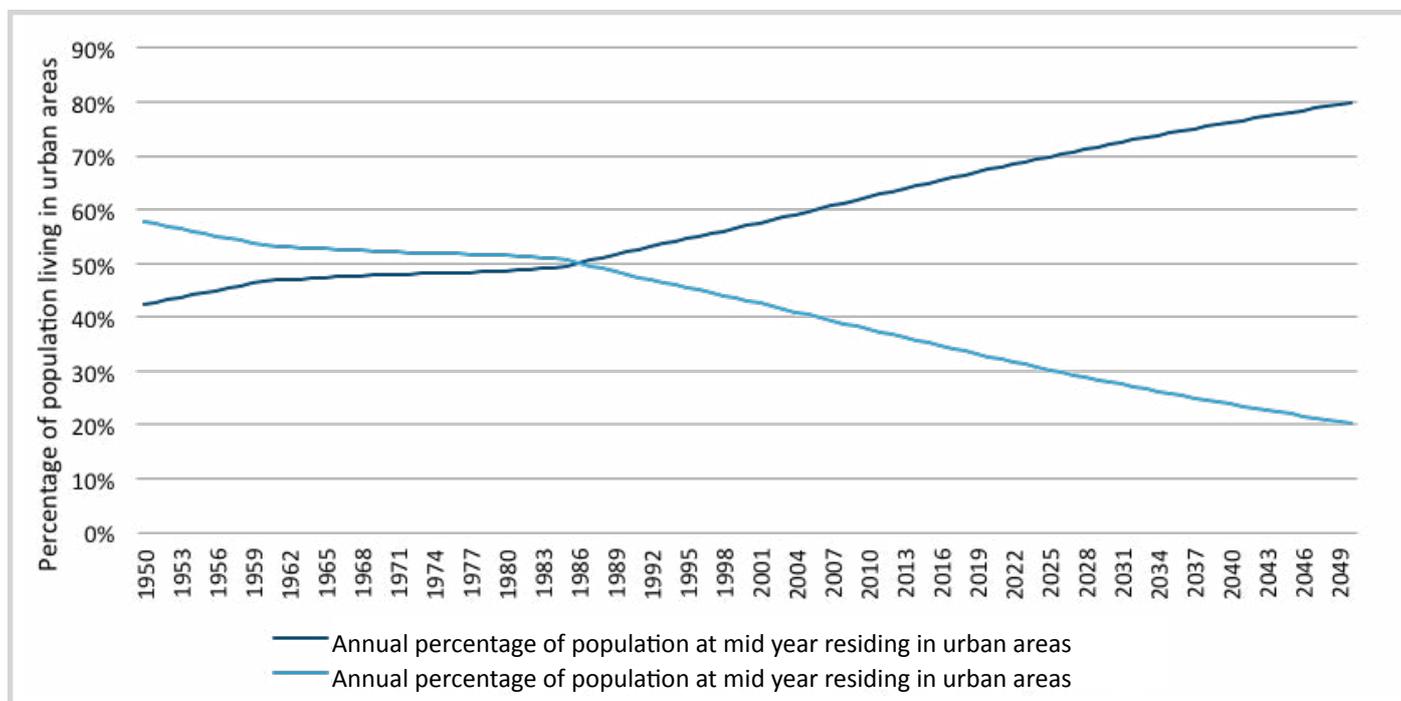
Figure 21: Percentage of population living in urban areas in different regions around the world



Source: United Nations, World Urbanisation Prospects, 2018

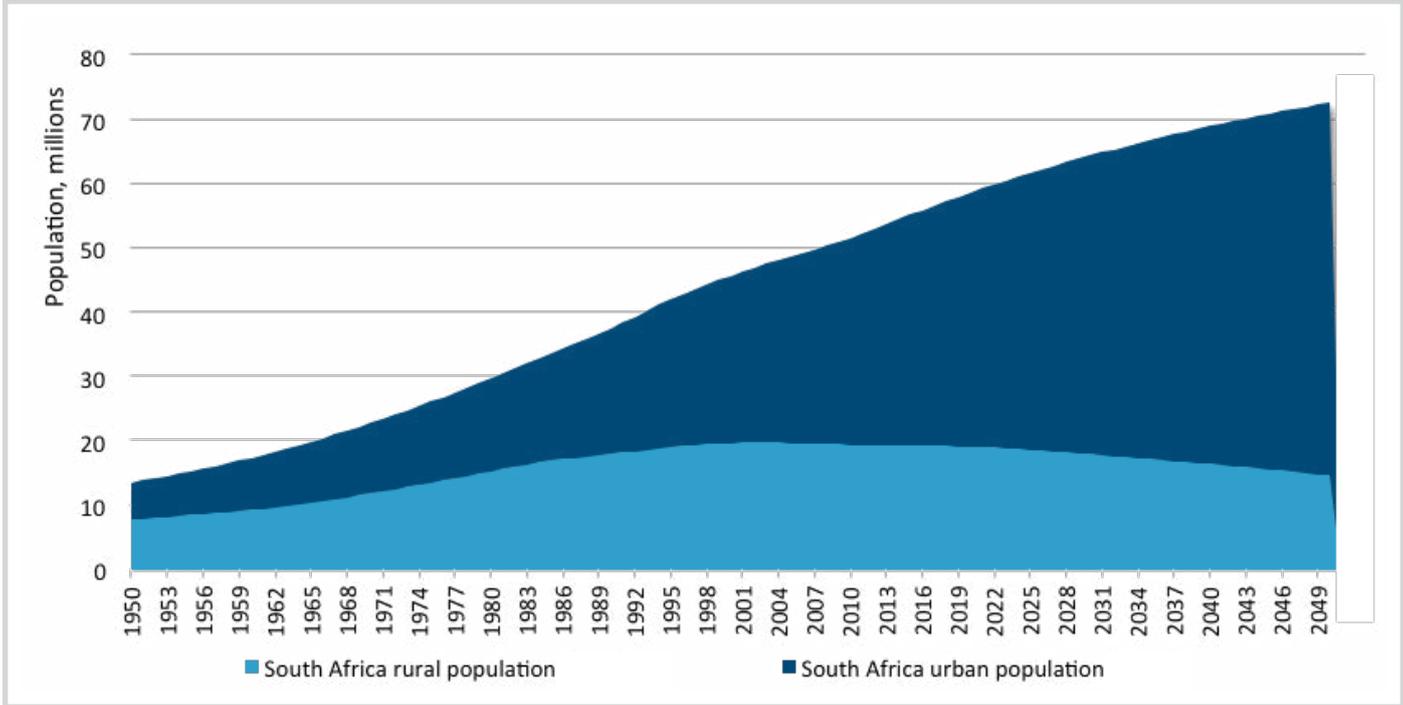
In South Africa, over half of South Africans now live in urban areas with over 70% forecast to be urbanised by 2030.

Figure 22: Percentage of South African population living in urban and rural areas



Source: United Nations, World Urbanisation Prospects, 2018

Figure 23: Population (millions) of South Africa population living in urban and rural areas



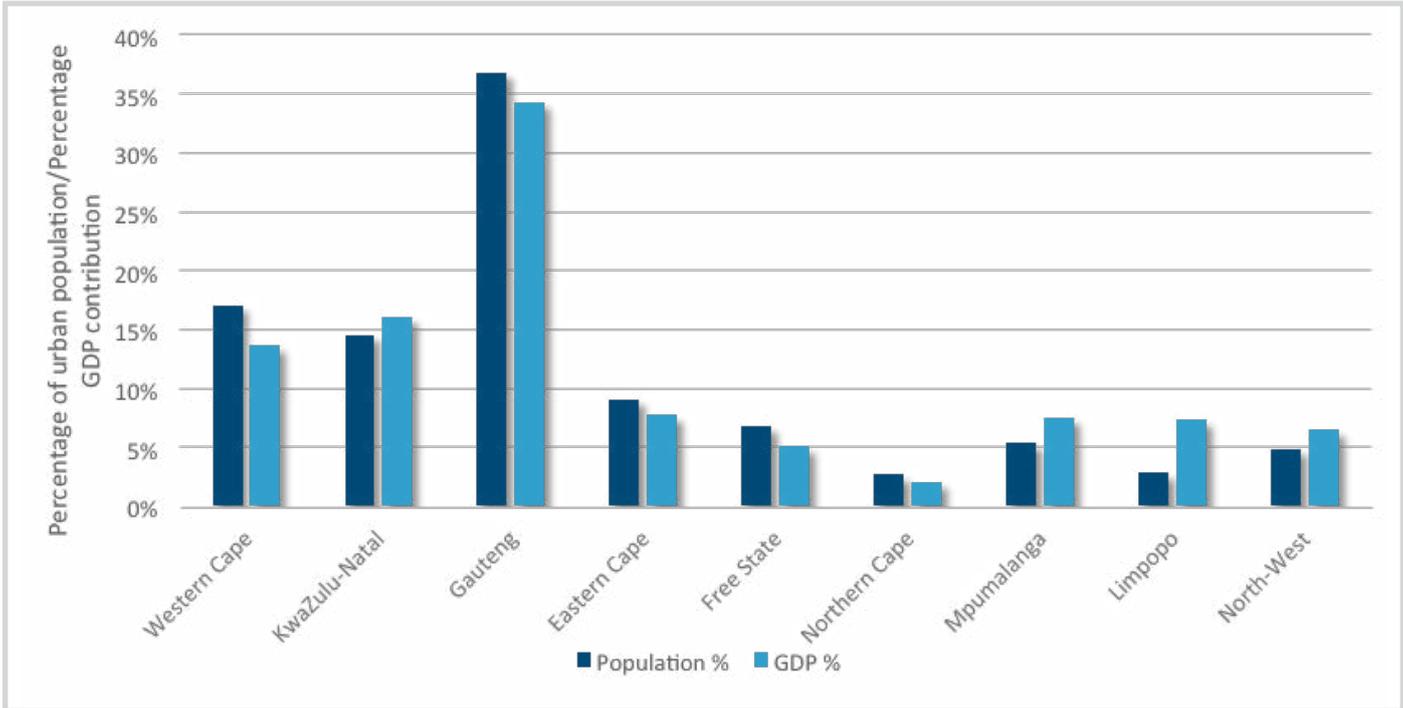
Source: United Nations, World Urbanisation Prospects, 2018

Urban economies are the hub of economic growth

36 million South Africans were living in urban areas in 2017. Gauteng has the largest number of urban dwellers, with more 37% (13 million people) of South Africa’s total. Other urban centres are the Western Cape with 17%, KwaZulu Natal with 14%, and the Eastern Cape with 9% of the urban population.

Urbanisation and contributions to GDP are linked. Provinces with a higher percentage of their population living in urban areas are responsible for a higher percentage of South Africa’s total GDP.

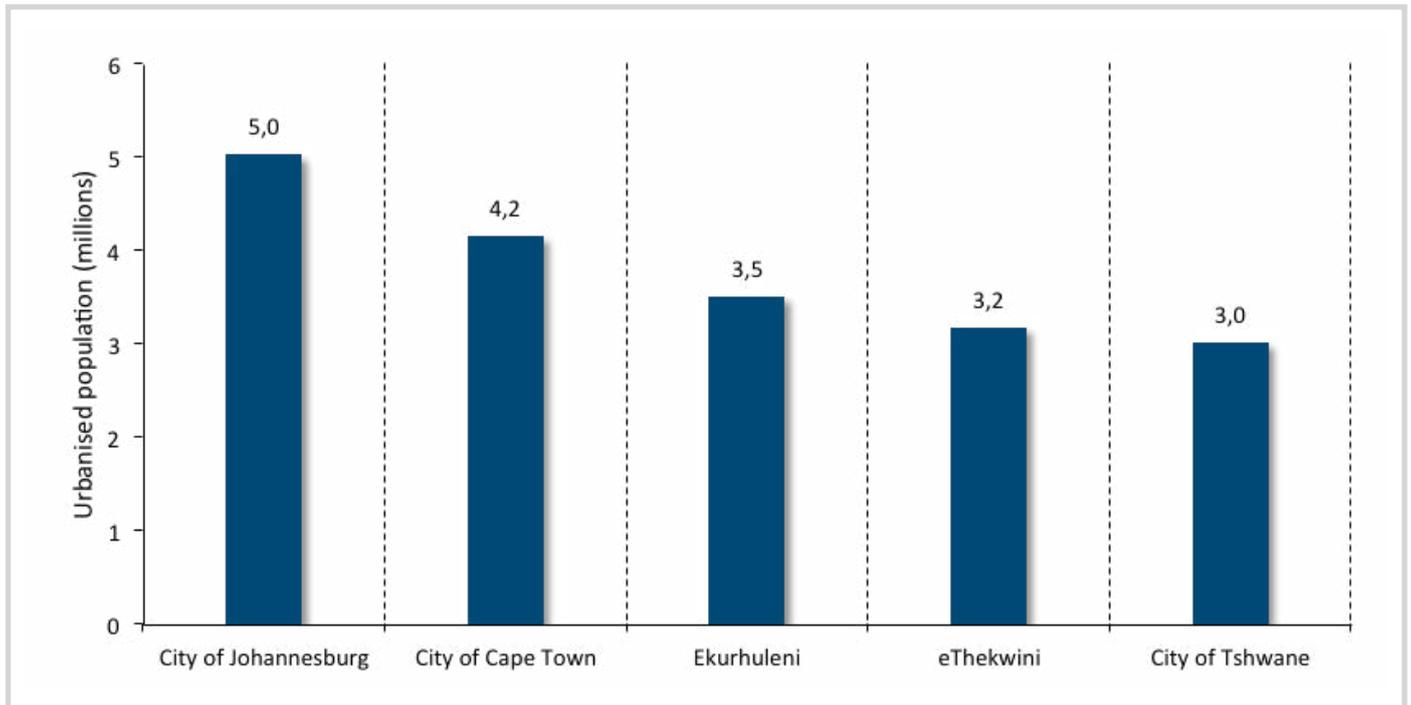
Figure 24: Correlation of GDP and urban population across provinces



Source: IHS Markit Regional eXplorer 1570 (2.6d), FTI Consulting analysis

Urban areas are economic engines that cluster together trade, investment, industries and business

Figure 25: The 5 largest urban populations in South Africa



Source: IHS Markit Regional eXplorer 1570 (2.6d), FTI Consulting analysis

Urbanisation brings many benefits

The high levels and rapid pace of urbanisation in South Africa could bring many positive social and economic opportunities. Bringing diverse cultures into closer proximity to interact, live and work together tends to lead to further social and cultural integration and understanding.

