REPUBLIC OF SOUTH AFRICA

MILLENNIUM DEVELOPMENT GOALS

Goal 8
Develop a Global Partnership for Development

UNDP

The South Africa I know, the home I understand

Contents

8.1 Targets and indicators

Target 8.A: Develop further an open, rule-based, predictable, non-discriminatory trading and financial systems Includes a commitment to good governance, development and poverty reduction both nationally and internationally	**Performance summary:** **State of supportive environment:**
Target 8.B: Address the special needs of the least developed countries Includes: tariff and quota free access for the least developed countries' exports; enhanced programme of debt relief for heavily indebted poor countries (HIPC) and cancellation of official bilateral debt; and more generous ODA for countries committed to poverty reduction	**Performance summary:** **State of supportive environment:**
Target 8.C: Address the special needs of landlocked developing countries and small island developing States (through the Programme of Action for the Sustainable Development of Small Island Developing States and the outcome of the 22nd special session of the General Assembly)	**Not applicable**
Target 8.D: Deal comprehensively with the debt problems of developing countries through national and international measures in order to make debt sustainable in the long term	**Not applicable**
Target 8.E: In cooperation with pharmaceutical companies, provide access to affordable essential drugs in developing countries	**Performance summary:** **State of supportive environment:**
Target 8.F: In cooperation with the private sector, make available the benefits of new technologies, especially information and communications	**Performance summary:** Target achieved **State of supportive environment:** Fair
Standard MDG indicators	1. Net ODA, total and to the least developed countries, as percentage of OECD/DAC donors' gross national income
	2. Proportion of total bilateral, sector-allocable ODA of OECD/DAC donors to basic social services (basic education, primary health care, nutrition, safe water and sanitation)
	3. Proportion of bilateral official development assistance of OECD/DAC donors that is untied
	4. ODA received in landlocked developing countries as a proportion of their gross national incomes
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	States as a proportion of their gross national incomes
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	7. Average tariffs imposed by developed countries on agricultural products and textiles and clothing from developing countries
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	11. Debt relief committed under HIPC and MDRI Initiatives
	12. Debt service as a percentage of exports of goods and services
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	16. Internet users per 100 population
Additional indicators	1. Gross domestic product per capita (current prices)
	2. Percentage investment share in GDP
	3. Debt to GNI ratio
	4. Labour productivity
	5. Current account balance as percentage of GDP
	6. Official development assistance received as percentage of GNI
	7. Official development assistance given as percentage of GNI
	8. Gross saving as percentage of gross disposable income (GDI)
	9. Inflation rate (CPI)
	10. Gross domestic expenditure on R&D as percentage of GDP
	11. Foreign direct investment net inflows and net outflows as percentage of GDP

8.2 Facts and figures

DEVELOP A GLOBAL PARTNERSHIP FOR DEVELOPMENT					
	1994 Baseline (or closet year)	**Current Status 2010 (or nearest year)**	**2015 Target**	**Target Achievability**	**Indicator Type**
Gross domestic product per capita (current prices)	22,758 *(2001)*	49,134 *(2009)*	Income growth ≥ Inflation	**Likely**	**Domestic**
Percentage investment share in GDP	15,1 *(2001)*	19,3 *(2009)*	≈25	**Likely**	**Domestic**
Debt to GNI ratio	44,4 *(2000)*	28,4 *(2008)*	<44,4	**Achieved**	**Domestic**
Labour productivity	100,0 *(2003)*	111,6 *(2008)*	Labour productivity > Inflation	**Possible**	**Domestic**
Current account balance as percentage of GDP	- 0,3 *(2001)*	4,0 *(2009)*	No target	**Not applicable**	**Domestic**
Official development assistance received as percentage of GNI	0,2 *(2005)*	0,3 *(2009)*	No target	**Not applicable**	**Domestic**
Official development assistance given as percentage of GNI	No data	No data	0,7	**Not applicable**	**Domestic**
Gross saving as percentage of gross disposable income (GDI)	15,9 *(2001)*	15,8 *(2009)*	>0	**Likely**	**Domestic**
Inflation rate (CPI)	5,8 *(2001)*	7,1 *(2009)*	3 - 6	**Possible**	**Domestic**
Gross domestic expenditure on R&D as percentage of GDP	0,6 *(2002)*	0,9 *(2007)*	1,5% by 2014	**Possible**	**Domestic**
Foreign direct investment net inflows and net outflows as percentage of GDP	8,4 *(2001)*	1,4 *(2009)*	>0	**Possible**	**Domestic**
Fixed telephone lines per 100 population	11,1 *(2001)*	9,7 *(2007)*	≥50	**Unlikely**	**MDG**
Cellular telephone subscribers per 100 population	18,5 *(2001)*	85,9 *(2007)*		**Achieved**	**MDG**
Internet access per 100 population	7,2 *(2007)*	8,9 *(2009)*	≥ 50	**Possible**	**MDG**

8.3 Introduction

South Africa has chosen to customise its targets for Goal 8 in order to track the country's performance against a wide range of macroeconomic variables, such as income and investment, as well as to highlight some key microeconomic constraints to growth and development. As such, many of these indicators may not be regarded as explicit MDG targets and no specific targets have been set. Rather, they provide an economic context to South Africa's MDG report and help to explain South Africa's performance against goals one through seven.

In South Africa, the struggle to end poverty centres on the ability to sustain levels of economic growth that are compatible with job creation, in order to overcome a legacy of systematic unemployment. The diverse range of indicators presented in this particular report has presumably been chosen because they are important contributors or constraints to more rapid and more equitable economic growth. Whereas the Goal 8 indicators do not come with specific goals, it is possible to derive some broad objectives from other South African policy and planning documents.

In 2004, the South African government undertook to halve poverty and unemployment by 2014, in its Accelerated and Shared Growth Initiative (Asgisa). To meet its Asgisa targets, the Government estimated that the level of economic growth would need to average 4,5% or higher during the period 2005 to 2009, and 6% or higher during the period 2010 through 2014. So far, on a real basis the economy has grown at an average annual rate of 3,2% between 2005 and 2009, and thus Asgisa growth targets have not been met.

The Asgisa document furthermore identified the following six binding constraints to the achievement of these overriding economic goals:

- The volatility and level of the currency, which was felt to deter investors and, during periods of systematic over-valuation, result in sustained current account deficits;
- An inadequate national logistics system. The limited capacity, lack of competitiveness and high prices of the transport sector were felt to be of concern given South Africa's status as a long-haul destination;
- Shortages of skilled labour;
- A highly concentrated domestic economy with little evidence of competition;
- A high regulatory burden on small and medium businesses, constraining their ability to act as an engine of growth; and
- Deficiencies in state organisation, capacity and leadership, particularly in economic services and policy.

Progress in overcoming these binding constraints has been mixed. In the area of competition policy, for example, great strides have been made in establishing the Competition Commission and Tribunal as effective economic regulatory bodies. However, the volatility of the domestic currency remains a concern and the costs of infrastructure, skills and doing business in South Africa remain relatively high. Such factors continue to hold back economic growth and employment in South Africa. Whereas the selected indicators do not focus explicitly on Asgisa constraints and targets, they share a common purpose: to raise income, investment, trade, savings, efficiency and employment in South Africa. We now proceed to discuss South Africa's Goal 8 targets within the framework of these over-riding national objectives.

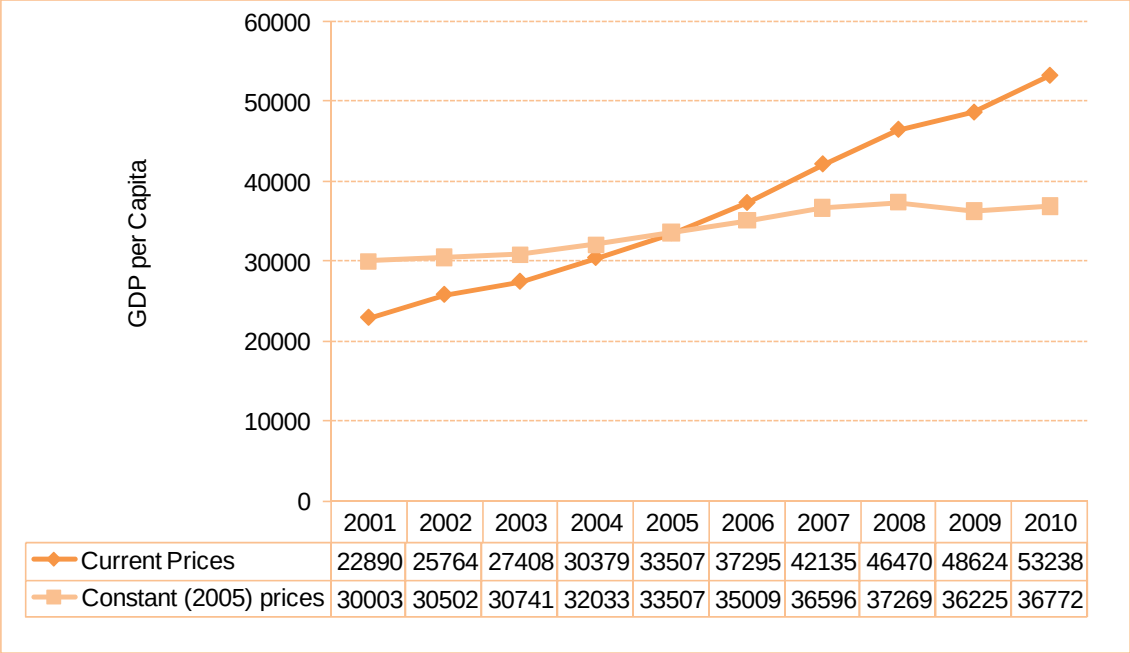
8.4 The South African economy and international competitiveness

GDP per capita provides an estimate of the amount of the income earned (or output generated) by each individual in a country, if that income (or output) was spread equally across the entire population. As such, it is often used to compare wealth across countries and to track the development of individual countries over time. The main advantage of any measure of GDP is that it provides a comprehensive assessment of the health of the economy, and it is very responsive to changing international and domestic conditions. There are however also many shortcomings that need to be considered when using GDP or GDP per capita as a target for poverty alleviation. Most of these relate to the definition and calculation of GDP itself, and the fact that it largely omits subsistence, non-monetary and informal sector transactions. Such income can be considerable in developing economies. More importantly, GDP per capita ignores the actual distribution of income across the population, and therefore provides a distorted picture of the actual standard of living of both the rich and the poor. This is particularly problematic in countries where income distribution is highly unequal, such as South Africa.

Figure 8.1 shows the trend in GDP per capita in South Africa over the past nine years. Both the national MDG indicator, and a second, supplementary indicator are shown. A supplementary indicator is needed because the MDG indicator is based on nominal prices, and thus shows GDP per capita for each year at the prevailing price at the time of compiling the annual data. It therefore includes both changes in output/income and also changes in prices (inflation) over this period. Even if output and income do not change, prices and nominal GDP will continue to rise. The first indicator is therefore not a good measure of the underlying trend in per capita income. For this reason a second indicator, namely GDP per capita at constant prices, has been included to show the real change in GDP per capita with the effect of inflation stripped out.

The real indicator of per capita income rises at a much slower rate than the nominal indicator, and in fact declined over the last year. Still, over the period 2001 to 2009, South Africans have experienced a 20% increase in real incomes. This is a reflection of the relatively strong and extended growth in GDP recorded by South Africa up until the global economic crisis in 2008. With the economy now on the road to recovery, total GDP and per capita income is likely to rise further over the next few years, though at a more modest pace.