Urban areas are economic engines that cluster together trade, investment, industries and businesses. This creates more opportunities for jobs and well as access to better quality education and health care.

However, the rapid flow of people moving to urban areas in South Africa will require first rate planning and management of infrastructure development for areas such as transportation, utilities and social infrastructure such as schools, housing and hospitals.

Above average business resilience

FTI Consulting's 2019 Resilience Barometer highlights how G20 companies are managing their risks, challenges and opportunities in an interconnected, technologically disrupted and regulated world. To develop the barometer, 2,248 executives were surveyed across the G20, with a combined turnover of US\$ 1.6 trillion and 6.7 million direct employees, including 118 South African companies from 10 different sectors.

Executives were asked about their company's level of preparedness against 18 possible scenarios likely to have a negative impact on turnover. These covered 4 dimensions of resilience:

These covered 4 dimensions of resilience:

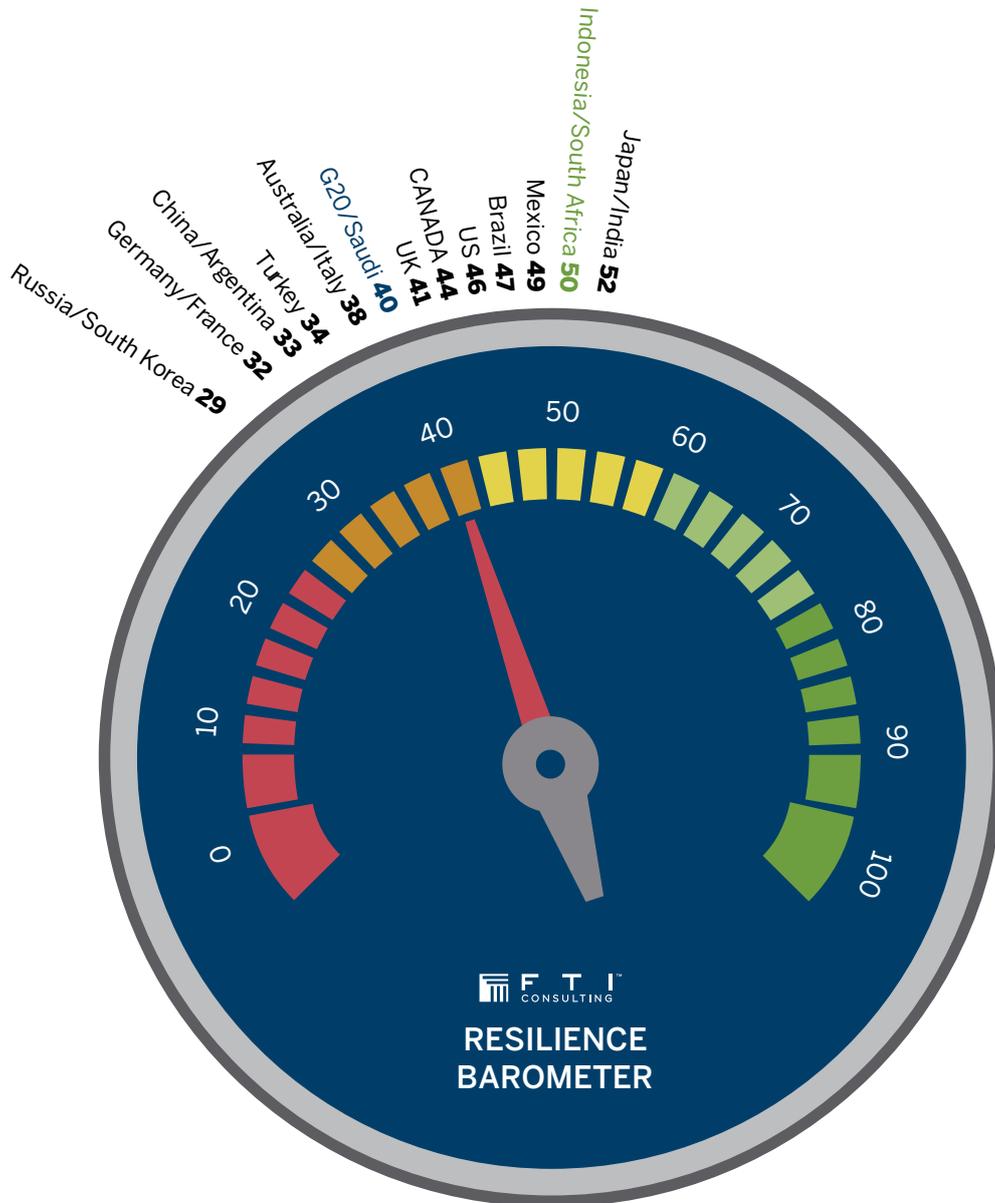
1. Regulatory and geopolitical disruption
2. Leadership, culture and communications
3. Adapting to change and business model resilience
4. Protecting against new threats in a digital world



Resilience barometer

A score of 100 represented a company or country proactively managing all 18 scenarios, while 0 points means a company is not proactively managing any of these scenarios.

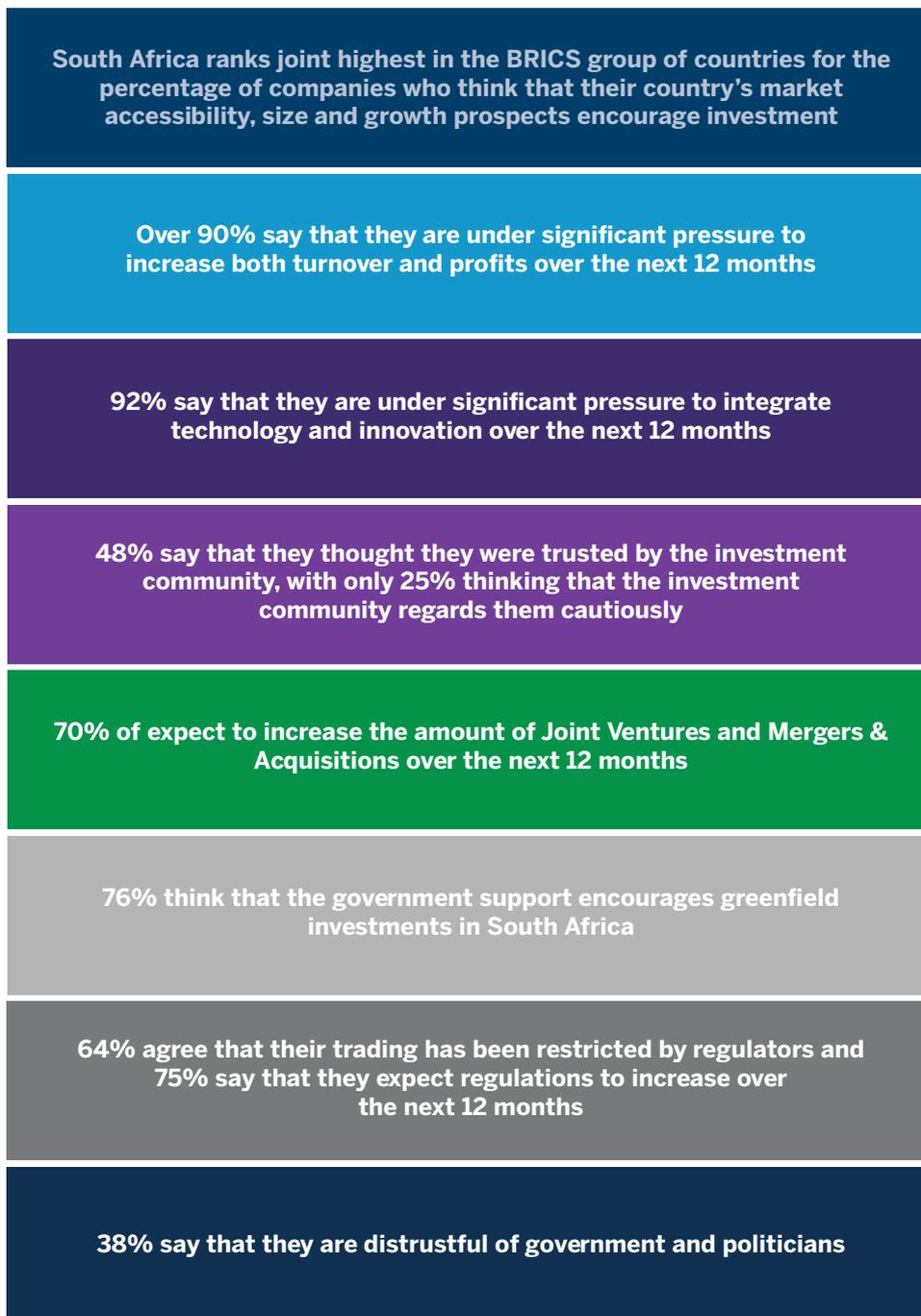
South Africa scored above the average with a resilience score of 50, compared to an average score of 40 across the G20 and second only to Japan and India, who both scored 52.



Source: FTI Consulting Resilience Barometer, 2019

This above average resilience is likely to be a result of operating in a historically volatile environment. Companies operating in more volatile environments (such as South Africa) must be resilient in order to thrive in much more difficult day-to-day operating conditions. South African businesses also reported themselves as being more open to investment, and more likely to be monitoring and evolving technological practices.

Results for South Africa include:



ABOVE AVERAGE BUSINESS RESILIENCE

FTI Consulting's 2019 Resilience Barometer highlights how G20 companies are managing their risks, challenges and opportunities in an interconnected, technologically disrupted and regulated world



Nicky Newton-King
CEO
Johannesburg Stock Exchange

Competence at all levels of the state was eroded during the twilight years of the Zuma presidency. President Ramaphosa is business minded, but he will have to navigate a tricky political timeline ahead, with elections coming up in May.

We can now tick off a whole lot of issues that we would never have thought possible a few years ago. We can say 'look who the Minister of Finance is,' 'look at the improvement in governance,' 'look at who is in charge of the SA Revenue service,' yet we now seem more uncertain than ever. I believe this is function of a whole host of unresolved national issues – whether it's land or accountability for state capture, it is making people cautious.

When investors feel cautious, however, it means that there is recognition that there is upside possibility. Investors may not be writing the big cheques at the moment, but they are considering what those big cheques could be for in South Africa.

The rhetoric of 'Africa rising' has hit a pause button. We're living in a time globally where there are too many have-nots and economically marginalised people who are asking 'where is my agency in this?'. Meanwhile, at the top of the pyramid, people have stopped even trying to care or make a difference. Look at the UK and US where the mood is also dampened.

There are some clear opportunities, but we need to decide as South Africans where we can be a national winner. We can't excel at everything, so we need to play to our competitive advantage – for example, the strength and sophistication of financial services. We could be doubling down on our efforts in making South Africa a financial services hub for the continent.

If we are to fund the necessary infrastructure and government priorities, we need to focus on what policies need to be in place to create growth. It may mean streamlining the skilled visa process or making it easier for companies to set up here.

Government needs to deliver services in terms of health, education, infrastructure, water and sanitation. If we can fund these effectively, we can start to make a real difference to the lived experience of many South Africans. Of course, growth is the big driver – if you get the flywheel of growth going, you ensure people are employed, that their disposable income grows, that the economy grows. It becomes a self-fulfilling prophecy.

The world is getting cleverer. We need to rethink our education, how we deliver it and what our expectations are about our schools in order to bring as many people as possible into the workforce. Not every person has to be a quantitative analyst. We need master welders and brickies too if we're serious about infrastructure. Sadly, we seem to have abandoned all areas that delivered excellence.

We need policy certainty and coherence. We are better off than 3-5 years ago but it doesn't feel like it, because the policy environment is uncertain. Investors will not deploy capital in the face of risk that they can't understand.

A lack of decision making prevents the economy from being able to move forward. For instance, the future energy mix for our country needs clarity from a policy point of view. Once that is clear, investors can navigate around it. The bottom line is we need to make decisions to develop coherent policy.

Crowding in public and private stakeholders can make a big difference. If we are to transition between a shrinking economy and a new world economy, we will need to collaborate. One man's public private partnership is another man's debt funding, another woman's equity stake. Many private sector business people are giving their time and expertise to sit on boards of State-Owned Enterprises so that bona fide collaboration is built amongst the players.

When it comes to the recapitalisation of State-Owned Enterprises, the JSE has been working with Treasury so that all players can collaborate. SOEs list debt on the JSE, the private sector provides funding and the JSE issues guidelines. This is a great example of effective collaboration.

Crowding in public and private stakeholders can make a big difference. If we are to transition between a shrinking economy and a new world economy, we will need to collaborate

Probably the biggest disrupter for our economy is technology. It will also change how we make policy. For example, traders don't need to be in South Africa to trade in South African instruments. But if they're sitting outside South Africa, how do we regulate them if they are trading South African investors' money?

In South Africa, we don't have a lived history with each other. Workplaces are still not that diverse. We need to spend time – non-transactional time – with each other. Only then can we be more informed and more inclined to have a proper conversation.

LOOKING FORWARD

2019 AND BEYOND

Encourage growth to address challenges

The country is now ready to enter a new phase of growth, with a projected increase in GDP growth. Projections are around 1.5% in 2019 from 0.8% in 2018, with potential to accelerate if the right choices and actions are taken.

Higher growth rates are needed to address our structural challenges. To do this, South Africa must change its narrative and business environment to become a more attractive investment destination that enables competitiveness, inclusive growth, job creation and inequality reduction.

Five enablers of growth

1

Create policy certainty

The shifting political landscape in current years has given rise to significant policy uncertainty in key areas of the economy, hindering economic growth by discouraging investment and slowing decision making. Creating policy certainty and political stability will give businesses the confidence to invest in South Africa for the long term and on a larger scale.

2

Develop skills and jobs for now and the future

While strong pockets of skills existing in the economy, there is a mismatch of skills availability with the skills required for strong economic growth in some areas, particularly the skills increasingly demanded by the 4th industrial revolution. The deficit in these skills in the South African workforce exacerbates the level of inequality in the country, constraining social mobility and economic growth.

3

Encouraging industrialisation

Manufacturing and other industrial sectors are recognised as being drivers of job creation, infrastructure development and improvement of South Africa's trade balances. The government is seeking to support through the recently announced Infrastructure Fund. Enabling growth in these sectors will be important for creating inclusive growth across South Africa.

4

Improve investment attractiveness

Foreign Direct Investment (FDI) is vital to accelerating economic growth in South Africa, particularly that by the private sector. President Ramaphosa has pledged to raise \$100 billion in FDI by 2023, but for this to be successful and sustainable South Africa will need to improve its ranking on global investment competitiveness and ease of doing business indices.

5

Ensure a sustainable energy supply

Reliable access to electricity to meet demand is essential to economic growth anywhere in the world. The financial and operational viability of Eskom is seen by credit-rating agencies as a risk to South Africa's economy, with load shedding and debt severely dampening the South Africa's growth prospects. This must be addressed to reform the industry in South Africa and ensure a sustainable energy supply to support economic growth.

ENABLER 1: CREATE POLICY CERTAINTY

Policy certainty is an ongoing request from investors and businesses

When asked about hesitance in pledging more investment in the South African economy, a lack of policy certainty has been an ongoing response from the investment community. Businesses require certainty and consistency in policy making and implementation so that they can sufficiently predict outcomes to make strategic and operational planning decisions. In addition, South Africa's national credit rating - which enables South Africa to finance government debt at affordable rates - is also negatively impacted by a lack of policy certainty.

As policy certainty is a key issue for the country, a Policy Uncertainty Index (PUI) has been developed by North-West University Business School to quantify changes, with higher scores reflecting greater uncertainty. This index shows a recent decline in policy uncertainty, with the index being 51.4 at the end of 2018 compared to 55.4 at the end of 2017. However, any index result above 50 is still uncertain territory for investors.

Changes in policy making over time

Prior to 1994, policy making in South Africa was undermined by economic structures that advantaged a minority. After 1994, the country moved towards economic policy making whose objective was shared prosperity, using negotiation between business, government, labour and civil society to promote the economic stability of the country. This was supported by:

- Adopting a proportional representation electoral system at a national level
- Creating the National Economic Development and Labour Council (NEDLAC)
- Sector bargaining councils where business, government and labour could discuss sectoral priorities and wage agreements at a high level

In the early years of this change, this system secured relative labour stability and supported the roll-out of measures to ensure the macro-economic stability of South Africa, including:

- The Growth, Employment and Redistribution (GEAR) Strategy (1996)
- The Medium-Term Expenditure Framework (MTEF) for budgeting (1997)

Together, this ensured that a fiscal deficit, inflation and government consumption targets were met with some success, improving economic stability, reporting and accountability.

However, as the global economy started to slow in 2006, the ability of this model to create policy certainty was weakened and a slew of new development strategies and policies were produced. The objective of these was to support faster, more inclusive growth. However, introducing so many competing directives created confusion coupled with concerns about consistency and began to damage investor confidence.

Greater policy certainty is needed in key sectors

There are several key sectors where greater policy certainty and clarity would benefit the economy. Four example areas include:



Mining – Since the introduction of the Mineral and Petroleum Resources Development Act 28 of 2002, the mining industry in South Africa has been faced with uncertainty and the contribution of this sector to the economy has declined (in terms of GDP, investment and employment). This has continued as multiple amendments and new elements have been introduced over the years, resulting in confusion throughout the private sector which has damaged investment. The recent withdrawal of the MPRDA Amendment Bill and implementation of the Mining Charter III have started to create more certainty in the sector (which will need to be closely monitored) and restore investor confidence.



Telecommunications – South Africa's National Development Plan states that "By 2030, ICT will underpin the development of a dynamic and connected information society and a vibrant knowledge economy that is more inclusive and prosperous.", including the use of high-speed internet services such as 4G and 5G. However, the sector regulator, ICASA (the Independent Communications Authority of SA), has so far not agreed a licensing regime for this High Demand Spectrum (HDS) to operators, despite the process being started and stopped numerous times since as far back as 2006. Assigning HDS is now a priority for government before it starts constraining economic growth. This must be done in a way that reduces barriers to entry and expansion, particularly for small operators who have not yet achieved scale.



Private healthcare – Healthcare in South Africa demonstrates high levels of inequality, with 20% of the population using high quality private healthcare while the remaining 80% rely on an over-burdened public healthcare system. To address this inequality, three parallel policy processes are currently in progress. The relevant documents are: (i) The Health Market Inquiry (HMI) Provisional Findings and Recommendations Report (ongoing for the last 5 years); (ii) The National Health Insurance (NHI) Bill (gazetted in June 2018); and (iii) the Medical Schemes Amendment (MSA) Bill. The various recommendations being proposed by these concurrent processes introduce uncertainty into the future of South African private healthcare, and as a result the sector is beginning to lag behind international healthcare investment levels.



Agriculture and land reform – Land reform has introduced policy uncertainty in agriculture, with the Draft Expropriation Bill being gazetted in December 2018. Once signed into law, this Bill will enable amendments to the property clause of South Africa's Constitution. The gazetted Bill provides protection for agricultural land from expropriation without compensation. However, as land reform is such a charged and divisive issue in the sector, any potential changes to legislation and uncertainty around their impacts is likely to impact agriculture investment. For example, the South African Agricultural Machinery Association (SAAMA) has recently reported declines in sales of farming machinery, potentially attributed to the uncertainty surrounding the Bill.



Home affairs – As part of President Cyril Ramaphosa's economic stimulus package, changes to a raft of immigration rules were mooted. Arguably the biggest change was the reversal of a rule requiring foreign minors travelling to South Africa to produce an unabridged birth certificate before entering the country. The rule, which was rolled out in 2015, negatively impacted the tourism sector, but was reversed in December 2018. The change has been widely welcomed by this important growth sector.

Competition policy changes enable sectoral review

An area of policy change with as yet unknown impact is the introduction of the Competition Amendment Act in February 2019. This Amendment bill focuses on addressing concerns about high levels of concentration in certain sectors creating barriers to economic inclusion and participation. It allows regulators to review an entire sector – instead of just a single firm – and determine if it is functioning competitively.

Priority sectors identified so far for review include food and agro-processing, infrastructure and construction, healthcare, banking and financial services, energy, intermediate industrial inputs, and information and communication technology.

The Original Competition Act of 1998 has been successful in creating a more competitive economy, with 388 mergers finalized, 146 cartels investigated, and 193 enforcement cases finalized in 2017/18. The Amendments have broadly been positively received, as they will enable authorities to remedy issues at a sector level to benefit the whole economy. However, as with any regulatory change, this will be a space to watch carefully. Looking ahead, it is important that the independence of Competition Authorities is preserved, that any unintended consequences of these regulatory changes are avoided, and that inclusive growth is not at the expense of economic growth.

Policy certainty is moving in the right direction

The current government has recognised the importance of policy certainty to improve business confidence in South Africa. As such, a number of steps have been taken over the last 12 months to improve policy certainty as a key priority, particularly in sectors such as mining and manufacturing. This is a positive sign which must be continued across all sectors in order for businesses to invest and grow in South Africa. With President Cyril Ramaphosa in his seat for little more than a year, several promising new initiatives are again on the table as the country approaches its sixth democratic election. While only time will tell whether these changes in policy setting and implementation will bring more clarity or more confusion, South Africa's policy certainty is moving in the right direction and the current momentum must be maintained.



Dr Liberty Mncube

Previously Chief Economist at the Competition Commission, now FTI Consulting Managing Director

The mood is optimistic, but high unemployment and joblessness weigh down sentiment. Perhaps I'm an optimist, but I would say the mood is positive. While South Africa is not growing at 5%, projected slow steady growth of 1.5% in 2019 is the result of a renewed sense that government is committed to growth. I think this positive sentiment is shared. We're seeing this reflected in the uptick in mergers and acquisitions over the past year. From a regulatory perspective, more notifications for mergers were filed last year, indicating that there is a renewed sense of optimism in South Africa as an investment destination. The mood is changing, there is a commitment from government to tackle corruption, straighten out State Owned Enterprises and bring our institutions back into good order. Of course, challenges remain – high unemployment rates and joblessness weigh down sentiment and investor confidence. These are structural challenges that dampen expectations.

Creating more jobs is critical to overcoming structural unemployment. While South Africa may have inherited structural unemployment, we are also not creating jobs at the rate we need to be. Until now government has been a big employer. The challenge is changing the narrative so that the private sector can come in and become a creator of jobs and where small enterprises are nurtured and encouraged to flourish. There is an opportunity to develop a skilled workforce, or reskill South Africans for the jobs not only of today, but of the future.

South Africa's dual economy requires dynamism. South Africa's dual economy – where you have a large formal market, but also informal sector that employs millions of South Africans has always presented policy makers with a challenge. On the one hand the formal market needs dynamism to bring in new entrants, while the informal sector faces a myriad of challenges as small businesses try to move into the formal sector.

Policy certainty is critical. The improvement in business confidence is also due to a recovery from policy uncertainty. There is certainly more clarity around different regulations across different sectors.

Red tape needs to be cut. Harnessing technology in government institutions could lead to more efficiency. For example, the competition authorities could move towards paperless processes, where notifications of mergers could be submitted electronically. This would cut down the time lag between filing and decision-making.

Now is the opportunity to build a strong and transformed South African economy. If you listen to what government is saying, but also toward what business is thinking, there is a chance to build on a number of projects already in place. In the bid to boost investment, government is engaging both domestic and foreign investors. Importantly, domestic investors are committing to invest more locally than they have in recent years.

In terms of addressing the trifecta of unemployment, inequality and poverty it needs all hands-on deck.

Government, the private sector and even citizens need to push for a new way of thinking and approaching challenges. If you are the government – structural reforms can be made to address existing frictions. The private sector can invest and help create new entrepreneurs and enable access to markets for small players. Citizens need to embrace the opportunities they are given.

South Africa needs to tackle the natural monopolies of State Owned Enterprises. State Owned Enterprises have come under the spotlight in terms of delivering products and services inefficiently. These natural monopolies, such as state electricity provider Eskom and national carrier South African Airways, are perhaps distorting the market. Of course, the competition authorities' mandate is limited to private enterprise. In some cases, the Commission has intervened when there are state monopolies acting as firms, but the lines are blurred when it is government acting as a shareholder. It is time for competition regulators to move beyond competition law to advocate for new entry of smaller players and against restrictive business practices by government entities.

The private sector can invest and help create new entrepreneurs and enable access to markets for small players

The regulatory capture of government or regulatory replacement (where firms replace role of government) is a case in point.

While South Africa has competition law, there is no product regulation as yet. This means that while our competition law framework has been successful in tackling private sector competition concerns, there is no mandate for the competition authorities to look at how natural monopolies behave. This inter-relatedness has been missing from the policy framework.

The Competition Amendment Bill will disrupt the regulatory space. The recently enacted Competition Amendment Bill is the biggest reform to competition regulation in the last 20 years. It puts economic transformation at the heart of the competition authorities' work. The biggest change is a move towards market enquiries without having to pursue issues using a route of enforcement. Based on the UK competition regulatory system, the new policy framework allows the regulators to look at an entire sector, rather than a single firm, and determine whether it is functioning well from a competition perspective. It also enables the authorities to issue remedies that benefit the economy as a whole.

ENABLER 2:

DEVELOP SKILLS AND JOBS FOR NOW AND
THE FUTURE

Addressing unemployment

Long-term unemployment is an issue for the South African economy, with broadly defined unemployment reaching 37% in 2018. Without a reduction in these levels, poverty and inequality cannot be effectively addressed.

While growth of the economy to create jobs is a critical part of reducing unemployment, it is also important to ensure that South Africans are equipped with the right skills to join the workforce, both now and in the future given the pace of change and technological disruption.