Figure 8.1: GDP per capita



	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Current Prices	22890	25764	27408	30379	33507	37295	42135	46470	48624	53238
Constant (2005) prices	30003	30502	30741	32033	33507	35009	36596	37269	36225	36772

Source: Mid-year Population Estimate; Gross Domestic Product, Statistics South Africa

As indicated earlier, it is important but not sufficient to monitor and target changes in the aggregate level of GDP per capita. Bhorat, van der Westhuizen and Jacobs (2009) show that from 1995 to 2005, the real per capita income of white and coloured South Africans rose by 41% and 35% respectively, whereas the real income of black South Africans declined by around 2% over the same period. The gap between the rich and the poor has subsequently increased over this period. For this reason, it is essential to unpack changes in income and continually evaluate the extent to which income inequality is rising or falling across different segments of South African society.

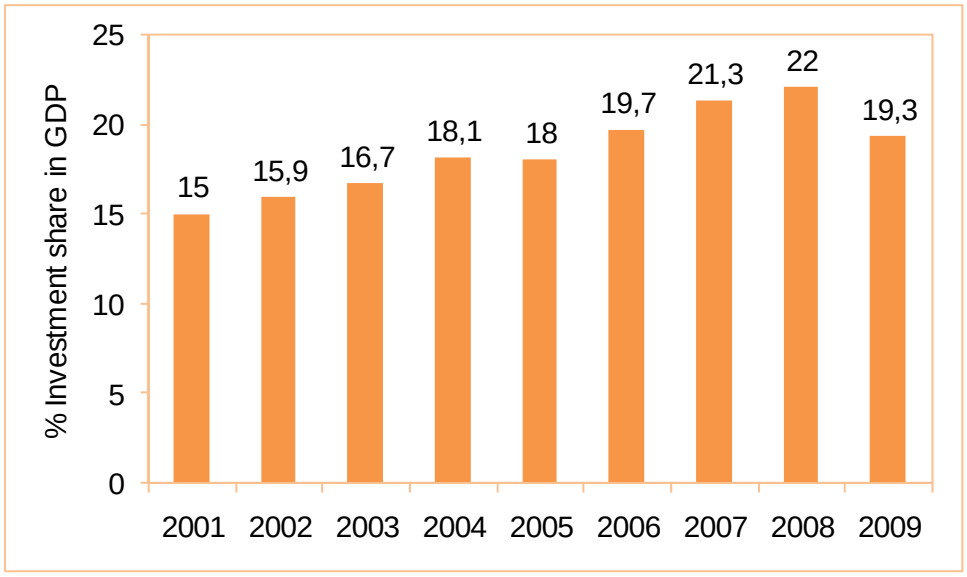
The most commonly used indicator of income inequality is the Gini coefficient. A coefficient of 0 indicates perfect income equality; and as the coefficient approaches 1, the level of income inequality in society increases. Recent estimates of the Gini coefficient in South Africa show that it has increased from 0,64 in 1995 to 0,72 in 2005. The fact that the Gini coefficient has increased by so much over such a short period of time is in itself disturbing. Moreover, "this new result suggests that South Africa is now the most consistently unequal society in the world".

Work by Bhorat, van der Westhuizen and Jacobs (2009), Bosch *et al* (2010) and others highlight the important role played by the social grant system and other government services in partially offsetting the rise in income inequality, but they also acknowledge that the further expansion of such programmes is seriously constrained by cost. The only long-term means to address wage inequality is through increased employment, and this requires a very different set of policy responses. In the mean time, it is critical that a more appropriate target be developed that looks beyond aggregate trends in income.

Indicator: Percentage investment share in GDP

Figure 8.2 reflects the share of investment in GDP for South Africa, given by Gross Capital Formation (i.e. change in capital stock). For South Africa this indicator has shown a positive trend, increasing from 15% of GDP in 2001 to 22% in 2008, before declining in 2009 to 19,3%, a likely result of the Global Financial Crisis. South Africa's share of investment in GDP is lower than high-performing developing countries such as China (44%) and India (40%) but similar to that of Egypt (22%), Turkey (22%) and Brazil (19%).

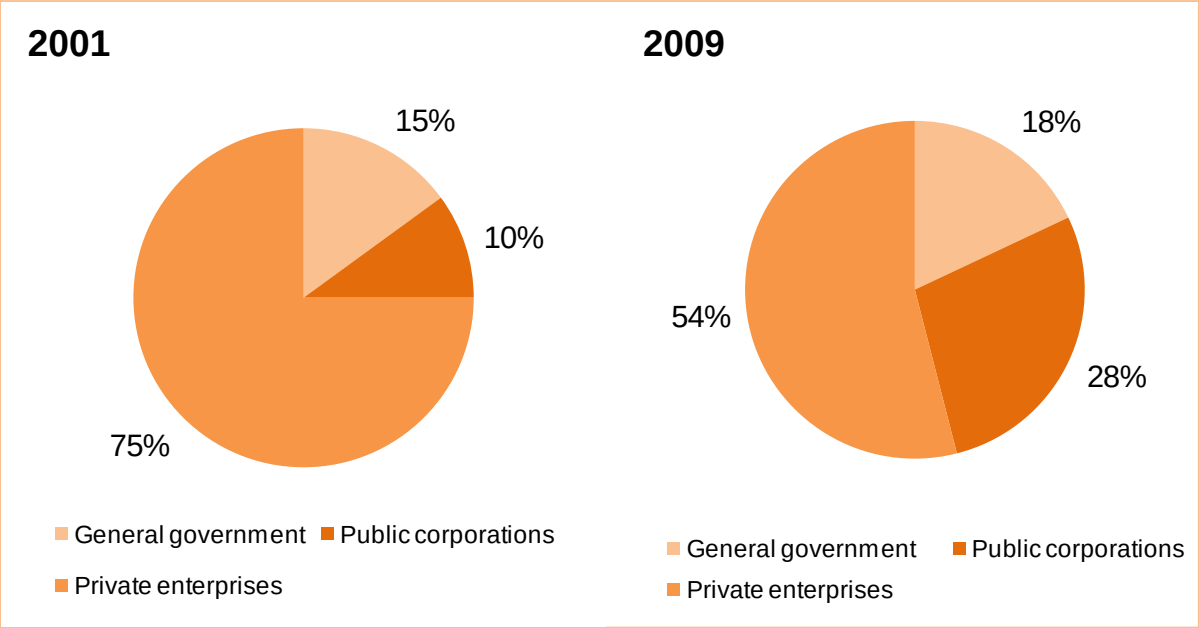
Figure 8.2: Investment share in GDP



Source: *Quarterly Bulletin*, South African Reserve Bank; *Gross Domestic Product*, Statistics South Africa

The increase in investment's share of GDP over the last decade is largely a result of increased infrastructure spending by the public sector, and state enterprises in particular. This is reflected in the changing share of gross capital formation by sector, shown in Figure 8.3. In 2001, the public sector combined (government and state corporations) accounted for one quarter of investment. By 2009 this had increased to 46%. This resulted from upgrades to existing infrastructure and new investment in infrastructure, both directly and indirectly related to South Africa's hosting of the FIFA 2010 World Cup.

Figure 8.3: Gross capital formation by type of organisation



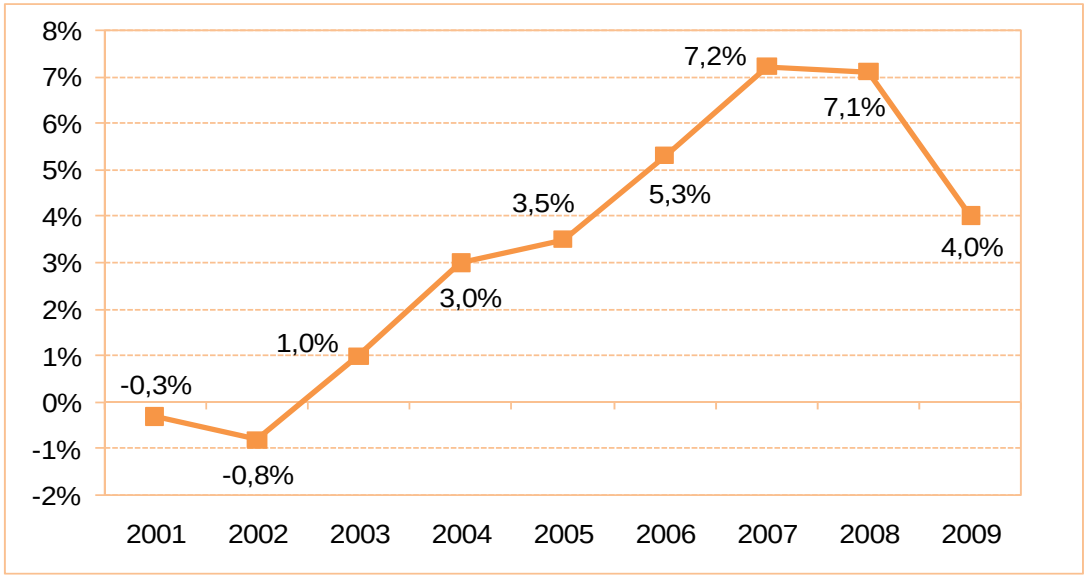
Source: SARB (KBP6181J, KBP6182J, KBP6183J), DNA Economics

Despite a number of challenges facing investment in South Africa, including continued global risk aversion and the completion of projects for the 2010 FIFA World Cup, it is likely that any reductions in private sector investment will be partially offset by investment from the public sector. Already, the public sector aims to spend R846 billion on infrastructure between 2010/11 and 2012/13, with the National Treasury anticipating that annual real growth in gross fixed capital formation will reach 8,7% by 2012, from 2,3% in 2009.

Indicator: Foreign direct investment and net out flows as percentage of GDP

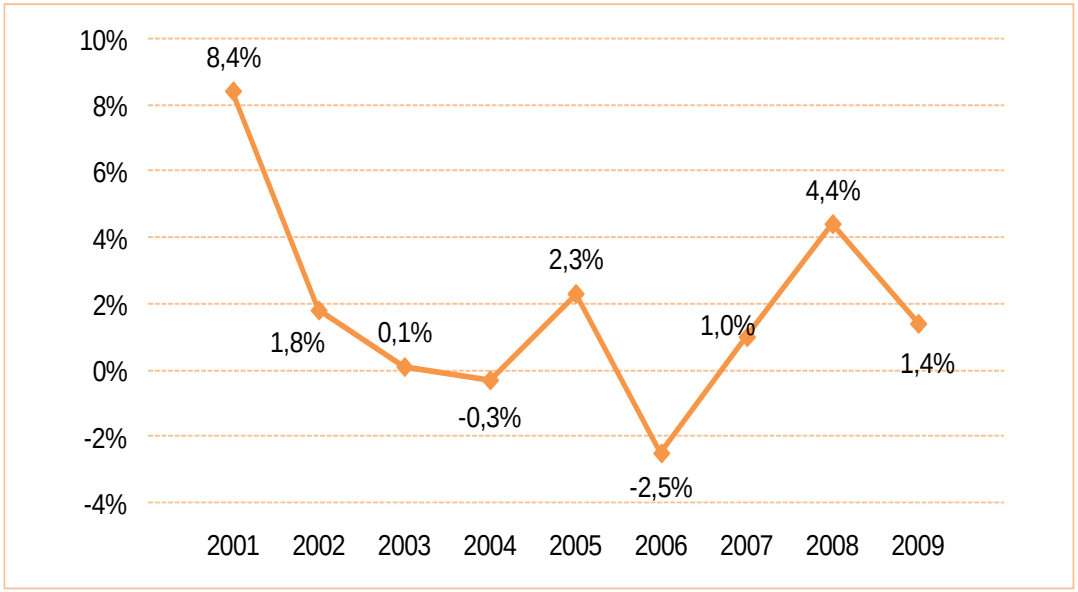
Looking at Figure 8.4, it appears that foreign investment in South Africa has increased over the last decade from -1% in 2002 to 7% in 2008, before declining in 2009 to 4%, again the result of the Global Financial Crisis. While a useful measure, this indicator includes changes in official reserves as well as net portfolio flows to South Africa, both of which are highly liquid and can fluctuate widely as global risk aversion increases. Moreover, portfolio flows do not necessarily result in direct investment in the South African economy.

Figure 8.4: Foreign direct investment as a percentage of GDP



Source: *Quarterly Bulletin*, South African Reserve Bank; *Gross Domestic Product*, Statistics South Africa

Figure 8.5: Net Foreign Investment as a percentage of GDP



Source: SARB *(KBP5683J, KBP6006J), DNA Economics*

Rather than focus on total inward investment, it may be useful to strip out and target net foreign direct investment (FDI) as a percentage of GDP, as shown in Figure 8.5. This indicator provides a completely different picture and clearly illustrates the strong influence of short term investment in overall investment flows. Looking specifically at FDI, foreign investment has in fact declined substantially from 8% in 2001 to just below 2% in 2009, with net outflows recorded in some years.

While the South African government does not have a fixed target for investment in South Africa, the 2010/11 – 2012/13 Industrial Policy Action Plan notes that more investment is required outside of "debt-driven consumption sectors" and "mineral-energy sectors." A key focus of the policy is the lowering of costs for productive investments, and targeted investment in specific sectors of the economy that will have positive inflation and employment impacts, with greater use of industrial financing in productive sectors of the economy. But the above data and the results of various 'cost of doing business studies' reveal that an economy-wide approach may be more appropriate.

The World Bank *Ease of Doing Business* indicators provide a useful comparative review of the regulatory environment across almost all countries, and as such, is a good indicator of the ability of a country to compete for foreign investment. The 2010 index ranked 183 economies, with South Africa performing moderately well with an overall ranking of 34th. However, there are numerous areas where South Africa is perceived to perform poorly and where regulatory reform or further analysis is urgently required. This includes employment regulations, costs relating to exporting and importing, and the ease of establishing and closing a business.

Table 8.1: Ease of doing business

Indicator	Ranking
Starting a Business	67
Dealing with Construction Permits	52
Employing Workers	102
Registering Property	90
Getting Credit	2
Protecting Investors	10
Paying Taxes	23
Trading Across Borders	148
Enforcing Contracts	85
Closing a Business	76
Ease of Doing Business	**34**

Source: Doing Business (2010), The World Bank

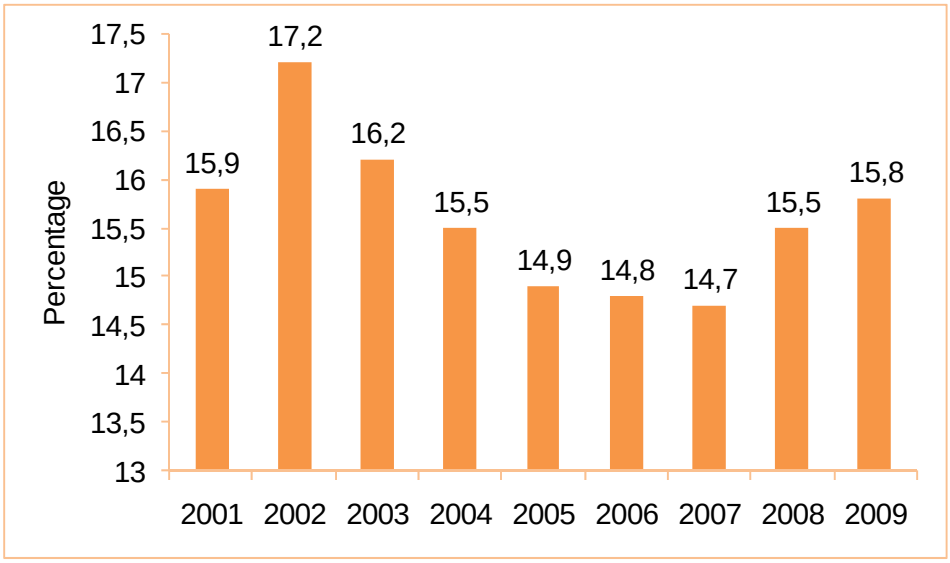
A second measure of South Africa's attractiveness as an investment destination is The Heritage Foundation's *Index of Economic Freedom*. This index measures ten components of economic freedom, including business, trade and investment freedom. South Africa ranks poorly at 72nd out of 179 countries, and is only ranked 4th in Sub-Saharan Africa. According to this measure, South Africa faces particularly serious challenges with "non-transparent regulations, rigid labour laws and crime."

8.5 Savings and debt

Indicator: Gross savings as a percentage of gross disposable income (GDI)

The ability to attract foreign investment is important given South Africa's savings rate, which is low compared to some other developing countries, especially those of Asia. South Africa's gross savings as a percentage of gross domestic product (GDP) was 14,7% in 2007, compared to countries such as China (54,1%), India (37,8%), Thailand (32%) and Mexico (25,5%). Figure 8.6, which shows gross savings as a percentage of gross disposable income (GDI), indicates that South Africa's rate of saving has declined steadily for most of the last decade, before improving slightly in 2008 and 2009.

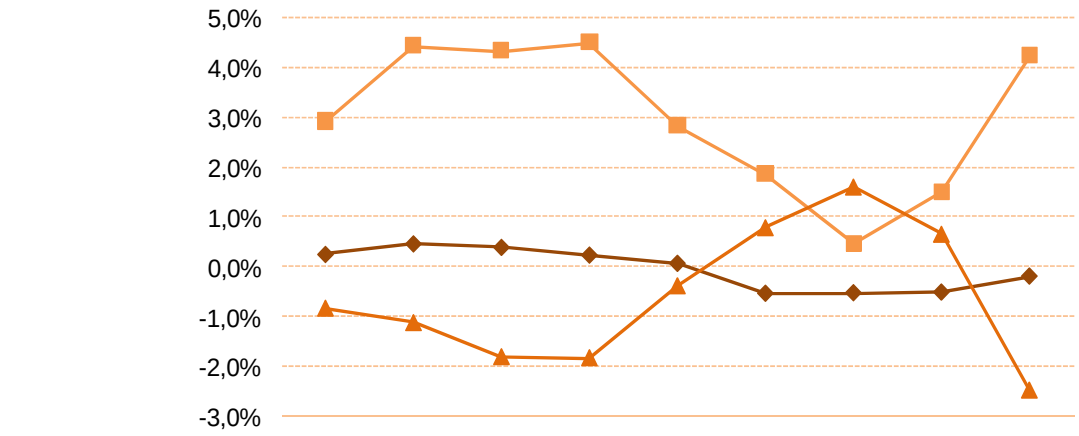
Figure 8.6: Gross saving as a percentage of GDI



Source: *Quarterly Bulletin*, South African Reserve Bank; *Gross Domestic Product***,** Statistics South Africa

To better understand this aggregate trend in savings, it is necessary to look at its various components, as shown in Figure 8.6. Closer inspection of the savings rate in South Africa reveals a very low rate of saving by the South African household sector, with South African households actually dis-saving between 2006 and 2009. The public sector was also a dis-saver over this period. The South African corporate sector was the only net contributor to gross savings, and even its contribution has been low and declining for most of the last decade.

Figure 8.7: Gross saving as a percentage of GDP



	2001	2002	2003	2004	2005	2006	2007	2008	2009
Household	0,2%	0,5%	0,4%	0,2%	0,1%	-0,5%	-0,5%	-0,5%	-0,2%
Corporate	2,9%	4,4%	4,3%	4,5%	2,8%	1,9%	0,5%	1,5%	4,2%
General government	-0,8%	-1,1%	-1,8%	-1,8%	-0,4%	0,8%	1,6%	0,7%	-2,5%

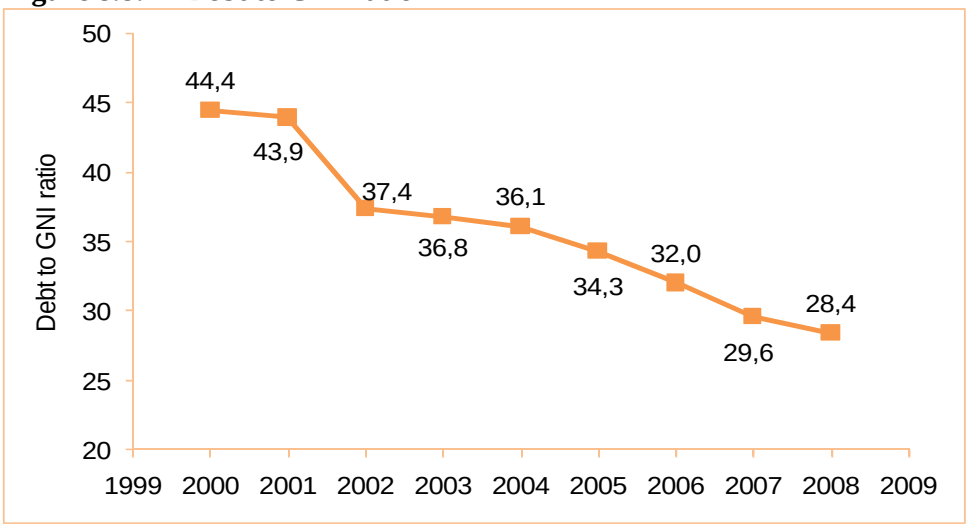
Source: SARB (KBP6200J, KBP6201J, KBP6202J, KBP6006J), DNA Economics

The South African Savings Institute (SASI) indicates that there are a number of reasons for the poor savings rate in South Africa. SASI cites low disposable income growth (due to low employment growth and a rising tax burden), coupled with an inflationary environment and lack of confidence in the future (reducing the propensity to save), as possible reasons for low household saving. For the corporate sector SASI suggests that a lack of profitable investment opportunities (due to a number of reasons, including the high cost of capital, labour market inflexibility and relatively high corporate taxes) and short-term behaviour deters the corporate sector from saving for future investment.

Indicator: Debt as a percentage of GNI

While South Africa has struggled to maintain a high savings rate, the government has succeeded in reducing public debt (as a percentage of Gross National Income (GNI)), shown by indicator *'Indicator: Debt as a percentage of GNI'*. Total gross government debt as a percentage of GNI has fallen by a significant 16 percentage points between 2000 and 2008, to just 28% of GNI in 2008. This has largely been a result of prudent fiscal policies aimed at producing a balanced budget in boom years.