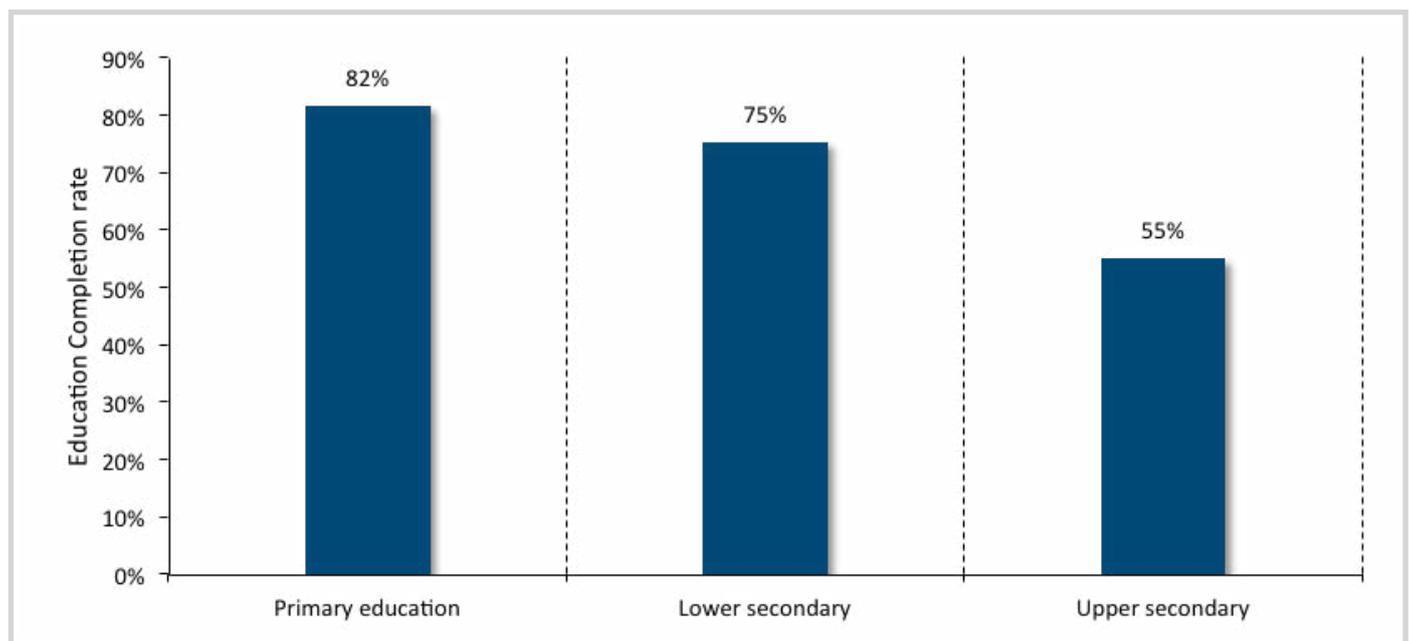
The skills developed must match those required by the economy and there is a trend towards more skilled worker demand growth. Skills deficits in these and other areas in the South African labour market have resulted in a significant premium for graduates of higher education institutions, especially among university graduates. However, access to higher education depends on meeting academic criteria and having access to finance, so the proportion of the population that can access and successfully graduate from these institutions is constrained.

Improving access to and the quality of education

South Africa performs well in terms of access to education, with enrolment in primary education being near complete across the country. Access to education amongst South Africa's non-white population began to expand considerably as early as the 1970s, with large-scale resource shifts towards pro-poor spending taking place. Educational attainment increased dramatically amongst the black population, with matric attainment increasing from 17,980 in 1960 to 8,462,047 in 2011.

However, improved access to education has not always been matched by improvements in the quality of education received. In particular, high levels of dropout occur in secondary education, with up to 45% of students not completing their upper secondary education and only 1% of the poorest 20% obtaining a university degree.

Figure 26: South Africa's education completion rates, 2016



Source: World Development Indicators, Stats SA



Maryana Iskander

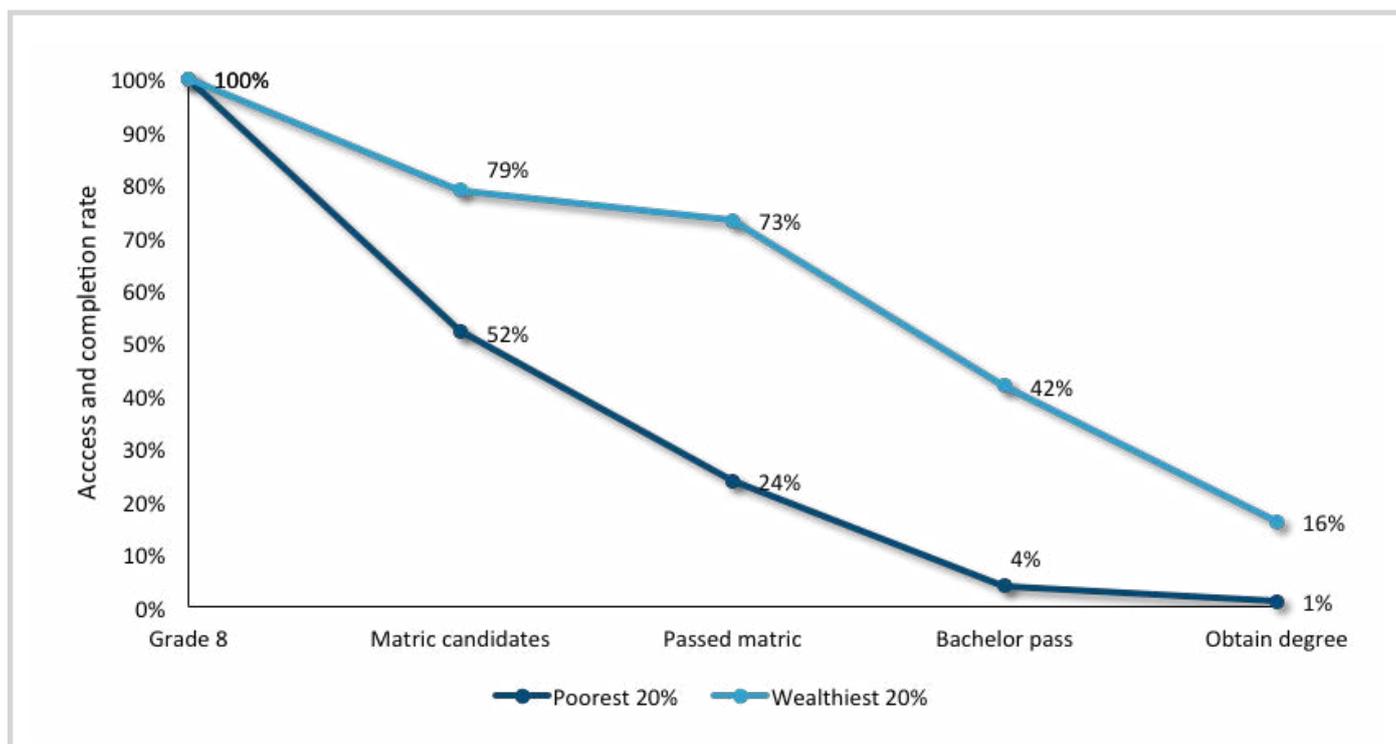
CEO
Harambee Youth Employment
Accelerator

Analysis of job polarisation and robotization shows that lower-middle and upper-middle income countries are likely to be the biggest gainers and biggest losers in employment share impacted by digitalisation. Although it's likely that simple tasks will be automated in similar ways, there will be some benefits.

In our own experience, university degrees for digital jobs such as coding and data analytics are being disrupted. One no longer needs a university education to be a coder. What we are seeing is an increasing appreciation for the so-called 'soft skills' that enhance but cannot be replaced by the big data, automation, or robotics. A good data scientist is not a product of their technical skills but their ability to work in teams and collaborate by way of example.

In the long-run, South Africa will need to take bold steps to improve its human capital development. Generations of South Africans are entering the labour market without some of the most basic skills required to survive into and thrive in adulthood. The longer these problems persist, the more generations we lose.

Figure 27: University access and completion for 2004 Grade 8 cohort



Source: Van Broekhuizen et al. (2016).

The growing disparity between learners from different income group families as they progress through the education system demonstrates the importance of and need for quality education at primary, secondary and tertiary levels, especially given the impact of higher education on employment prospects, future earnings and social mobility.

The government has started to address this disparity by introducing higher education funding for students from families earning less than R350,000 per year. However, given the high number of first year drop-outs, improving education must begin at the primary level so students from lower income families receive quality primary and secondary education and are well prepared for the demands of higher education.

Intrinsically linked to education, youth unemployment is also a particular challenge, with 55% of South Africans under 25 being unemployed.

Creating jobs

Creating more jobs is critical to reducing inequality and poverty in South Africa, with the demand for skilled jobs currently growing faster than demand for unskilled jobs.

The Fourth Industrial Revolution, driven by the coming together of physical and digital technologies, will involve the automation of some jobs, as well as the creation of new jobs that do not currently exist. Jobs which require a human touch, emotion or sensibilities are likely to remain, whereas many others could be automated. The World Economic Forum research indicates that over 50% of all workplace tasks will be automated in the future, compared to 29% at present. However, the same research also forecasts the evolution of machines creating 133 million jobs globally, which will result in a net gain of 58 million jobs around the world. To take advantage of this revolution to reduce instead of increase unemployment, South Africa must prioritise the development of new and existing skills that will be demanded in the workplace, such as:

- Cognitive abilities
- Systems development
- Complex problem-solving
- Content development
- Process management
- Social skills
- Resource management
- Technical skills
- Physical skills

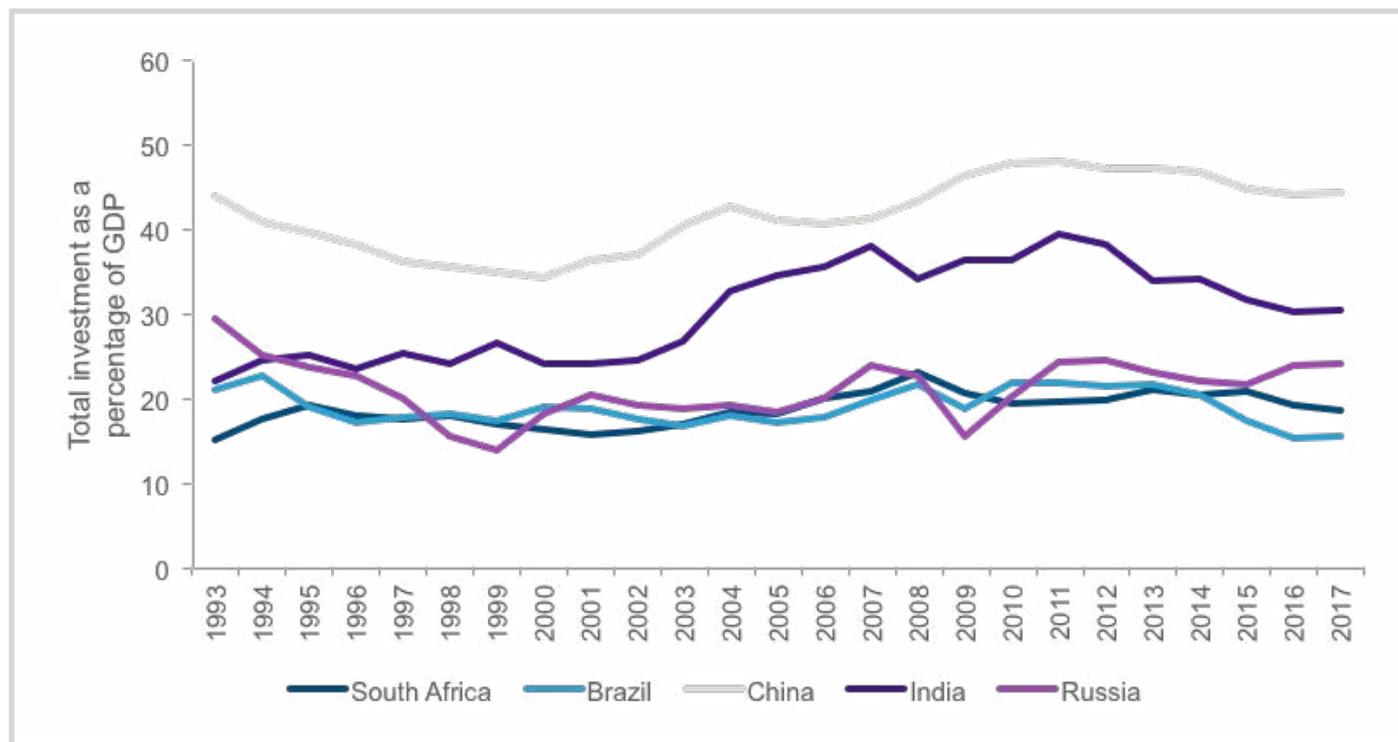
As many of the physical labour and social services that make up a significant proportion of employment in South Africa will take longer to automate, it may be that white-collar jobs are those with the most immediate need for re-skilling. For example, while professionals in the banking sector were previously only required to have accounting skills, as accounting systems are automated they must expand their skill-set to include more of the social and problem-solving skills listed above which are harder to automate, or risk their roles becoming obsolete. To tackle these issues public and private sector action will be required. Businesses must invest in human capital to continually upskill their staff and remain relevant, while government must take the lead on developing a clear strategy to lead South Africa's Fourth Industrial Revolution strategy across all sectors, with an inter-ministerial task team already appointed for this job.

ENABLER 3:
IMPROVE INVESTMENT ATTRACTIVENESS

South Africa remains an attractive investment destination but could do better

South Africa has typically been one of the most attractive investment destinations in Africa and this trend endures during economic cycles. As a percentage of GDP, South Africa's total investment is comparable to Brazil and Russia, but lags behind China and India, who have been growth leaders over the last two decades.

Figure 28: Investment in the BRICS countries, 1993 – 2017



Source: World Economic Forum (2018)

The country has many advantages for attracting investment such as a growing middle and consumer class, a diversified economy, ample natural resources, an advanced financial sector, transport and trade linkages and a strengthening legal system. Nevertheless, South Africa could do better on attracting investment and increase its global competitiveness. This will require economic growth performance, prudent macroeconomic management, political stability and offering high rates of return. Improvements are also needed in skills availability and healthcare to improve competitiveness.

Over the period from 2015-2019, South Africa fell 39 places on the World Bank's Doing Business Index, to just 82nd in 2019.

Table 1: South Africa's World Bank Doing Business Index

Measure	2015	2016	2017	2018	2019	2018 to 2019 trend
Overall	71.08	64.89	65.2	64.89	66.03	▲
Starting a Business	89.43	81.18	80.47	79.97	81.22	▲
Dealing with Construction Permits	81.65	69	68.21	67.53	68.25	▲
Getting Electricity	55.74	41.99	63.18	63.21	68.79	▲
Registering Property	66.02	60.79	59.03	58.43	59.32	▲
Getting Credit	60.00	60.00	60.00	60.00	60.00	▲
Protecting Minority Investors	67.5	71.67	70.00	70.00	73.33	▲
Paying Taxes	88.73	88.75	81.09	80.02	81.13	▲
Trading across Borders	71.05	58.01	58.01	58.01	59.64	▲
Enforcing Contracts	66.14	53.18	54.1	54.1	54.1	▲
Resolving Insolvency	64.51	64.29	57.94	57.59	54.49	▼



Thabo Leeuw
CEO
Thesele Investments

The mood amongst South Africans is subdued, but I have a different take. Five years ago, there was concern about the decay in the moral fabric of government, a worsening perception of the ethics of the state and growing evidence that corrupt practices had taken hold. Currently the mood is low because of a growing frustration that although we now know prevailed in the last five years, there seems to have been little action taken. I think South Africans are difficult to please in the sense that we were all relieved when things changed in the ANC leadership, but now we are caught up in expecting the situation to be reversed almost instantaneously. It would not be irrational for South Africans to give government a chance to get the country back on track.