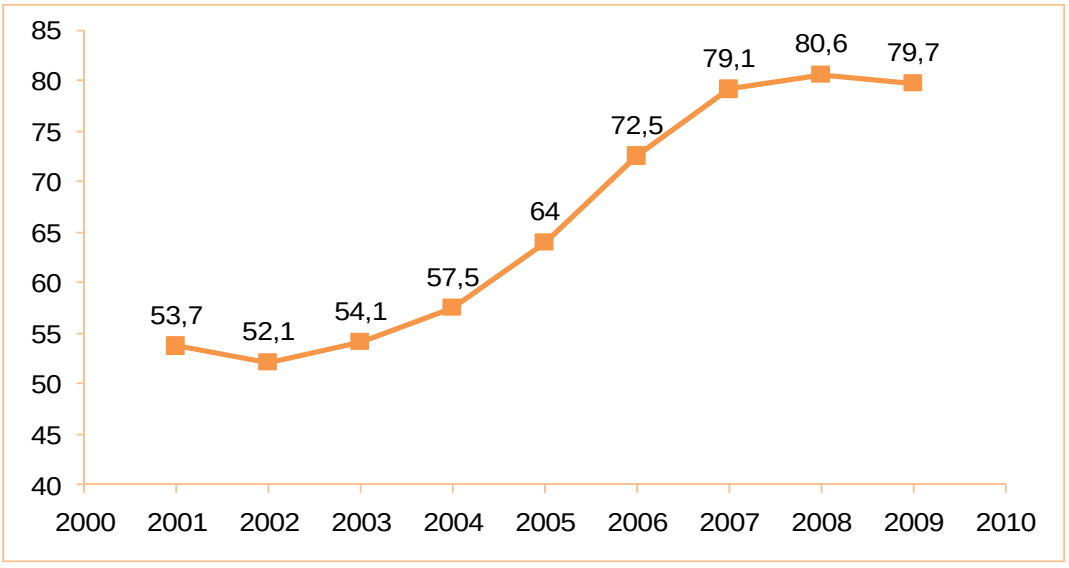
Figure 8.8: Debt to GNI ratio



Source: *Quarterly Bulletin*, South African Reserve Bank; *Gross Domestic Product*, Statistics South Africa; *Budget Review*, National Treasury 2010

The same, however, cannot be said about household borrowing. Household debt as a percentage of household income has increased dramatically, from under 55% in 2001 to approximately 80% in 2009. While still well below the level of debt of some highly indebted countries (such as the United States, where the household debt-income ratio was 138% in 2007), the high level of debt incurred by households, coupled with low levels of saving, could have a negative impact on future consumption by households. A more useful and inclusive measure of debt than these two indicators may be total national debt (private and public) to GDP, which can crudely be measured using SARB data (by adding SARB measures of credit extended to the private sector to government debt).

Figure 8.9: Household debt to income ratio

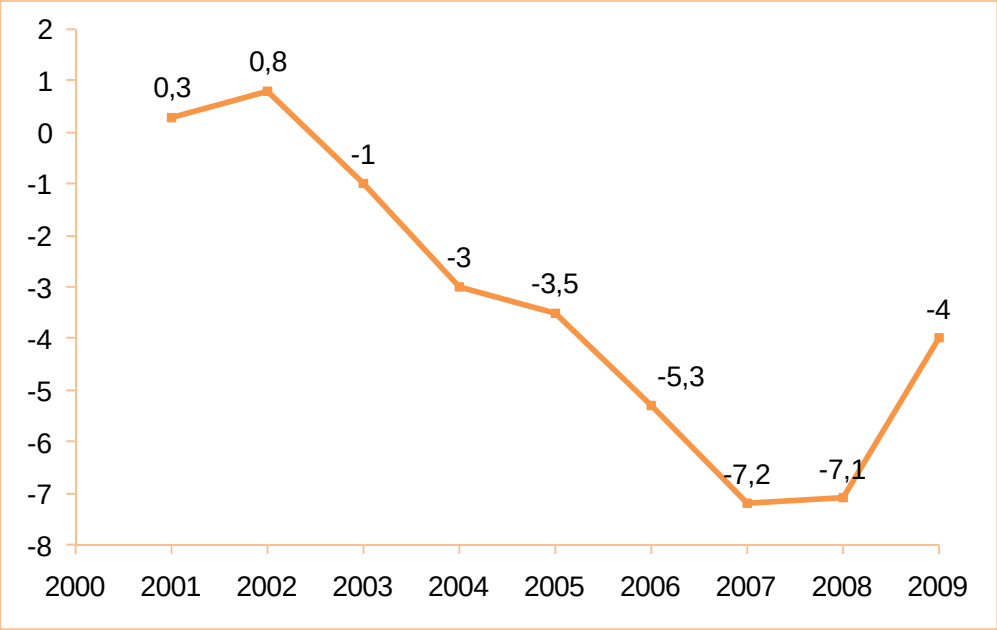


Source: SARB (KBP6525J), DNA Economics
Note: Source data was not confirmed.

Indicator: Current account balance as a percentage of GDP

South Africa's current account balance has deteriorated significantly between 2003 and 2008, recovering slightly in 2009 to -4% of GDP. It should be noted that the current account balance can be interchangeably seen as the difference between South Africa's exports and imports of goods and services, or as the difference between South African gross saving and investment (or gross capital formation). As we have seen above, South Africa's rate of investment has increased over the last decade, while the rate of savings has declined. It is thus not surprising that South Africa's current account balance has deteriorated over the last decade – though it is disconcerting that it is largely financed by short-term capital inflows.

Figure 8.10: Current account balance as percentage of GDP



Source: *Quarterly Bulletin*, South African Reserve Bank; *Gross Domestic Product*, Statistics South Africa

8.6 International trade

Historically, South Africa has tended to run a moderate trade surplus, which has partially offset offshore dividend payments and kept the current account within reasonable bounds. But from 2004 to 2008, imports consistently outstripped exports, and this contributed to a ballooning current account deficit. In 2009 the trade account returned to surplus again. A more detailed analysis of South Africa's trade balance using ITC TradeMap data reveals that the trade deficit was largely driven by the importation of infrastructure-related goods and fuel. Table 8.2 shows that machinery and equipment accounted for over one quarter of total imports from 2001 to 2009, while mineral fuels and oils accounted for just below 18% of total imports. This suggests that pressure on the current account is likely to continue for as long as the need for specialised machinery and equipment (in order to increase capacity in the electricity energy sector, for example) remains sufficiently high.

Table 8.2: Average imports and imports rates

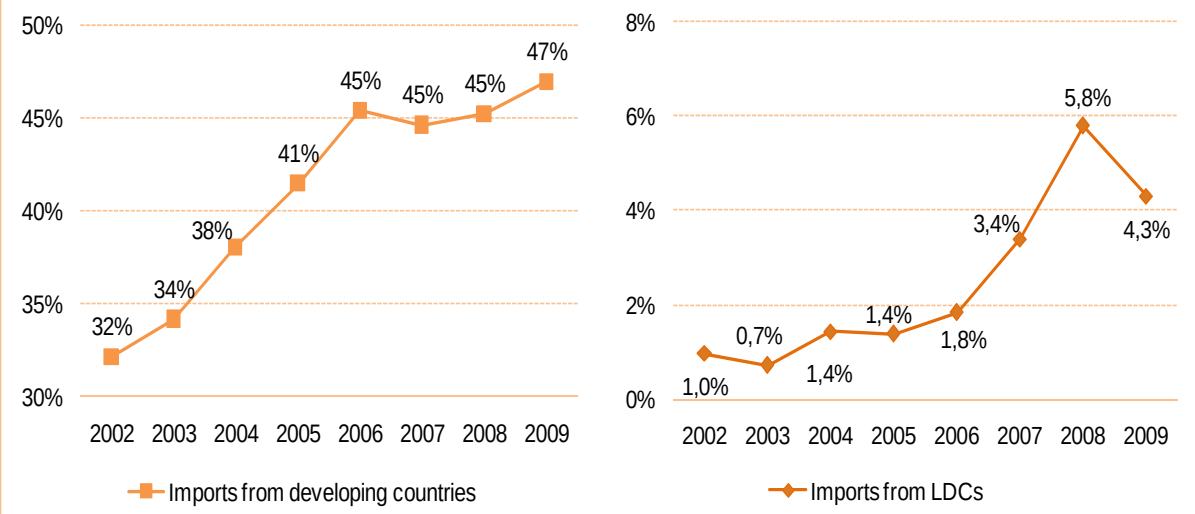
Chapter (HS Code)	Average imports (R 000) (2001 - 2009)	Percent of total imports
Mineral fuels and oils (27)	72,301,986	17,8%
Machinery, reactors, boilers etc (84)	65,241,111	16,0%
Electrical and electronic equipment (85)	41,545,056	10,2%
Vehicles (87)	33,883,420	8,3%
MIDP (Whats does it stand for?)(Original Equipment Components) (98)	30,666,893	7,5%

Source: ITC TradeMap, DNA Economics

Indicator: Share of imports from Developing Countries (DC) and Least Developing countries (LDC)

One of Goal 8's main targets is the opening of trade, especially to Least Developed Countries (LDCs) and developing countries. This is reflected in Figure 8.11, which shows South Africa's share of imports from these two country groupings. On first inspection, it is clear that South Africa's imports from both LDCs and developing countries have increased, with LDCs' share of imports rising from less than 1% in 2002 to just under 6% in 2008 (before falling to 4% in 2009), while imports from developing countries increased to a high of 47% in 2009 from 32% in 2002.

Figure 8.11: Share of imports by type of country

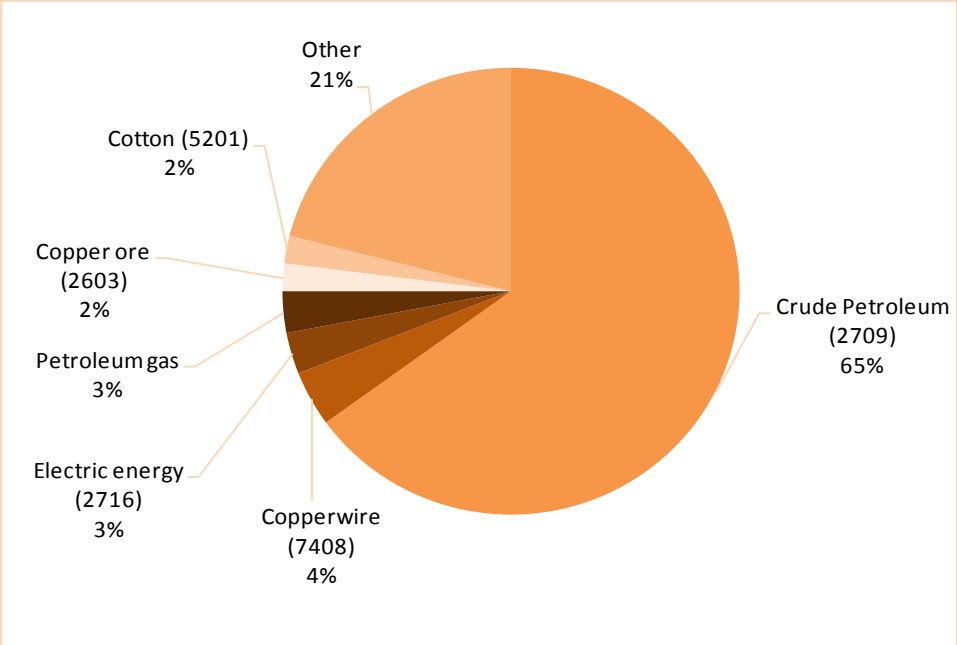


Source: COMTRADE database, Department of Trade and Industries

However, using International Trade Centre (ITC) TradeMap data, it is apparent that South African imports from LDCs remain very narrow, and are dominated by crude petroleum and a few other commodity goods, as shown in Figure 8.12. Moreover, for developing economies, closer analysis reveals that around 60% of the increase in imports can be attributed to China, which has seen its

share of South African imports grow from 4% in 2001 to 13% in 2009. Thus while these indicators may reveal that South Africa has improved trade (in terms of imports) with both LDCs and developing countries, more needs to be done to analyse and diversify imports in terms of both products and countries.

Figure 8.12: Imports from LDCs (2001-2009)



Source: *ITC TradeMap*, DNA Economics

8.7 Inflation

Indicator: Inflation rate

Of all the macroeconomic indicators included by South Africa under MDG Goal 8, inflation is the only one which has explicit targets through a dedicated policy programme. In February 2000, the South African Government announced and adopted a formal inflation targeting framework, whereby the Minister of Finance mandates the South African Reserve Bank to pursue a specific target, or band. Since this date the official inflation target has been set at 3 to 6 per cent with the exception of a brief period during 2001 when the upper end of the target range was lowered to 5 per cent.

The main reasons for the implementation of inflation targeting in South Africa were as follows:[1]

1. To provide greater certainty to the public around the monetary stance and approach

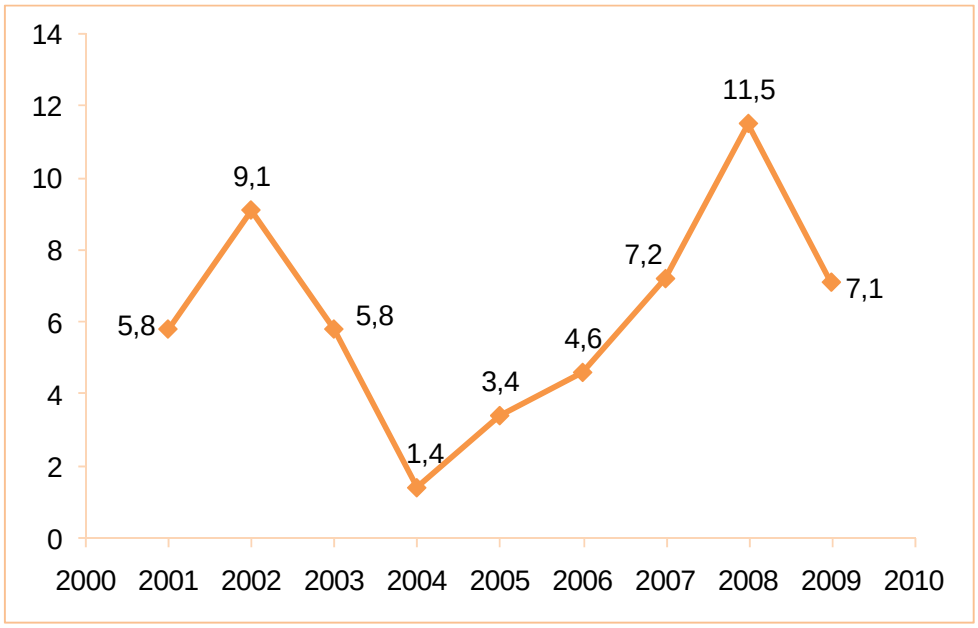
[1] Van der Merwe 2004

2. To structure and therefore improve coordination between monetary and other economic policies
3. To discipline monetary policy and increase the accountability of the central bank
4. To guide inflationary expectations and price decisions in labour and produce markets

In South Africa, changes in interest rates generally have an impact on inflation only 18 to 24 months later. Thus despite significant increases in interest rates in the early 2000s, the specified measure of inflation was brought down to within the target range for the first time in September 2003. Headline CPI inflation (which has more recently been adopted as the official measure for targeting purposes, in preference to CPIX), fell to a low of 0,1 per cent in early 2004, and remained within the target band until March 2007.

The rapid rise in inflation from a post-1945 record low in 2004 to a peak of 13,7 per cent in mid-2008 was driven by a number of largely external factors, most notably rising food, oil and other commodity prices over a period of strong global demand and economic growth. The substantial depreciation of the rand from early 2006 to January 2009 contributed to a further increase in imported prices. Conversely, the turnaround in inflation over the last year and a half can be attributed to an unwinding of these same factors – with commodity prices falling and the rand strengthening dramatically over this period.

Figure 8.13: Inflation rate- CPI (%)

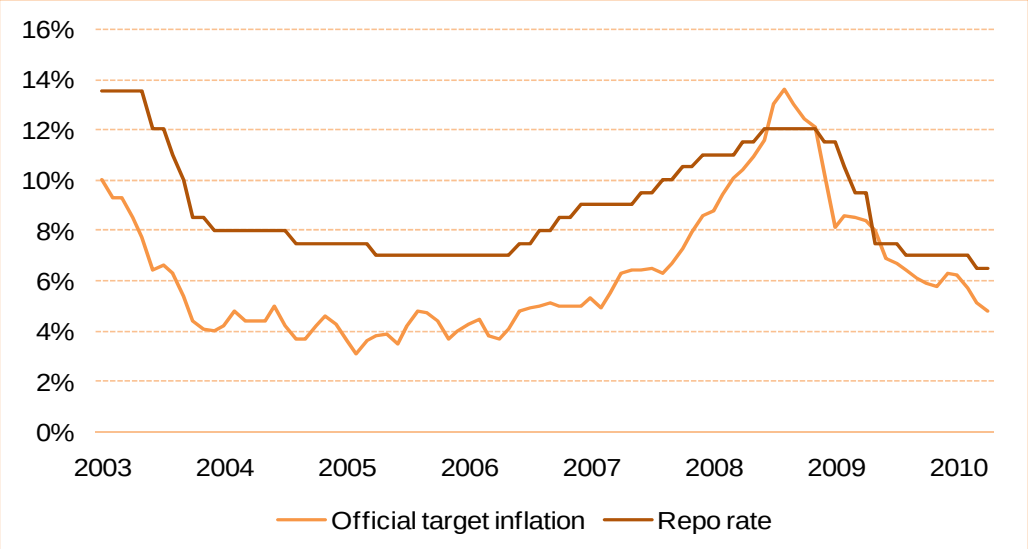


Source: *Consumer Price Index*, Statistics South Africa

The response of the South African Reserve Bank to these swings in inflation was initially to raise interest rates – the repurchase rate was increased by 5 percentage points between April 2005 and June 2008 – and to then drop interest rates by 5,5 percentage points over the last 18 months. With inflation now bottoming-out within the target band, interest rates are expected to stabilise going forward, unless there are substantial changes to South African policy or further external shocks.

Figure 8.14 shows the relationship between the official targeted rated of inflation and the South African Reserve Bank repurchase (repo) rate. The SARB has consistently responded to changes in inflation levels by moving the repo rate, and thus the two variables tend to move in tandem with each other. At times, changes in the repo rate lag changes in inflation. Ideally, one would anticipate that this gap would narrow as the SARB's ability to project inflation improves and the credibility of the inflation target takes hold amongst the wider public. In practise, there would appear to be difficulties in achieving both of these outcomes.

Figure 8.14: Official target inflation and repo rate (%)



Source: SARB (KBP7173A)
Note: See Annexure on page 37 of this report for data on the above graph.

It is beyond the scope of this report to comment on the forecasting techniques and performance of the SARB except to say that it does seem to have improved over time. With regard to the credibility of the inflation target, there are two separate issues at stake. Firstly, South African business and the labour movement do not seem to have bought into the forward-looking inflation-targeting approach, but continue to base wage decisions on past price behaviour. This introduces a high level of momentum into the system which is difficult to turn around. Thus, whereas inflation is currently within the target band, average wage settlements are running at 8,4% (SARB 2010). The Government is a key protagonist – it has agreed to annual increases in public service wages of 12% over the last two years (de Lange 2010). Increases in administrative prices (those regulated or controlled by government) are also rising well above the inflation rate.

Secondly, questions have been raised about the approach to inflation targeting in South Africa. Whereas it is generally agreed that high inflation distorts savings and investment decisions and is bad for economic growth and therefore employment, there is some disagreement as to whether the 3 to 6 per cent band in South Africa is appropriate, or whether a higher target and/or a more flexible mandate should be adopted. Given South Africa's past difficulties in achieving price stability, and the fact that the SARB has now succeeded in restoring credibility and some sense of certainty to monetary policy, there would need to be good reason to risk changes to the target. Moreover, compared to other inflation targeting regimes, the rate of inflation remains reasonably high and the chosen target relatively modest (see Table 8.3).

Table 8.3: Level of inflation by country

Country	Headline inflation (most recent data) %	Inflation target %
Australia	2,9	2 to 3
Brazil	5,3	4,5
Canada	1,8	1 to3
Chile	1,5	3
Columbia	2,1	2 to 4
Czech Republic	1,2	2
Ghana	10,7	9,2
Hungary	5,7	3
Iceland	7,5	2,5
Indonesia	4,2	5
Israel	3,0	1 to 3
Mexico	3,9	3
New Zealand	2,0	1 to 3
Norway	2,5	2,5
Peru	1,0	1 to 3
Philippines	4,3	4,5
Poland	2,3	2,5
Romania	4,4	3,5
Slovakia	1,3	0 to 2
South Africa	4,6	3 to 6
South Korea	2,7	2 to 4
Sweden	1,2	2
Switzerland	1,1	0 to 2
Thailand	3,5	0,5 to 3
Turkey	9,1	6,5
UK	3,7	2

Source: Various Central Banks' websites

8.8 Impact of Development on South Africans

Indicator: Employment-to-population ratio

Employment remains South Africa's greatest economic and social challenge. The most recent Quarterly Labour Force survey records South Africa's official unemployment rate at just over 25% as shown in Table 8.4. If 'discouraged work seekers' (individuals that want work but have taken no active steps to find it) are included in the calculation, the current unemployment rate rises to 36%. Regardless of which measure is used, South Africa's unemployment rate is extraordinarily high, and according to Stats SA data, there has been no net increase in jobs since 2006.

For the purpose of this report, the absorption rate (the total number of people working as a proportion of the total working-age population) has been selected as a measure of employment. The advantage of using this indicator instead of the headline unemployment data, is that it is probably less vulnerable to measurement bias and/or error. To get from the absorption rate to the official unemployment rate, large numbers of 'not economically active' individuals need to be subtracted from the population in order to estimate the size of the labour force. The relationship between these different measures of unemployment is shown in Table 8.4.