There is evidence in the past 12 months that action has indeed been taken. The processes embarked upon to make new appointments at key institutions, such as the South African Revenue Service and National Prosecutions Authority are highly credible. These processes should instil confidence in what still lies ahead as government continues to turn the ship around.

The mood is low, but not my mood. I'm in a different space. That doesn't mean I don't have concerns especially around delivery. But I'm prepared to give the processes announced by President Ramaphosa a chance.

The one big opportunity as I see it is that we have a productive manufacturing capacity operating at a low level of utilisation. The capital has already been sunk. If we could get a few things right – policy certainty, for example – we could ramp up capacity and utilisation quickly. This would put us in a position to take advantage of opportunities when the trading environment improves.

Valuations are low, so investors are able to get assets at fairly low multiples. If you take a positive view on the economy longer term, and build this into your earnings multiples, you begin to have valuations that look on the positive side.

We're investing through the cycle. For us, with a dampened mood, come more entrepreneurs looking to sell some of their assets to take money off the table and reduce their risk. That presents opportunities for a business such as ours. We have a different type of mindset and a higher risk appetite compared to, say traditionally white entrepreneurs who may have owned a business for 30 years.

Public Private Partnerships need to be formulated as win-wins. There is often a temptation by the private sector to pass on all the risk to government, while keeping all the upside. It is crucial that you find that point where everyone comes out better off.

Of course, government needs to honour their commitment and hold up their side of the bargain too in Public Private Partnerships. The renewable programme is a case in point. This was a classic PPP, but certain people in government and Eskom sat on bids through several rounds to the point where it became uncertain as to whether they would proceed. The new ANC leadership eventually made sure Eskom put pen to paper. But for a good period of time investors were in a state of flux.

If you're going to attract people to participate in PPPs they've got to have confidence that they won't be caught up in a logjam when politicians figure out how they can manoeuvre the political space. Capital is not patient. If there are those types of uncertainties, investors will move onto the next territory where they have the prospect of same or better returns with less hassle.

One of the problems we have in our country is that you've got asset owners who have certain expectations of their returns and those asset owners are not very well plugged into the socio-economic aspects of our country. The one way to achieve the socio-economic goals of the country is to have pension funds, life offices and unit trusts taking a more active role in enabling an environment where capital will thrive.

Company CEOs are under pressure to regularly report earnings to fund managers who have a total disregard to the environment they're operating in. There is a disconnect. We can't expect companies to be generating returns no matter what. That is a recipe for revolution. We need to have a proper conversation about what is realistically expected from businesses in relation to the socio-economic context.

There is a desperate need for a change in mindset from organised labour. It is about time organised labour is part of the solution and cease to be the problem. You look at the kinds of demands made by organised labour on companies today and you can clearly see that labour has its head in the sand. There is a complete disregard for what is happening around us and the economy at large.

When it comes to education, perhaps corporates should adapt a less elitist approach to skills funding. This isn't to say that we should neglect funding female students doing actuarial science, for instance, but that we should also create space for other skills, such as electricians and builders, whose skills are needed for growth of the broader economy.

The atmosphere remains tense, with business leaders lacking confidence in the medium-term prospects for South Africa. Main concerns include political instability, lack of economic growth and structural issues facing the public sector. The RMB/BER Business Confidence Index is at levels last seen in 2017 and during the GFC in 2009. It also remains unclear what impact fixing state machinery will have on unemployment/job creation, improving consumer disposable income and driving corporate growth.

Investment is in sharp focus

Over the last 12 months, the attractiveness of South Africa for international investment has greatly improved compared to the last five years, with a major push by the government to raise business confidence and FDI inflows. However, global business competitiveness indices show that there is still much work to be done to stabilise and continue to improve South Africa's investment attractiveness.

Improving South Africa's investment attractiveness will require a concerted effort to create a competitive and stable business friendly environment, with stability across the political, legal, social and economic landscape.

From 2018 to 2019, the most significant improvements have been in:

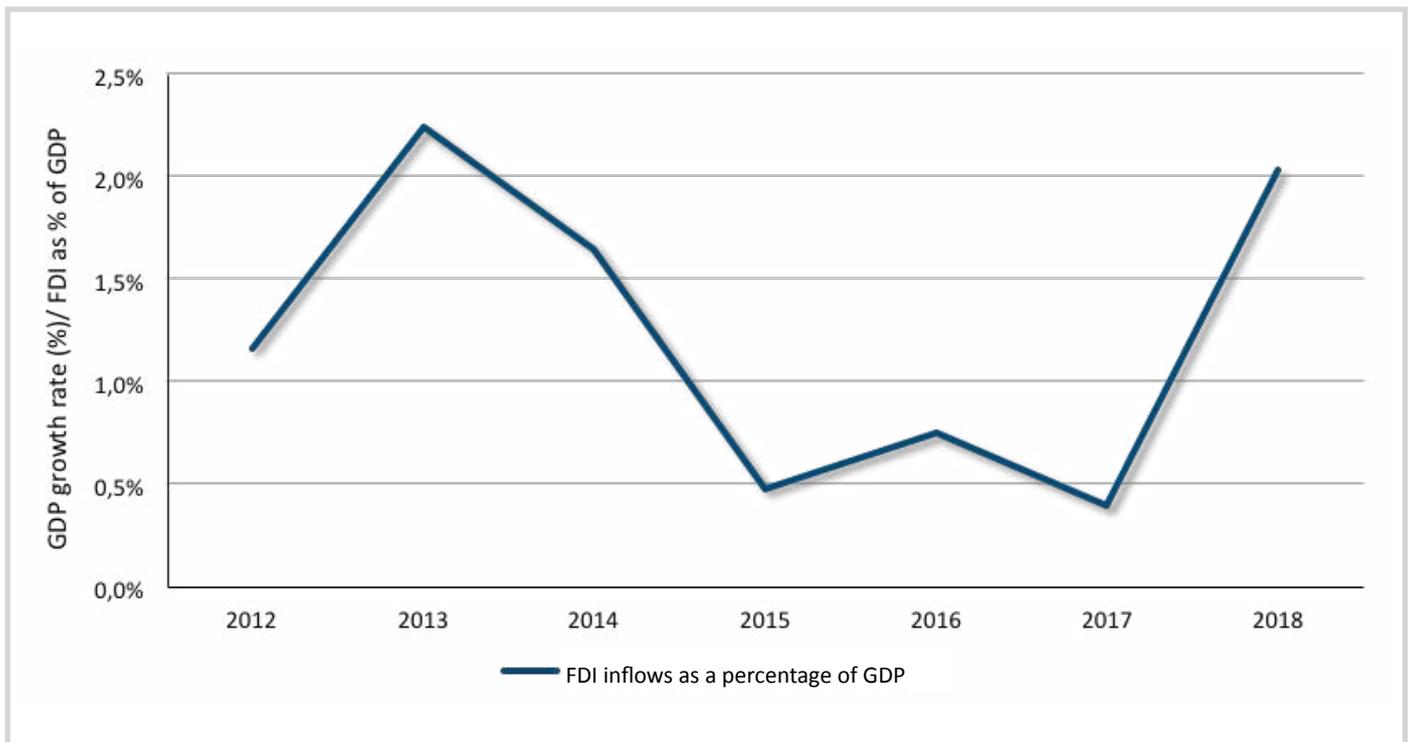
- Protecting minority investors
- Trading across borders
- Starting a business

The most significant decline from 2018 to 2019 has been in resolving insolvency, indicating that more must be done in this area to ease the processes and bureaucracy involved.

Showing similar results, in the 2018 World Economic Forum's Global Competitiveness Index South Africa ranked 67th out of 140 countries. The government's target is to rank in the top 50 countries in the next 3 years. South Africa is already in the top 50 for market size (35th) and innovation capability (46th).

It is evident that attracting investment is high on the agenda, with Foreign Direct Investment (FDI) inflows back to over 2% of GDP in 2018. The Ramaphosa administration has been quick to identify this as a focus area and then take action through creating economic envoys to engage with investors across the globe, holding three-day investment summit comprising of labour, government and investors and setting of a target of \$100bn of new foreign investment.

Figure 29: FDI inflows as a percentage of GDP growth



Source: World Bank data, Bureau for Economic Research

Government will be restricted in the amount it will be able to invest going forward given public finances. Consumers will be restricted as disposable incomes are squeezed and unemployment is high. The success of the investment drive is likely to be decided by how the international and South African private sector views the country and the opportunities. The potential paths for investment and growth are those sectors that can capture opportunities for export led growth and they will require assurance that productivity levels and cost structures in the country are positive. The other potential path is through moving the country forward on industrialisation – to attract previous levels of investment in mining and manufacturing – and open up investments in the growing services sector.



Andrew Aitken and Cassim Motala

Co-heads
RMB Ventures

This uncertainty creates anxiety for investors who now face a difficult choice. Do they invest locally or diversify away from the South African economy in order to achieve reasonable returns on investment? Having said that, we still see global firms acknowledging that a presence in Africa provides good growth prospects in the long term and South Africa is the perfect springboard into the rest of the continent.

The biggest opportunity is for South Africa to create a more stable investment environment for both local and international firms. This means addressing the weaknesses in the education system to grow the necessary skills and providing a functional government that makes it easy for investors from an administration, governance, stability and safety perspective. It also means providing certainty on the key nationalisation debates that have plagued South Africa for the past few years.

From a governance perspective, we need to provide certainty to investors. This means dealing decisively with white collar criminals, blacklisting corrupt businesses and holding directors of such businesses to account. We also need to restore taxpayer's faith that their taxes are being used to deliver services rather than aiding corruption.

Relative to the last five years we remain positive as at least there is acknowledgement of the issues by government and they have begun to address key areas of concern. We have interests in businesses in East Africa, Botswana and the United Kingdom. All these territories have unique issues of their own, but business confidence is positive in these jurisdictions despite their internal issues.

Private Equity in South Africa faces the dual challenge of investing into an economy with lacklustre growth and uncertainty around the direction of future growth. However, deal flow is likely to be driven by transformation requirements under the Broad-based Black Economic Empowerment Codes.

As the fund-raising environment remains challenging, less capital available for investment may reduce competition for deals and as a result, there are opportunities for the growth of our business in South Africa over the next one to two years. Assuming we are able to resolve key challenges, this situation is likely to normalise as South Africa again becomes more attractive as an investment destination. New-entrant private equity firms may disrupt the market by attracting capital using crowd funding.

Powerful trade unions and lack of an educated workforce could lead businesses to increasingly digitise, mechanise and automate their processes. This could exacerbate unemployed and related social issues in South Africa.

Providing there is a competitive and transparent tendering process, Public Private Partnerships could provide solutions in key areas such as energy, transport and healthcare. Private players can deliver critical infrastructure on time and within agreed budgets, with less leakage to corruption. These arrangements also help grow the private equity sector as it opens up bankable investment opportunities on the equity side.

Successful Public Private Partnerships require the complete and early engagement of key stakeholders. The legal framework should be cast in stone to provide protection and certainty to all parties. Perhaps we also need to rethink how we can innovatively include equity equivalents when it comes to including BBBEE in the structure of these deals to avoid the risk of corruption.

Providing there is a competitive and transparent tendering process, Public Private Partnerships could provide solutions in key areas such as energy, transport and healthcare

ENABLER 4: ENCOURAGE INDUSTRIALISATION

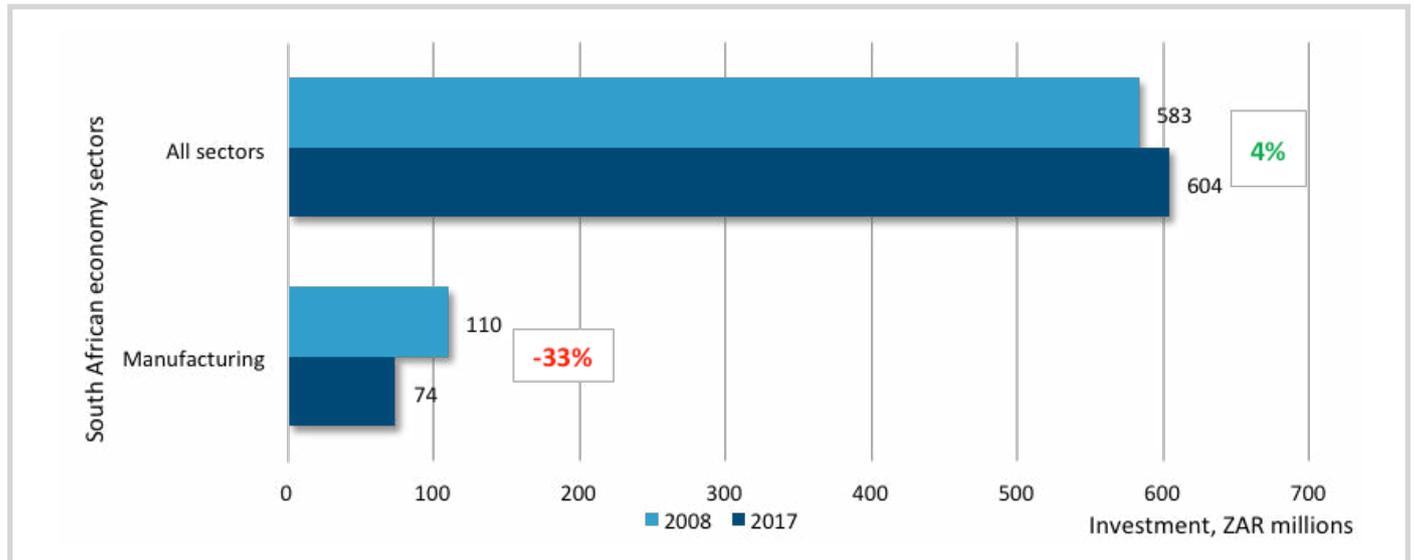
Our industrial base has been declining for the past decade

Industrialisation enables economic growth and development. This is in part due to the multiplier effects of manufacturing industries, as well as their ability to create jobs, develop skills and support the development of new technologies. All of these are contributions which are needed in South Africa.