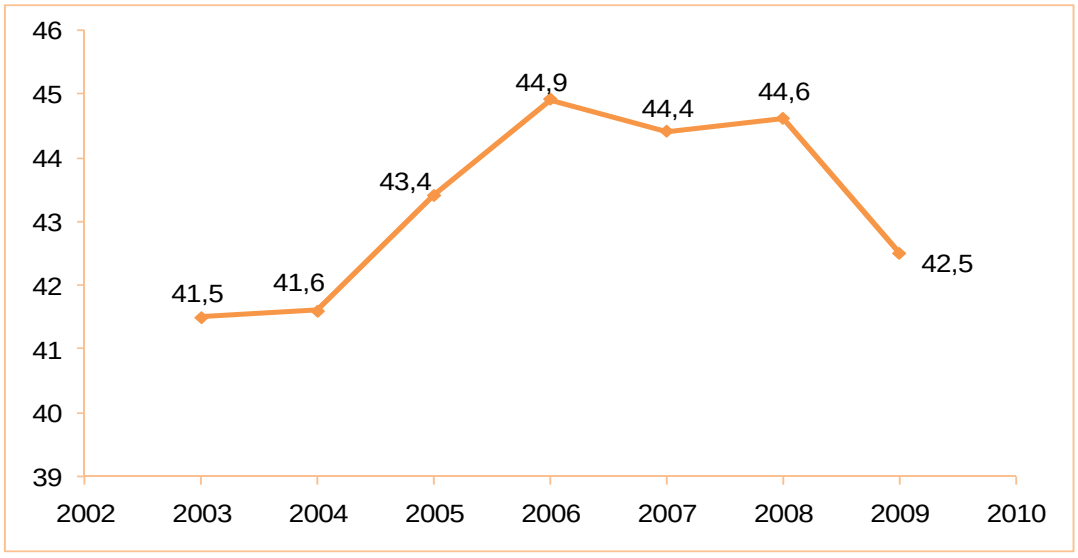
Table 8.4: Labour market

Key labour market indicators	Jan-Mar 2010
(A) Population (15-64 years)	31 350
(B) Not economically active	14 237
(C) Labour force (A-B)	17 113
(D) Employed	12 803
(E) Unemployed (C-D)	4 310
Unemployment rate (E/C)	25,2%
Absorption rate (D/A)	40.8%
Labour force participation rate (C/A)	54,6%

Source: *Quarterly Labour Force Survey Quarter,1, 2010,* Statistics South Africa

Figure 8.15 shows that the absorption rate improved significantly between 1994 and 1996 over a period of strong economic growth, but then turned around in 1996. A closer inspection of the underlying data reveals that the country continued to create jobs throughout 2007 and 2008 – just at a slower rate – with 1,9 million new workers recorded between 2004 and 2008. The global economic crisis put an end to this trend and since the first quarter of 2008, more than 1 million jobs have been lost. Further job losses are expected over the course of this year, taking the absorption rate down to levels last seen in 2003.

Figure 8.15: Employment-to-population ratio (percentage)



Source: *Labour Force Survey 2003–2007 and Quarterly Labour Force Survey 2008–2009,* Statistics South Africa

Employment numbers and trends differ markedly by province, race and age. The unemployment rate in KwaZulu Natal and the Western Cape is around 20%, compared to approximately 30% in Mpumalanga and the Eastern Cape; and the unemployment rate amongst Whites and Indians at 6,1% and 9,2% respectively, is substantially below that of Blacks and Coloureds, at 29,7% and 21,8%. According to the most recent Labour Force Survey (Quarter 1, 2010), more than 40% of the unemployed are classified as new entrants into the labour market and more than 30% are under 25 years old. The vast majority of these individuals have no tertiary-level education and each year, a further 500 000 to 700 000 school leavers enter the job market (Altman 2007).

At first glance, gender seems a less important determinant of unemployment. An equal number of women and men are classified as unemployed, but this is mainly because a large proportion of South African women have effectively withdrawn from the labour market. If one looks at the working-age population instead, then the number of men with jobs (47,4%) greatly outweighs the number of women (34,8%).

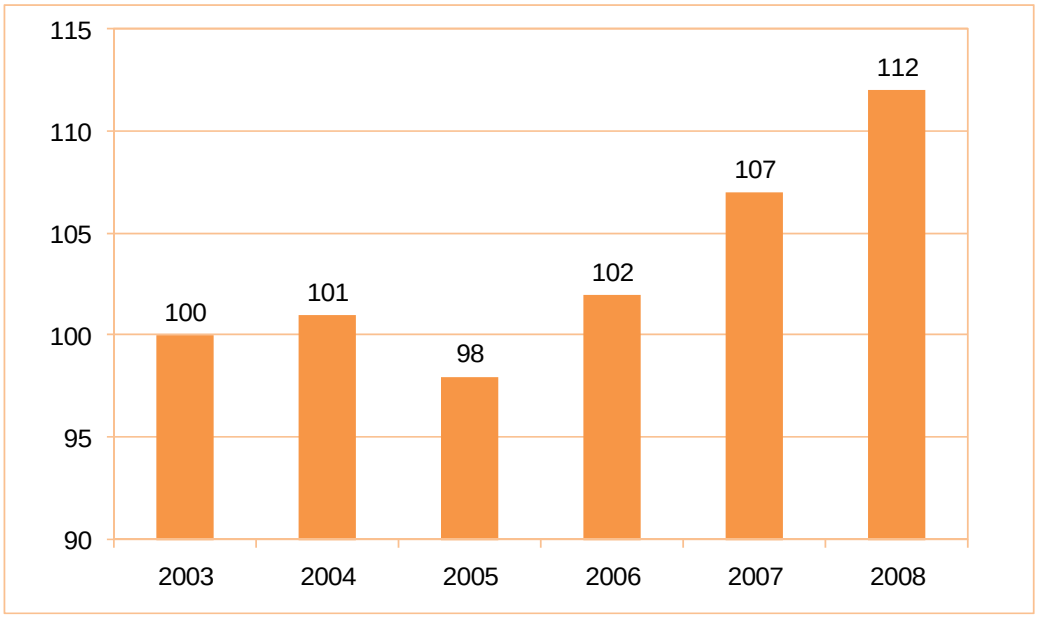
The high rate of unemployment in South Africa undoubtedly impacts on the full range of MDG indicators and is probably the greatest threat to the achievement of many of them. In particular, South Africa is unlikely to make significant progress against its poverty, health and education targets for as long as a great number of South Africans remain without formal work and income. The scale of this problem raises two critical questions. Firstly, from an economic perspective, why is unemployment in South Africa so high? Substantial research work has been done on this topic and the main culprits include: a poor basic education system; a mismatch between the skills supplied and demanded in the economy; the decline of key industries, especially mining; and a shift away from labour intensive manufacturing and agricultural activities. Comprehensive labour legislation and a vigilant trade union movement discourage casual and low-wage employment, and this must impact on overall employment levels. HIV/AIDS also adds to the cost of employment. Secondly, from a policy perspective, what is the South African Government doing to try and address this crisis? The Government has set itself a target of halving unemployment between 2004 and 2014. To achieve this target, around 5 million new jobs would need to be created over this period (Altman, 2007). With about 1 million net jobs created between 2004 and 2010, this would mean that a further 1 million jobs need to be found each year for the next four years. It seems very unlikely that this target will be achieved without substantial changes to the growth and structure of the South African economy; and/or substantial intervention by Government.

There are a number of different ways in which Government can intervene in the labour market. Directly, as the largest employer in the country, the Government can look to create work within the public sector. Already, the Expanded Public Works Programme (EPWP) provides job opportunities for around 600 000 workers a year; and it aims to increase this to 1,5 million workers by 2014 (Altman 2007). This provides financial relief as well as basic skills and experience to participants, but not full-time employment, and it is extremely costly. On the supply side, significant improvements to the education and training system are required, but these will take time to have effect. In the meantime, the government may need to consider active labour market interventions to stimulate private sector demand for labour, and particularly new entrants into the labour market, and the proposed wage subsidy is a positive move in this regard.

Indicator: Labour Productivity

The strong rise in labour productivity over the last three years is another symptom of South Africa's employment problem. Whereas output increased strongly from 2005 to 2008, at an average real rate of around 5%, employment increased at half this rate over this period. This is largely because traditionally labour intensive sectors, such as mining, light manufacturing and agriculture, have shed labour in favour of machinery for most of the last decade, with output and jobs growing fastest in more capital and skills intensive sectors, mostly in the services industry (finance, construction and community services).

Figure 8.16: Labour Productivity (2003=100)



Source: Statistics South Africa

Labour productivity can therefore be a misleading indicator of overall productivity (Edwards and Golub 2003). A rise in labour productivity could reflect improvements in efficiency, but in the case of South Africa, it is more likely that it results from an increase in the capital-labour ratio. Given the overriding need to create jobs in South Africa, and low-skilled jobs in particular, it is doubtful that the country should be actively pursuing increases in aggregate labour productivity. For these reasons, Edwards and Golub (2003) argue that it is important to separate changes in labour productivity into two components: changes in total factor productivity (a true measure of the efficiency of all inputs into the production process) and changes in the capital/labour ratio.

The derivation and calculation of total factor productivity (TFP) is reasonably technical. But to illustrate this point further, it is worth considering the results of past work in this area. Table 8.5 provides estimates of changes in labour productivity as well as its various components, for two periods in South Africa's history (Edwards & Golub 2003). Labour productivity grew slowly in the 1980s, but the growth in employment exceeded that of the capital stock. Thus increases in TFP more than compensated for a marginal decline in the capital-labour ratio. In the 1990s, labour productivity increased at a much faster rate, but this was entirely a result of 'capital deepening'. Both TFP and employment fell over this period.

Table 8.5: Productivity

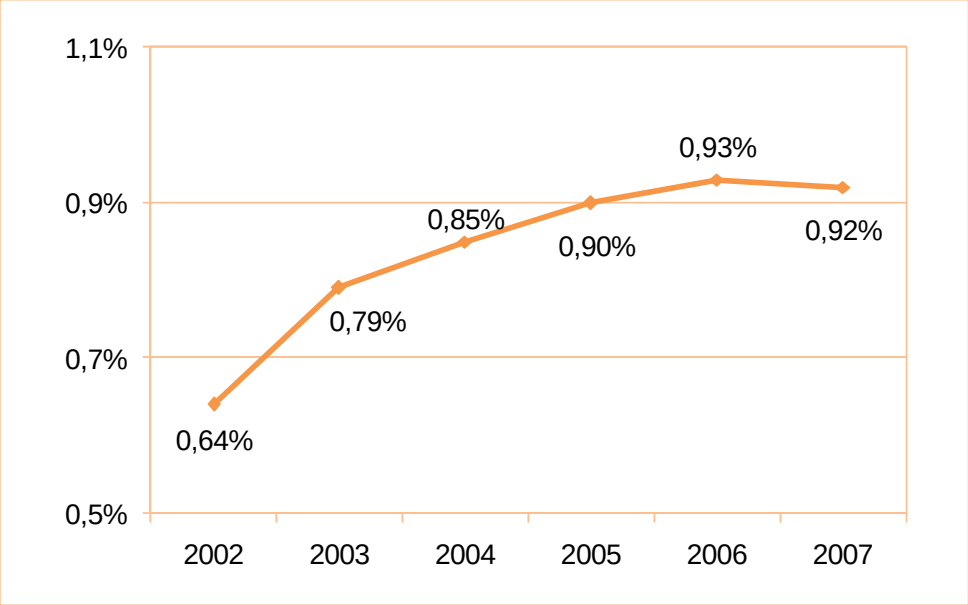
Period	Capital stock	Employment	Capital/labour	Total factor productivity	Productivity
1980-90	0,7	1,2	-0,5	0,9	0,7
1991-97	4,0	-1,0	5,1	-0,2	1,8

Source: Edwards and Golub (2003)

Indicator: Gross Domestic Expenditure on R&D (GERD) as percentage of GDP

Recognising the key role that investment in science, research and technology plays in ensuring a well-developed, competitive economy, the South African government has targeted an increase in South Africa's national investment in R&D from 0,7% of GDP in 2002 to 1% of GDP by 2008.[2] This indicator reflects on this target, showing the gross expenditure on R&D (GERD) as a percentage of GDP for South Africa. By 2006[3] South Africa was on its way to achieving the desired target, with GERD equalling 0,93% of GDP, before this figure fell slightly in 2007.

Figure 8.17: GERD as a percentage of GDP



Source: *Research and Experimental Survey*, Department of Science and Technology; *Gross Domestic Product*, Statistics South Africa

[2] South African Government (2002), *South Africa's National Research and Development Strategy*, August 2002, Department of Science and Technology.

[3] The graph shows the data for the fiscal year for South Africa. Thus 2006 reflects the 2006/07 year for South Africa.

An OECD peer-review of South Africa's National System of Innovation (NSI)[4] provides a useful assessment of South Africa's innovation policy, highlighting a number of strengths that can be built on and weaknesses that need to be addressed. Key weaknesses for South Africa included:

- Poor level and quality of schooling for a high proportion of South Africans;
- Skills shortages in the economy, particular within science, mathematics and technology;
- Ageing, white male dominance of research and development;
- Inadequate implementation of the state's innovation strategy;
- A dual-economy where the "second economy" has insufficient entrepreneurial and technological skills; and
- Immigration policies which are inconsistent with the needs of the innovation system.

The review further noted the threat of HIV/AIDS and demographic pressures on the education and research system, as the burden on these institutions increase.

Following this review, which coincided with the Department of Science and Technology's (DST) ten year planning process, the South African government released a 10 year innovation plan[5] at the end of 2007. This plan calls for a move from a resource-based to a knowledge-based economy, placing greater emphasis on skills development and transfer. The 10 year plan focuses on several key targets including: diversification of the energy sector; positioning South Africa as one of the top three emerging economies in the pharmaceutical industry; achieving a 25% share in the global hydrogen fuel market; and deploying satellites for private and public sector usage. The Government has set ambitious targets in order to move towards a knowledge-based economy. The main targets are shown in Table 8.6.

Table 8.6: Targets set for knowledge economy

Indicator	Measure	Latest indicator (year)	Target - 2018
SA positioned as knowledge based economy	Economic growth attributable to technical progress	10% (2002)	30%
	National income derived from knowledge-based industries		>50%
	Proportion of workforce employed in knowledge-based jobs		>50%
	Proportion of firms using technology to innovate		>50%
	GERD/GDP	0,92% (2005)	2%
	Global share of research outputs	0.5% (2002)	1%
	High- and medium-tech exports/services as a percentage of all exports/services	30% (2002)	55%

[4] OECD (2007), *OECD Reviews of Innovation Policy: South Africa*. OECD.

[5] Department of Science and Technology (2007*). Innovation towards a Knowledge Economy; the Ten Year Plan for South Africa (2008 to 2018)*. Department of Science and Technology.

Indicator	Measure	Latest indicator (year)	Target - 2018
	Number of South African-originated US patents	100 (2002)	250
Research and technology enablers	Matriculants with university exemption in maths and science	5,2% Maths, 5,9% Science (2005)	10%
	Science, Engineering, Technology (SET) graduates as percentage of all students in public higher education institutions	28% (2005)	35%
	Number of SET PhD graduates per year	561 (2005)	3,000
	Number of full-time equivalent researchers	11 439 (2005)	20 000
	FTE researchers per 1 000 workforce employed	1,5 (2005)	2,6

Source: *Ten Year Plan (2008 – 2018), National Survey of Research and Experimental Development 2007/08, Department* of Science and Technology, U.S. Patent and Trademark Office

From the table it is clear that the targets are ambitious and will require integrated planning and execution of a well-defined strategy by government. For example in order to increase GERD as a proportion of GDP to 1,5% by 2012, an increase in R&D expenditure from R18,6 billion in 2007 to R49,4 billion in 2012 is required.[6] Unless there is a concerted effort by the government to ensure that the science, technology and innovation fields are well supported, it is likely that many of the targets will not be achieved.

Indicator: Official development assistance received as percentage of Gross National Income

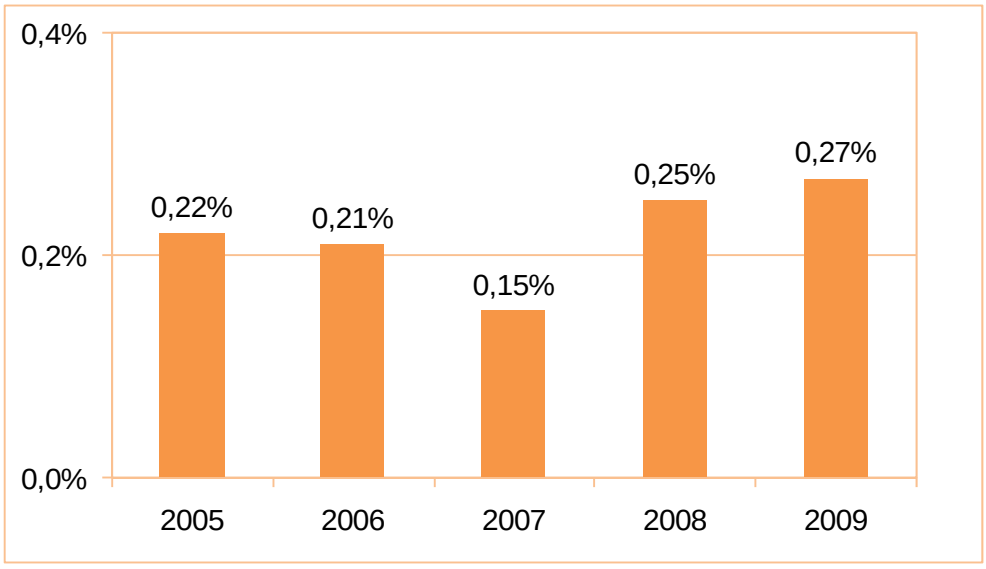
Official developed assistance (ODA) is not a significant source of funding for South Africa, as illustrated in Figure 8.18, and net ODA in-flows have remained at below 0,3% of Gross National Income (GNI) between 2005 and 2009. In terms of South Africa's government budget, net ODA accounted for approximately 0,9% of national budget expenditure in 2008.[7] It is however

[6] Calculation based on 2007 GERD as per the 2007/2008 National Survey of Research and Experimental Development and the 2012/13 National Treasury estimate of GDP from the *Budget Review 2010*.

[7] Based on 2008/2009 budget expenditure, National Treasury (2010), *Budget Review 2010.*

important to note that the South African indicator of net ODA reflects donor funds received by the National Treasury only, and excludes ODA received by other departments and spheres of government and the private sector (Non-Government Organisations / Civil Society Organisations).

Figure 8.18: ODA received as a percentage of GDP

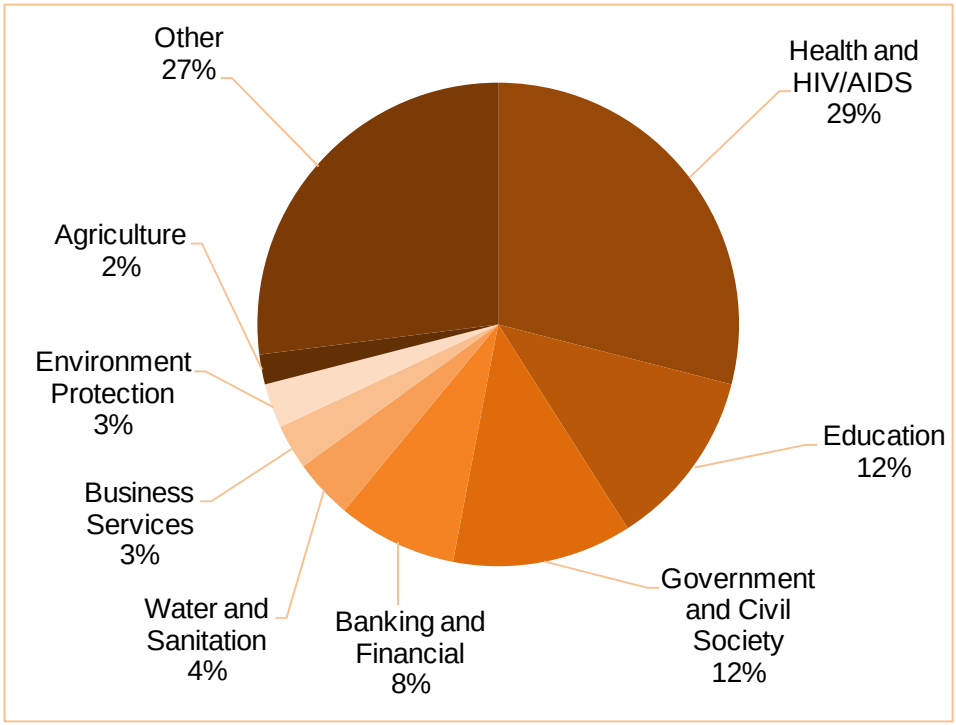


Source: *Quarterly Bulletin*, South African Reserve Bank; *Gross Domestic Product*, Statistics South Africa; *Budget Review*, National Treasury 2010

Although overall levels of ODA might be low, in specific sectors, such flows play an important role in supporting both government and non-government projects. Using data from the OECD Development Assistance Committee (DAC) database,[8] one can identify the target sectors to which donors provide assistance. From the Health and HIV/AIDS sector is clearly a significant priority for donors in South Africa. Other sectors that have been targeted by donors include Education, Government and civil society and the Banking and financial sectors. These four sectors together received 61% of ODA disbursed by DAC donors between 2002 and 2008. It is also clear that, unlike other ODA recipients, infrastructure support is not a priority in South Africa.

[8] The OECD DAC database provides data on ODA from OECD DAC members, other donors and multilateral organisations.

Figure 8.19: ODA disbursements by sector (2002–2008)



Source*: OECD DAC Database (QWIDS), DNA Economics*

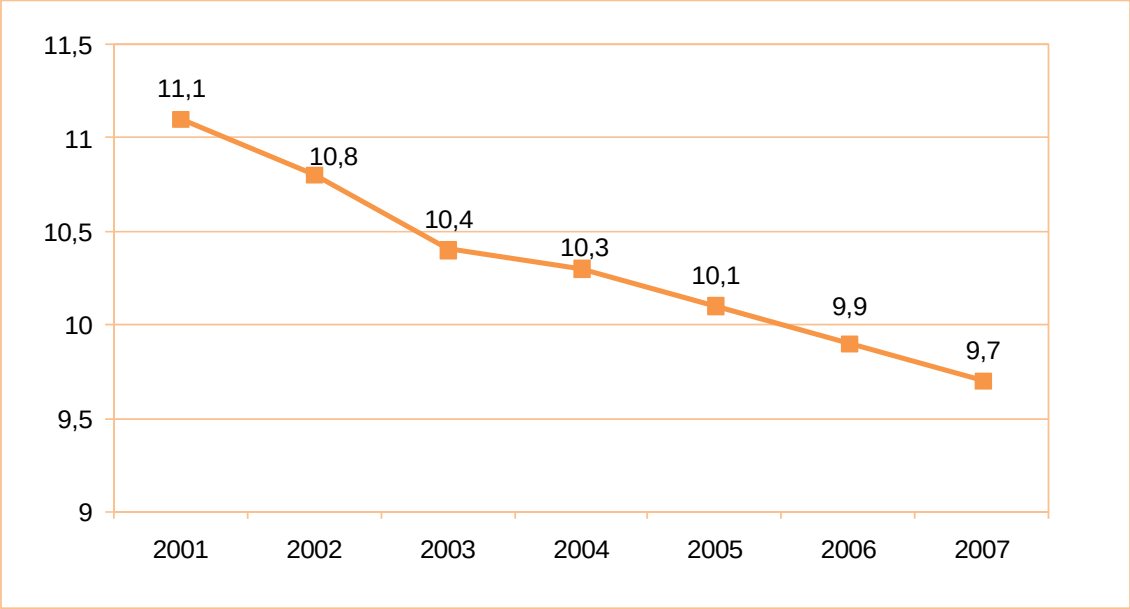
Indicator: Fixed telephone lines per 100 population

For the years 2009 through 2012, the Department of Communications has committed to an annual improvement of 25% with respect to the cost, quality, availability and usage of information and communications technology, in line with an overall objective of bringing the industry into compliance with world best practice by 2014.[9] As this is a composite measure with four components (namely cost, quality, availability and usage), it is difficult to measure, and it is not clear how the Department intends to do so. However, it is evident that accelerated access to information and communication technologies is felt to be a policy priority.