In recent years the South African manufacturing sector has been under strain, with its contribution to GDP declining from a historic high of 25% in 1981 to only 13.2% in 2017, which is approximately R 560 billion.

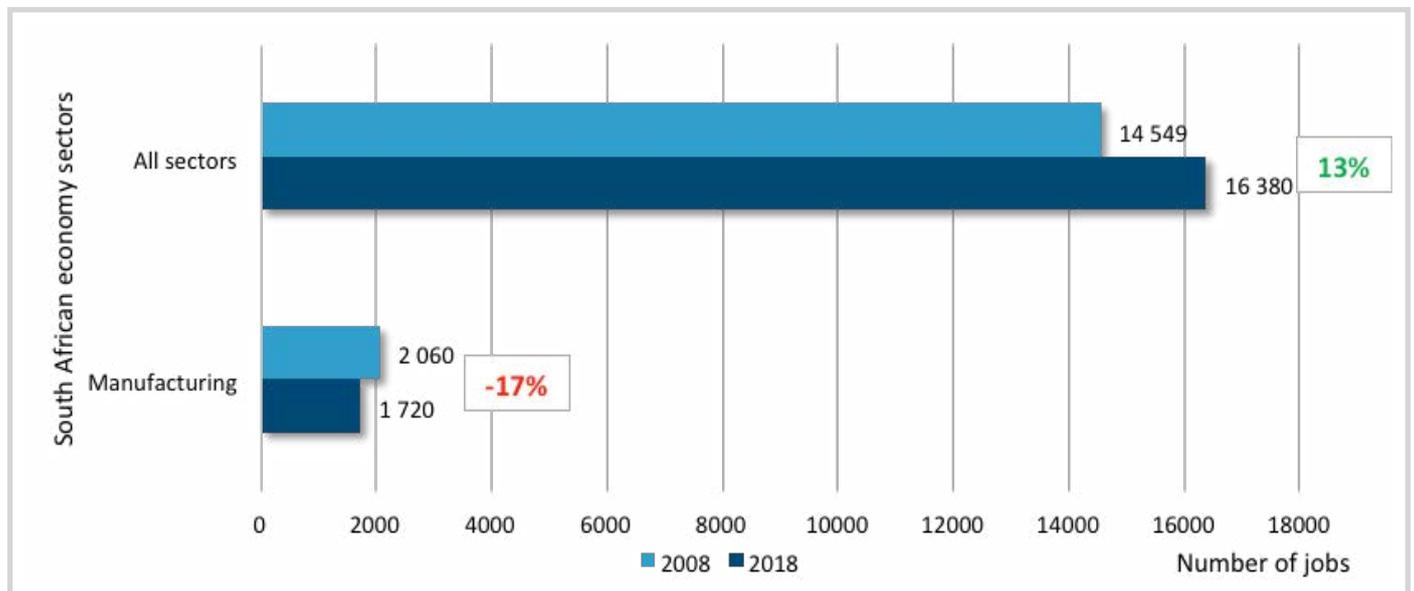
This is reflected in a reduction in jobs from 2,060 in 2008 to 1,720 in 2018 (17%). It is also reflected by a 33% reduction in investment in the sector between 2008 and 2017.

Figure 30: Manufacturing investment, 2008 vs 2017



Sources: Quantec Industry Trend Tables

Figure 31: Manufacturing employment, 2008 vs 2017



Sources: StatsSA, QLFS trends



Rick Menell
Deputy Chair
Gold Fields

South Africa is going through an immense historical transition and one of our key skills and attributes is our ability to forge multisectoral Public Private Partnerships. We're reaching an era where public private partnerships (PPPs) will become a very important factor in our future trajectory again. PPPs were literally terminated during the Zuma period. Now we're going through a renaissance. PPPs will be the salvation of the country. They are certainly going to be able to address the big problems in South Africa better than any other social mechanism.

Government reintroduced the concept of public private partnerships to deal with immediate, high level crisis areas. Whether it was because of student protests on fees or business was clamouring saying they could not keep up with the pace of regulation, PPPs have boomed in the past three to four years. Some PPPs tend to pay lip service, while others have real substance.

These recently established PPPs demonstrate what can be achieved. They have focused on some of our biggest challenges: facilitating the business environment; providing support for small business; relieving the regulatory burden on business; improving the school system district by district; addressing youth unemployment; and providing entry level job opportunities for young people.

We need to understand that everyone has to give up a little bit to work together to solve these so-called intractable problems. We can do it. We have a culture that's conducive to that. We've got a recent history to prove it as well as inspiration and examples. We need an accountable government, an activated citizenry and effective public private partnerships. But to do this, we need leadership across all sectors.

Leadership and management remain a big challenge in every sector of the South African economy. The country's human resource depletion has been dramatic. In 1989, SA's mining industry, excluding oil and gas, represented 47% of the worldwide mining industry by any measure of value or tonnes produced. The mining houses of SA served as the principal repository of expertise in managing mining investment from both a technical and commercial point of view. Last year, SA represented less than 3% of the worldwide mining industry by the same measure. While the rest of the world grew exponentially off the back of Chinese demand, SA didn't take advantage of the situation at all.

We need to address the shortage of skills. One way is by rethinking the visa regime and promoting skills importation. Business and government recognises this, but there are major political barriers. At all levels of SA society, there is hostility to outsiders coming in and taking scarce jobs. But it is something we desperately need so we're going to have to find some compromises in that area.

We may need to dampen down affirmative action in order to retain the skills we have. Whether its government, Eskom, or business, if we are going to drive an aggressive equity programme we're going to diminish our scarce skills pool to a critical level, not augment it.

Strap yourselves in, we're on a roller coaster. There is a growing realisation of the extent of abuse of governance in the last ten years, with it all coming to a head over the past five years. The erosion of governance in State Owned Enterprises, coupled with real failures in governance in the corporate sector has led to a great drop in confidence both domestically and from international sources.

We've got to rebuild step by step and do the right things consistently over a number of years to restore stability

The prevailing view is that there is no silver bullet, there are no quick fixes. The damage is done and it's unfortunate that it has set us back a number of years in terms of economic growth and investment. But we've got to rebuild step by step and do the right things consistently over a number of years to restore stability to infrastructure and the economy to promote growth. But it's not going to happen in a hurry. We have a fragile, relatively uncertain political environment which is important because key settings in the economy are likely to continue to be politicised. Whether it's fiscal policy or empowerment and transformation, these things are going to give periodic shocks to confidence.

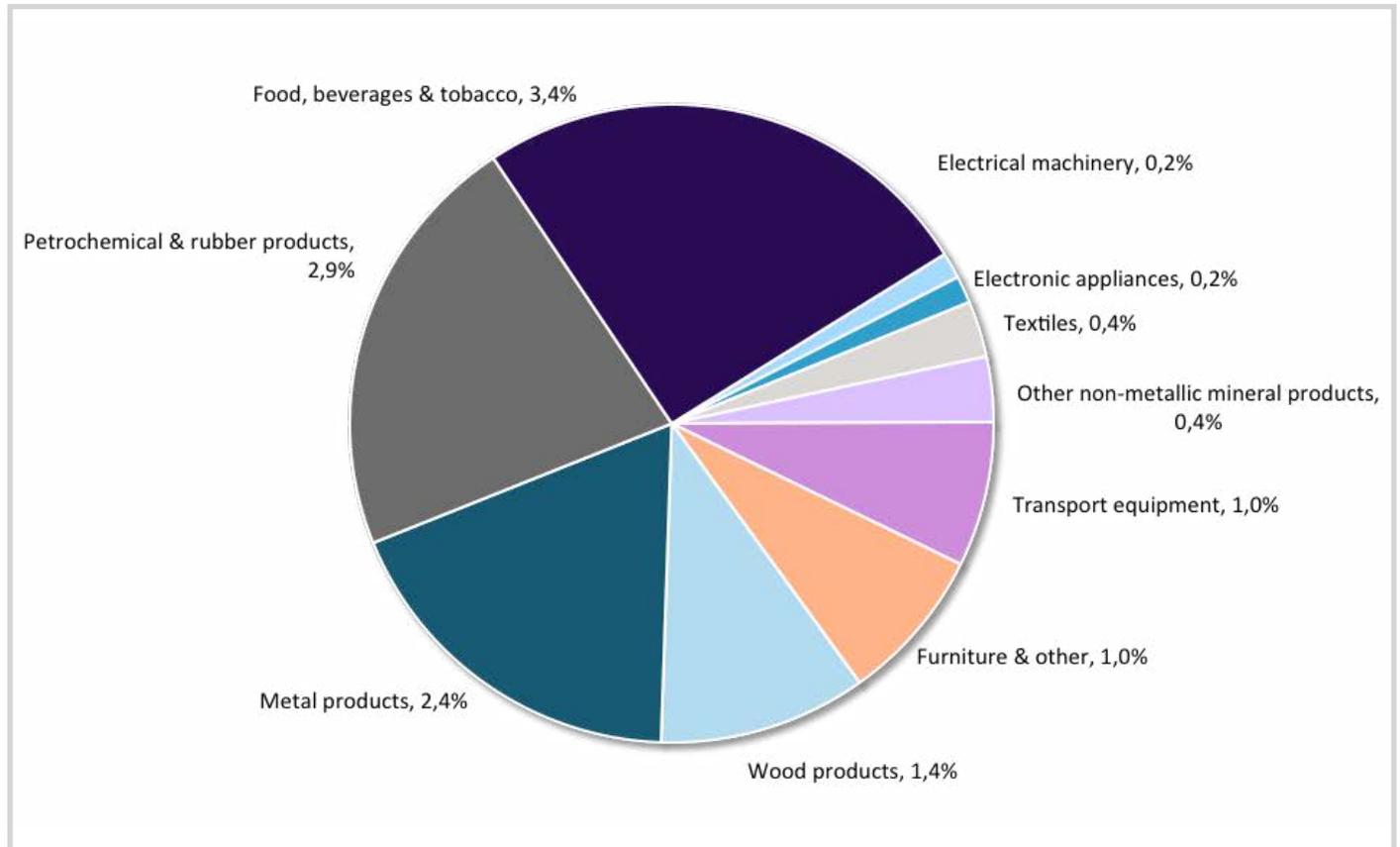
The best available president is Cyril Ramaphosa. He has a divided party with a lot of different forces at work in his party. Everyone is betting on him being smarter, more patient, more strategic than his colleagues in the ANC. Hopefully we can keep a forward movement and build hope along the way.

In mining there is pressure on two of our biggest costs – labour and power. The margins have slimmed down and it's very dependent on prices we don't control and on the rand which we don't control. This is a very high risk environment, with margins at great threat all the time. The only investment you're going to get is incremental brownfields investments to maintain production and utilise existing infrastructure in a cost-efficient way.

Manufacturing is concentrated in three sub-sectors

Almost two thirds of South Africa's manufacturing activity is in the sub-sectors of: (1) Food, beverages and tobacco, (2) petrochemical and rubber products and (3) metal products. This concentration has increased over the last 20 years, indicating a need for South Africa to re-diversify its manufacturing sectors to encourage growth across the economy.

Figure 32: Sub-sector breakdown of Manufacturing sector (2017 contribution to GVA)



Sources: IHS Markit Regional eXplorer 1570 (2.6d)
Notes: Constant 2010 prices

Renewed focus on industrialisation

South Africa is the most industrialised nation in Africa and is increasingly trading within the African region. The country has a strong industrial heritage and has developed a cluster of industries and associated expertise ranging from manufacturing to mining and petrochemicals.

To reverse the past decade of decline, the country will need to ensure that its traditional industrial base can operate more competitively and at a higher return. This can be through a combination of improved transport, cost structures, productivity gains and securing an affordable and stable energy supply. The impending Fourth Industrialisation Revolution also presents new opportunities for manufacturing in South Africa, if it can position itself as a country which specialises in the manufacturing of new products. For example, expertise in the automotive industry could be translated into the production of driverless electric vehicles. Expertise in the health sector could be translated into customised healthcare with individualised drugs based on individual's DNA. The strong engineering heritage could be translated into more automated production lines.

South Africa has also recently begun an industrial policy program which encourages industrialisation and investment in manufacturing industries. The Public Private Growth Initiative involving both government and business has identified 19 sectors in the economy to accelerate innovation and growth.



Anthony Thunström
CEO
Foschini Group

As a retailer, we are directly impacted by both economic conditions and even more importantly, consumer sentiment. But we shouldn't think that low consumer sentiment is particular to South Africa. Consumer sentiment in the UK is also at very low levels. Due to pervasive uncertainties that dominate thinking in both South Africa and the UK, this makes for a challenging operating environment. By way of contrast, Australia has very little political or economic uncertainty, enjoys policy stability and as a net result of these factors, enjoys higher consumer confidence. That said, consumer sentiment in South Africa is still markedly improved compared to the second half of 2017.

Policy uncertainty, populism and ideological differences now, more than ever, need to be tackled head on. These are the areas that need to be resolved in order for local and international businesses to invest meaningfully in our country. Stimulating private sector investment is critical in terms of creating economic growth and addressing the growing unemployment, poverty and inequality crises. The rest of the world isn't simply sitting back and waiting for South Africa to sort out its challenges and we need to start moving forward positively without any further delays.

Government cannot afford its current payroll so realistically, the state cannot itself create more jobs. Instead, government has to create an enabling environment for the private sector to flourish and in turn, the private sector needs to seize whatever opportunities are made available and make sure they are successful. Neither party is going to be able to fix our economy if they try to work in isolation.

Looking ahead, we have to hope that once elections are held in May in South Africa, the type of decisive action that South Africa desperately needs, can and will be taken. Positive outcomes here will translate into significantly stronger consumer sentiment and consumer spending is itself one of the great flywheels of our economy.

Despite the current economic and consumer confidence challenges that we face in the retail sector, it is critically important to continue to invest throughout these cycles. Globally, retail is facing unprecedented disruption and change. Failing to invest now will result in being left behind and becoming markedly less relevant in the future.

With very little real economic growth in South Africa, retail is currently all about growing market share with innovation and efficiency being prerequisites. Digital transformation offers real opportunities for growth.

Ecommerce is enjoying robust growth in all of our markets, but the cracks are beginning to show for the pure online retailers. Free deliveries and returns, combined with high return rates as well as the ever increasing spend on search engine optimization make it difficult to achieve adequate levels of profitability. The convergence of bricks and online is inevitable and is ultimately what the consumer really wants.



Kirti Narsai
Senior Policy Executive
Johnson & Johnson

There is much to be optimistic about our country. In my own field of healthcare, we have led the world in addressing some of the most pressing health challenges like HIV and drug-resistant tuberculosis; demonstrating our boldness, resolve and ingenuity. We are a young democracy. We all must play our part in building on this progress to move moving our country forward. However, we still face practical challenges of power generation, limited GDP growth and high unemployment which we must tackle.

Five years ago optimism was declining overall due to lack of confidence in the government. Business was concerned about growing levels of corruption and regulatory uncertainty. In healthcare, the business/government relationship remained strained. Our ability to overcome those challenges makes me even more confident and positive about the future.

We need to prioritise three areas: continuing to invest in the health of our people to unlock our human capital, attracting foreign direct investment and creating policy certainty. The key is convincing international investors that despite the challenges which our country faces South Africa a worthwhile investment destination.

There is much to be optimistic about our country. In my own field of healthcare, we have led the world in addressing some of the most pressing health challenges

Policy certainty is required for any business to be confident in making investment decisions. In the healthcare sector reforms such as product regulation and bold moves by the government towards universal health coverage through the National Health Insurance (NHI) can translate into broader access to new innovation.

There is also a strong focus on localisation through local manufacturing. We currently have two manufacturing facilities in East London and Cape Town respectively; and employ over 1 000 staff. Our Cape Town plant was recently upgraded to world class standards to manufacture for local and export markets.

When the public and private sectors work together, whole communities benefit. For example, we are championing an initiative in the Southern African Development Community (SADC) region to harmonise the pharmaceutical value chain and remove operational and policy barriers through a multi-stakeholder forum in partnership with the Nepad Business Foundation. This has the potential to change the trajectory of health for people all across the SADC region through improved and timely access to medicines.

ENABLER 5:
ENSURE A SUSTAINABLE ENERGY SUPPLY

Historic reliance on coal to provide electricity

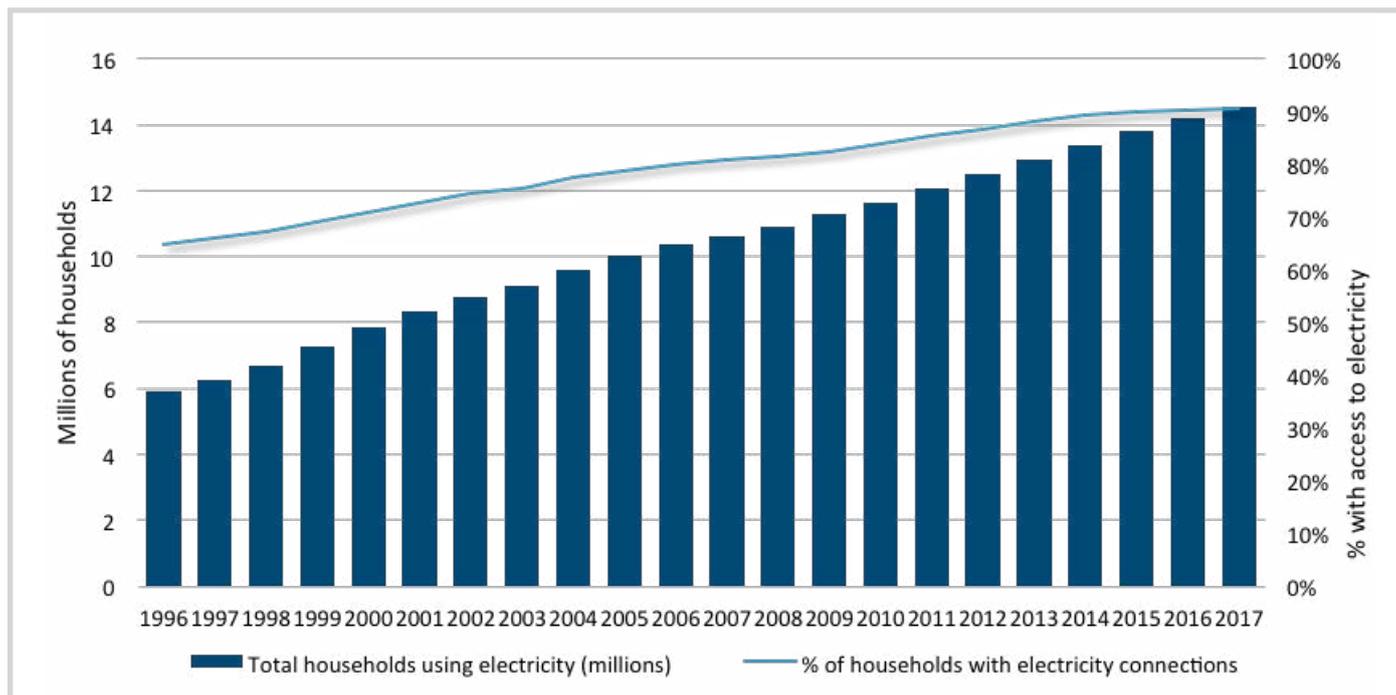
South Africa's exploration and production for oil and gas has been tepid. The country imports over 90% of its crude oil and about 20% of its refined petroleum products to meet energy needs. South Africa has six refineries, with four crude oil refineries supplied by imports and the remaining two converting coal and natural gas into transportation fuels.

The country depends on electricity produced by Eskom with its primarily coal-based generation plants, nuclear power station and some hydropower and a small percentage of renewables.

Growth in South Africa's population, economic development and urbanisation has increased the demand for electricity in recent years, but growth in Eskom's generation capacity has not kept pace, with aging coal power plants still making up much of supply and the commissioning of new plants (Medupi and Kusile) still in progress.

However, over the last 20 years, there has been significant progress made in the access to electricity in South Africa, as per Figure 31. Over 90% of households now have access to electricity.

Figure 33: Household access to electricity



Source: IHS Markit database, 2018

Positive signs for resource exploration

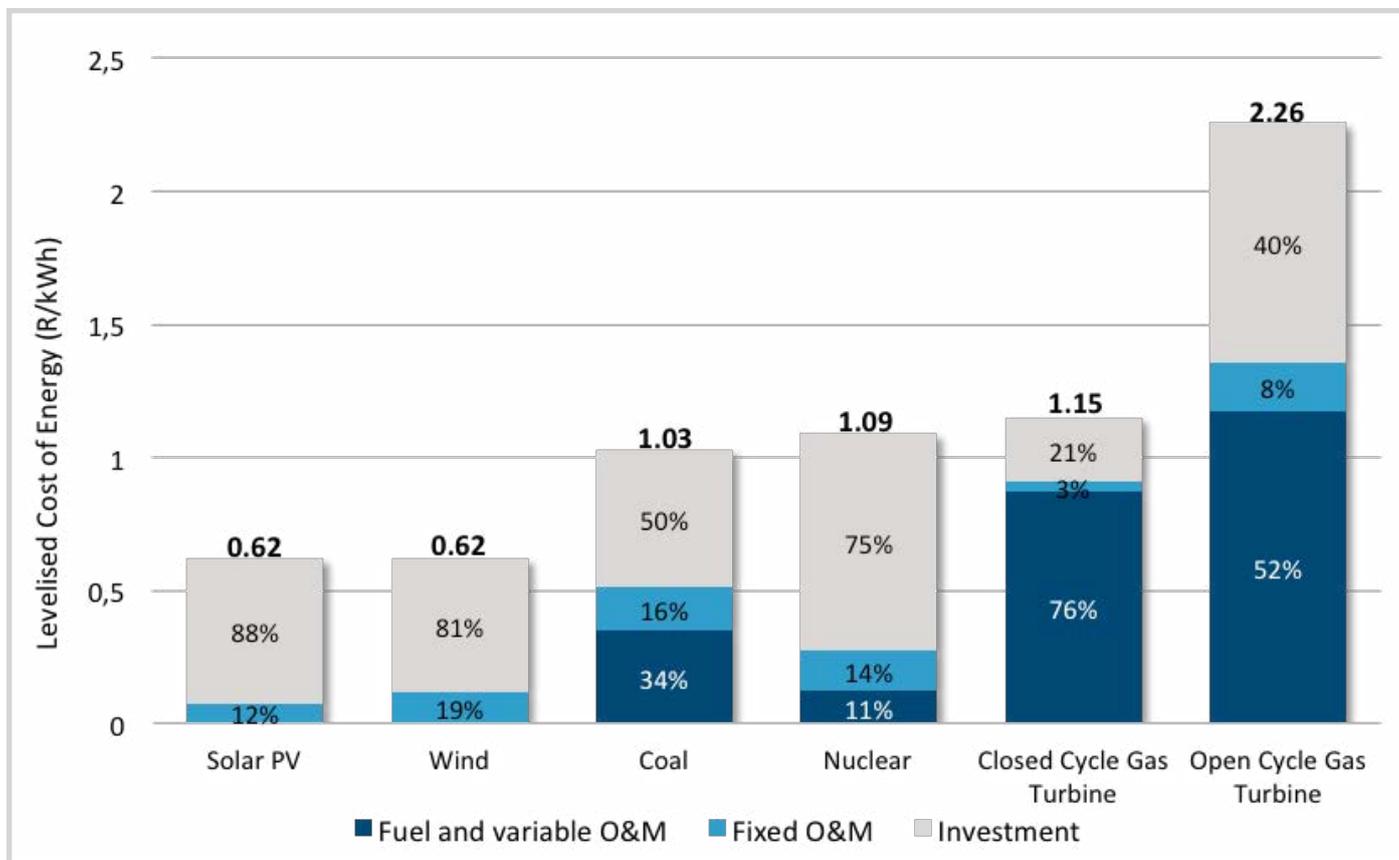
The recent discovery by Total and partners of an estimated 1 billion barrels of gas off the south coast of South Africa with production expected around 2025-2030 has been described by many as a 'game changer' for the industry, likely to encourage further investments and interest in resource exploration. Furthermore, there is potential for this gas to be used for conversion to liquid fuels and/or provide feedstock for power plants, a positive step for a country which is short on oil and has been running out of gas.

The exploration for resources is also likely to become more attractive as the government has withdrawn what was considered a controversial and confusing Mineral and Petroleum Resources Development Amendment (MPRDA) Bill, which included unattractive fiscal terms for any new mining, oil and gas exploration.

There are four important forces at play in South Africa that are likely to disrupt the energy sector:

- Wind and solar photovoltaic (PV) are now the cheapest forms of power generation per kWh. In other words, a tipping point has been passed in South Africa, making renewables the most economically viable source for new power generation and no longer coal. Figure 34 shows the new reality of cost structures for power generation, comparing solar PV, wind, coal, nuclear and gas. The cost of renewables is anticipated to fall further still in the future

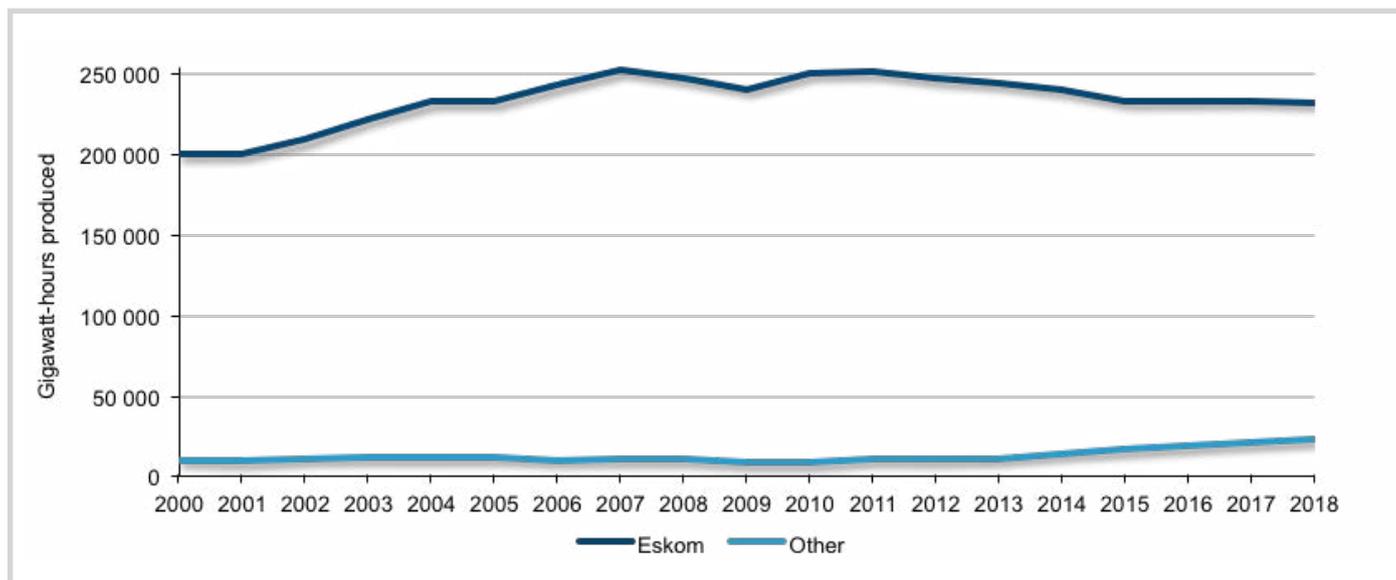
Figure 34: The cost structure of new power generation options



Source: South Africa's Energy Transition, Tobias Bischof – Niemz and Terence Creamer
 Notes: O&M refers to Operations and Maintenance. All figures are 2016 prices

- South Africa is naturally rich in solar and wind with a large land area, many kilometres of coastline and high levels of sunshine. The country is considered world class for renewables and a credible, low risk renewables market among investors and regulatory and energy mix clarity would unleash investment.
- The recent large gas discovery could increase the use of gas in the energy mix and could play a role in replacing coal-fired power generation over time and provide peak support to variable renewables. The relative cost of gas for close and open cycle gas turbines may change
- Across the world, business models for utility providers are changing given new market realities. They are increasingly being liberalised and monopoly providers with centralised command and control systems are being phased out or broken up. South Africa – as Figure 35 shows - is highly dependent on Eskom for the production of electricity. This comes at a time in South Africa when the Eskom model doesn't seem to be working for anyone. There is acute attention being given to the entity at senior levels in government and there is concern about its debt level. The population is frustrated with experiencing both price hikes and disruptions to service and Eskom is struggling to operate with its operational and financial challenges

Figure 35: Electricity produced (Gigawatt-hours) by Eskom and other power producers



Source: Statistics South Africa – P4141.

Analysis shows that in addition to the cost savings of moving to more economically viable renewables, solar PV and wind electricity generation produces 30% more jobs than the energy-equivalent coal-fired power generation, therefore transitioning to renewables would be a key creator of jobs within South Africa. Furthermore, there is significant opportunity to build a manufacturing hub for renewable energy equipment and infrastructure manufacturing in the country, creating jobs across the value chain and driving future economic growth.

Restructuring Eskom

Restructuring Eskom in South Africa has become a major priority for the country. Getting electricity supply back on track and sustainable would go a long way to quell frustrations and create positive momentum for investor confidence and growth for the years ahead.

It is a positive development that the government is giving Eskom such focused attention. It has set out a plan which includes providing condition based financial support and restructuring Eskom's business model by splitting it into three businesses. This would separate the generation, transmission and distribution businesses. This could be a step towards wider reaching power sector reforms in South Africa, enabling independent power producers to enter the sector in a meaningful way, introducing competition to increase supply and lower generation costs. It would encourage the necessary investment in generation and supporting infrastructure which requires modernisation and expansion.

Recent trends and debates suggest that South Africa is looking broadly at the mix of energy sources used across the country. In conjunction with current coal infrastructure and recent gas discoveries, if developed and utilised effectively, these resources could be a significant part of a future diverse and reliable energy supply for South Africa.

It will be important for the country to update and finalise the Integrated Plan by the Department of Energy (the last one was published in 2003) as this serves as an energy mix plan and input for investors.

These four disruptions driving an energy transition – renewables costs, South Africa's resources, gas potential and the shift away from a monopoly power provider model – are forces that will change the energy system in South Africa and the only question is how long this transition will take or how fast it can be implemented.



Tobias Bischof-Niemz

Co-author of South Africa's Energy Transition: A Roadmap to a Decarbonised Low-cost and Job-rich Future

There could be a golden decade ahead for South Africa.

With the right energy mix plan in place, the right investment, transitioning away from a coal-based to renewable energy such as solar or wind, SA could set out on a higher growth path.

The energy transition is an opportunity for South Africa to recapture its competitive advantage.

SA could again attract electricity-intensive industries and revitalise its manufacturing sector. The country could leverage its superior wind and solar resources to produce more exportable goods. For example, the Sasol platform could be repurposed to produce high value, decarbonised chemicals for export.

Reaping the benefits will require clear-sighted policy making, bold decision-making and determined leadership.

Societal discussions need to happen which will determine where the country is going. The future of SA will not be determined by engineers or by researchers, but I have this strong belief that the role of experts in understanding of the underlying techno economics is a necessary condition for these societal discussions to take place on a meaningful basis. I think the energy transition is inevitable. The question is will it be an orderly transition or what I refer to as an 'ugly' transition where the big power utility at the core of SA's economy hits a wall? If Eskom remains a vertically integrated utility, trying to keep its current asset base for as long as possible and even building new coal-fired power plants, it could lead to the latter.

An 'ugly' transition would result if economic pressure on electricity users becomes so big that large corporates just go ahead and build their own solar farms to meet their energy requirements.

If all paying customers go off the grid and Eskom is left with non-paying customers, it would force an ugly transition and potential death spiral. Clearly, we want to avoid this scenario.

Eskom should be split into the different functions it fulfils.

To have a fully integrated utility that fulfils five different functions in one legal entity is really something from the past. It made sense 100 years ago to build utilities in this way because big was beautiful in the old energy world. The bigger the power station, the better because you had huge economies of scale and concentrated fuel sources. It made sense to have one large state-owned entity to raise all the funding you needed to make these huge investments. But that's not the case anymore.

The new energy world is much more granular.

A coal-fired power station the size of Medupi can only be built by a handful of companies on the planet, but a wind farm can be built by almost anybody. Individual investments in renewables are much smaller. Today the industry is structured completely differently.

We can now safely say that renewables are 40% cheaper than coal or nuclear when it comes to capacity expansion for the SA power system.

This applies 100% to any or all new builds and increasingly applies to Eskom's five oldest coal-fired plants. We are heading to the point where it is more expensive to keep them running than it is to shut them down.

Of course, an energy transition won't happen overnight.

We have 45 gigawatts in the existing system. If we build 3GW of new renewable capacity every year, it will still take decades to shift the system.

The Integrated Resource Plan (IRP) is not only an energy mix plan, but a blueprint for investment.

It demonstrates how the transition to a more renewable energy mix will look from a central planning point of view. If you know which coal fired power stations will shut down and in what year, for example, you can utilise the market components to steer new investment to soften any negative impacts on jobs.

Overall there is a significant net job gain with an energy transition.

Empirical evidence shows renewable energy creates more jobs than coal. The problem in South Africa is that you have this substantial net gain for the entire country, but that is immaterial for the individual coal miner whose job is threatened by a move to renewables. Steps need to be taken to ensure that the net gain is more evenly distributed.

The energy transition is an opportunity for South Africa to recapture its competitive advantage. SA could again attract electricity-intensive industries and revitalise its manufacturing sector

What we need is an unbiased IRP that is not politically influenced and is updated every year or at least every second year.

In the beginning, I would suggest government commits to a firm investment plan for the first eight years and reviews it after that period. The beauty of renewable power generation is that the lead time is short. You can build large solar or wind projects with a 7-8 year horizon. Compare that to coal or nuclear, which locks you in for 10-15 years and is totally inflexible.

If the policy environment were attractive, I believe investors would jump to invest in the renewables sector in SA.

The country has shown it can capably implement the IRP. If it is reinstated, many investors would relook at investing. They would also look at investing along the value chain, for example in wind turbines and solar panel manufacturing. There is nothing stopping SA from becoming a manufacturing hub for the renewables sector.

The biggest barrier to the growth of the renewable energy sector is the incumbent inertia in the coal supply chain.

This has labour and capital dimensions. Unless major players in the coal sector are shown a way out, they will be against renewables.

The transition will take decades, so there is time to shift jobs from coal to renewables through reskilling programmes.

To appease labour, many of the jobs in coal can be replicated in green energy – mechanical, health and safety, engineering, for example. To bring coal mine owners on board, perhaps we should be open to the idea of giving them preferred access to equity in large renewable projects.

CONCLUSION

Conclusion

The South African economy is coming out of a period of stagnation and is currently in a state tentative optimism. Upcoming opportunities and recent increases in business confidence are tempered by uncertainty in a number of areas. To take full advantage of recent optimism and growth opportunities, a number of conditions for success must be met by all sectors and stakeholders to enable the South African economy to reach its full potential.

Opportunities	Enabler	Conditions for success
<p>Sector reforms can be enacted via the Competition Amendment Act which benefit the broader economy</p> <p>Stabilisation of policy in the mining and petroleum resources sector to reinvigorate mining's economic contribution and take advantage of major new oil and gas finds</p>	<p>1 Create policy certainty</p>	<p>Ensure that implementation of the Competition Amendment Act does not introduce changes which impact economic growth</p> <p>Create policy certainty in telecommunications and healthcare sectors, as these sectors are foundational to the economy</p>
<p>Accelerate and prioritise re-skilling so South Africa is well placed to develop and benefit from new industries and jobs</p> <p>Launch of the Youth Employment Service (YES), a joint private and public initiative to create 1 million new 12 month paid work experience opportunities for young people in South Africa, developing their skills for long term employment</p>	<p>2 Develop skills and jobs for now and the future</p>	<p>Focus skills development on growth areas, so the deficit in these industries is addressed and unemployment is reduced</p> <p>Improve public primary and secondary education, so the disparity between income groups in higher education is reduced, supporting social mobility</p>
<p>Continue to capitalise on the momentum of the 2018 Investment Conference to change the narrative around investment risk in South Africa and build a pipeline of committed foreign investment</p> <p>Instigate public-private partnerships in key sectors to accelerate infrastructure and sector development, creating jobs and economic growth in these areas</p>	<p>3 Improve investment attractiveness</p>	<p>Undertake major reforms to improve the financial and operational viability of Eskom before international credit agency ratings are impacted</p> <p>Create policy certainty in key sectors (particularly mining and petroleum) to encourage investment and enable accelerated decision making</p>
<p>Accelerate vertical industry interventions proposed by the Public Private Growth Initiative to encourage growth and job creation in the 19 priority sectors</p> <p>Diversify manufacturing outside of the 3 highest contribution sub-sectors to reduce reliance on imports across the economy and improve South Africa's trade balances</p>	<p>4 Encourage industrialisation</p>	<p>Ensure alignment of policies and their implementation across state-owned entities to improve business confidence, investment and support sector growth</p> <p>Prioritize investment in infrastructure or industries with greater long term economic benefits, instead of just focusing on short term returns</p>
<p>Encourage resource exploration with fiscal incentives and policy certainty to build upon the optimism of the recent, large gas discovery</p> <p>Take advantage of South Africa's abundant natural resources and experience to accelerate the energy transition to include more renewables and create new jobs in this area</p> <p>Restructure Eskom and implement a tight regulatory structure to encourage coordinated private investment at the minimum cost</p> <p>Update and reinvigorate the IRP to plan and support the transition to renewables Ensure that supporting Eskom's debt does not diverts funds from other areas of the economy</p>	<p>5 Ensure a sustainable energy supply</p>	<p>Leadership must have the courage to stay the course to solve Eskom's issues and build buy in from those who are defensive to change</p> <p>Update and reinvigorate the IRP to plan and provide support for the transition to renewables</p> <p>Ensure that supporting Eskom's debt does not divert funds from other areas of the economy</p>

Authors of report



CLAIRE LAWRIE
Senior Managing Director
Johannesburg
Claire.Lawrie@fticonsulting.com



LAURA MENZIES
Senior Consultant
Johannesburg
Laura.Menzies@fticonsulting.com



DR PAULA ARMSTRONG
Senior Consultant
Stellenbosch
Paula.Armstrong@fticonsulting.com



DR RIAAN ROSSOUW
Associate
Stellenbosch
Riaan.Rossouw@fticonsulting.com



JACQUI WILMOT
Senior Director
Johannesburg
Jacqui.Wilmot@fticonsulting.com

Contributors

FTI Consulting would like to thank the contributors to this report. They have kindly shared their perspectives on the situation in South Africa and on how to build a positive future for the country.

Adrian Gore, Discovery
Andrew Aitken and Cassim Motala, RMB Ventures
Annabel Bishop, Investec
Anthony Thunstrom, Foschini Group
Clark Gardner, Summit Financial Partners
Coenraad Bezuidenhout, FTI Consulting
Colin Coleman, Goldman Sachs
Kirti Narsai, Johnson & Johnson
Dr Liberty Mncube, FTI Consulting
Lungisa Fuzile, Standard Bank
Maryana Iskander, Harambee Youth Employment Accelerator
Mohsin Cajee, Old Mutual
Nicky Newton-King, Johannesburg Stock Exchange
Nigel Casey, British High Commission
Rick Menell, Gold Fields
Thabo Leeuw, Thesele Investment Group
Tobias Bischof-Niemz

FTI Consulting contacts



PETRUS MARAIS
South Africa Country Lead
Cape Town
Petrus.Marais@fticonsulting.com



MICHELLE DEAVALL
South Africa Marketing Manager
Johannesburg
Michelle.Deavall@fticonsulting.com

About FTI Consulting

FTI Consulting is an independent global business advisory firm dedicated to helping organisations manage change, mitigate risk and resolve disputes: financial, legal, operational, political & regulatory, reputational and transactional. FTI Consulting professionals, located in all major business centres throughout the world, work closely with clients to anticipate, illuminate and overcome complex business challenges and opportunities. The views expressed in this report are those of the author(s) and not necessarily the views of FTI Consulting, its management, its subsidiaries, its affiliates, or its other professionals.

www.fticonsulting.com (c) 2019 FTI Consulting, Inc.
All rights reserved

Johannesburg office
1st Floor, Lumley House
177 Jan Smuts Avenue
2193
Johannesburg, South Africa
Tel: +27 (011) 214-2400

Cape Town office
8th Floor
125 Buitengracht Street
8001
Cape Town, South Africa
Tel: +27 (021) 487 9000