Unfortunately access to fixed line telephony has been declining over the past several years, rather than increasing. On a per capita basis, the number of fixed telephone lines has declined 12% from 2001 to 2007, as shown in Figure 8.20. To some extent this reflects a switch by consumers from fixed line to mobile telephony. Cell phones not only have the advantage of being mobile, but were also quicker to implement prepaid billing, which is more compatible with the earnings pattern of low income consumers. However, the decrease in the number of fixed lines does not only reflect pull factors to mobile telephony, but also problems with the fixed line market

[9] Department of Communications Strategic Plan 2009-2012, pg 20

Figure 8.20: Fixed telephone lines per 100 population



Source: 2008 Infrastructure Barometer, Development Bank of Southern Africa; *Mid-year population estimates*, Statistics South Africa

After privatisation, the incumbent telecoms operator, Telkom, was given a five year exclusivity period, starting in 1997. One of the conditions of exclusivity was an obligation to increase access, and Telkom responded by rolling out 2,8 million additional lines during the monopoly period. However, Telkom simultaneously undertook a tariff rebalancing exercise, which increased local call rates substantially – for example, a peak-rate 3 minute local call was 316% more expensive in 2003 than in 1997.[10]

Competition has subsequently been introduced into the fixed line market, most notably by the arrival of Neotel, the second fixed line licensee. However, there is as yet no sign that the trend of falling fixed line penetration rates is about to be reversed. Some market commentators suggest that particular forms of ICT are better delivered via fixed line, so this trend may be problematic (for example, fixed line broadband is less likely to be affected by weather conditions than is mobile broadband, and is also probably more suitable for very high bandwidth applications).

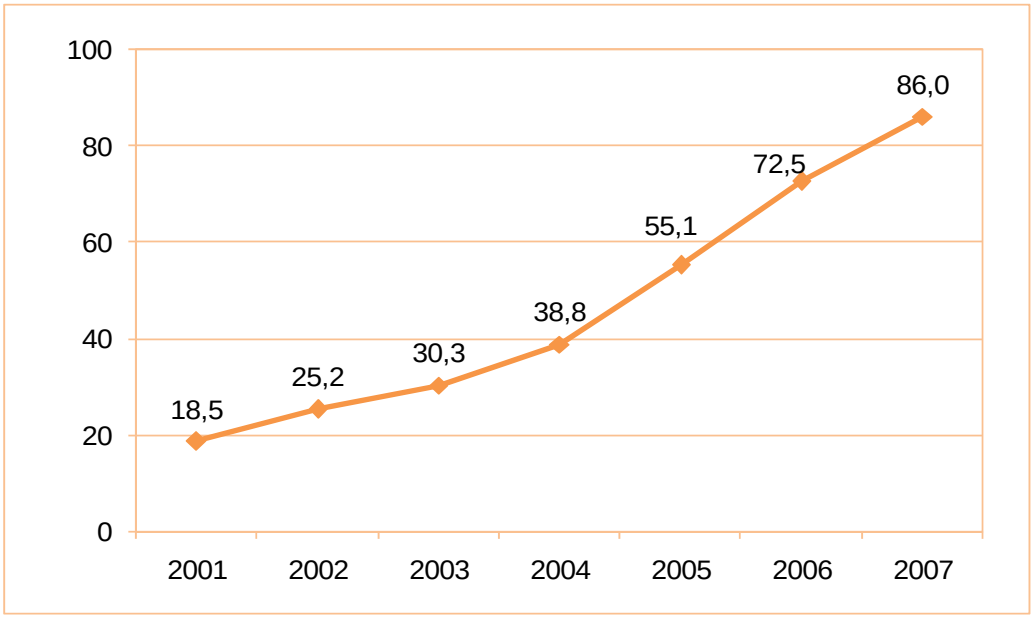
Indicator: Cellular subscribes per 100 population

Although the performance of fixed line telephony penetration rates has been poor, growth rates in mobile telephony have been very strong, which has probably contributed to a net improvement in

[10] Telecommunications prices in South Africa: An international peer group comparison. South Africa Foundation Occasional Paper No 1/2005. April 2005, pg 8

access to telephony over the period. As shown in Figure 8.21, over the period 2001 to 2007, per capita cellular subscriptions increased 364%. Mobile ICT methodologies are also commonly used to provide other forms of ICT services. ITU statistics suggest that in 2008, approximately 6 out of every 7 South African broadband subscriptions was via mobile rather than fixed technologies[11].

Figure 8.21: Cellular subscribers per 100 population



Source: 2008 Infrastructure Barometer, Development Bank of Southern Africa; *Mid-year population estimates*, Statistics South Africa

Indicator: Internet access per 100 population

Progress in increasing access to the internet has been less successful than progress in access to mobile telephony. As shown in Figure 8.22 and Figure 8.23, the proportion of homes/households with access to the internet has risen from only 7,2% in 2007 to 8.9% in 2009[12]. The highest levels of access are clustered in areas of high per capita GDP, in particular the Western Cape and Gauteng. Homes/households in these provinces are around 8 times more likely to have internet access than those in Limpopo, the province with the lowest internet access levels.

[11] ITU Yearbook of Statistics: Telecommunication/ICT Indicators 1999-2008

[12] It should be noted that the two sets of data used are not directly comparable given that the first set of data are taken from a community survey while the second set of data are taken from a general household survey, essentially two different survey methodologies. The datasets also differ because the question around internet usage in these two surveys is framed in different ways.

Figure 8.22: Proportion of homes with internet facilities (per 100 population, 2007)

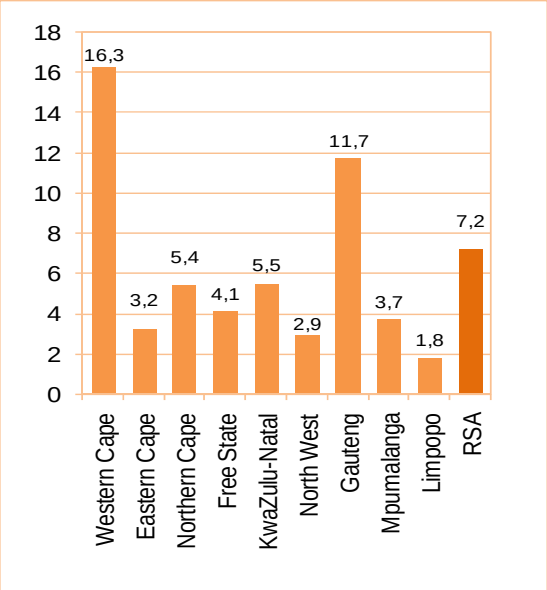
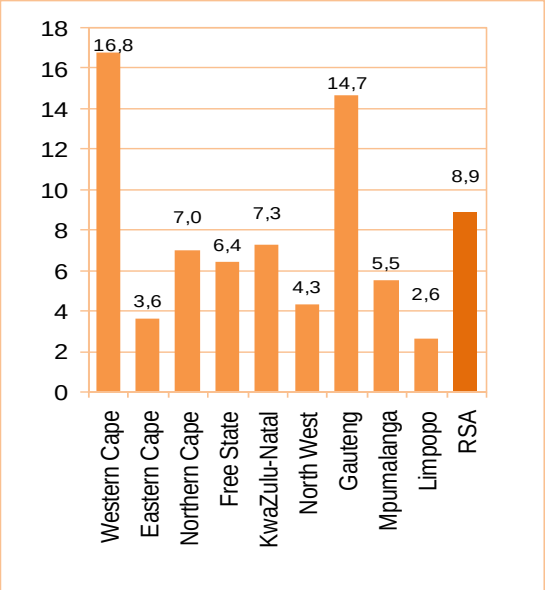


Figure 8.23: Proportion of households with internet connection (per 100 population, 2009)



Source: *Community Survey (CS) 2007*; *General Household Survey (GHS) 2009*, Statistics South Africa

Low levels of internet penetration in South Africa are likely to be linked to the price of internet services, which were estimated to be around 100% more expensive than in comparable countries in 2007.[13] A key driver of high internet prices has been the prohibitive price of international bandwidth, which in 2007 was 250% more expensive than in comparable countries.[14] Lack of competition is likely to have influenced high international bandwidth prices, as historically both the provision of international gateway licenses and the infrastructure of submarine cables have been very restricted. However, more of the building blocks for price competition are now in place, as the number of international licensees has increased, including the introduction of the Seacom cable in 2009. The impact of these changes on internet prices, access and usage in South Africa should be carefully monitored.

[13] South African telecommunications prices. Business Leadership South Africa Occasional paper number 3, November 2007. Pg 10

[14] South African telecommunications prices. Business Leadership South Africa Occasional paper number 3, November 2007. Pg 10

8.9 Discussion

In 2004, the South African Government undertook to halve poverty and unemployment by 2014, in its Accelerated and Shared Growth Initiative (Asgisa). To meet its Asgisa targets, the Government estimated that the level of economic growth would need to average 4,5% or higher during the period 2005 to 2009, and 6% or higher during the period 2010 through 2014. So far, on a real basis the economy has grown at an average annual rate of 3,2% between 2005 and 2009, and thus Asgisa growth targets have not been met. The Asgisa document furthermore identified the following six binding constraints to the achievement of these overriding economic goals:

- The volatility and level of the currency, which was felt to deter investors and during periods of systematic over-valuation, result in sustained current account deficits;
- An inadequate national logistics system. The limited capacity, lack of competitiveness and high prices of the transport sector were felt to be of concern given South Africa's status as a long-haul destination;
- Shortages of skilled labour;
- A highly concentrated domestic economy with little evidence of competition;
- A high regulatory burden on small and medium businesses, constraining their ability to act as an engine of growth; and
- Deficiencies in state organisation, capacity and leadership, particularly in economic services and policy.

Progress in overcoming these binding constraints has been mixed. In the area of competition policy, for example, great strides have been made in establishing the Competition Commission and Tribunal as effective economic regulatory bodies. However, the volatility of the domestic currency remains a concern and the costs of infrastructure, skills and doing business in South Africa remain relatively high. Such factors continue to hold back economic growth and employment in South Africa.

The selected indicators do not focus explicitly on Asgisa constraints and targets. They do, however, share a common purpose which is to raise income, investment, trade, savings, efficiency and employment in South Africa. South Africa's Goal 8 targets can be contextualised within the framework of these over-riding national objectives:

Growth and employment	
➢ Increasing GDP per capita	As regards to GDP per capita, South Africans have experienced a 20% increase in real income from 2001 to 2009. This is a reflection of relatively strong and extended growth in GDP recorded by South Africa up until the global economy
➢ Reducing income inequality	The gap between the rich and the poor has increased over this period, and according to some measures, South Africa is now the most consistently unequal society in the world
➢ Improving skills and	More needs to be done to raise the incomes of the poor in South

generating employment	Africa – and perhaps the only sustainable way to achieve this is through a massive concerted effort to improve skills and generate employment
➢ Improving labour absorption rates	Although the labour absorption rate improved significantly between 1994 and 1996, it has since turned downwards and the country has lost more than 1 million jobs over the last few years, The apparent rise in labour productivity over this period is in fact yet another indication of a shift away from labour to more capital intensive production in the South African economy
Investment and savings	
➢ Creating an enabling environment for economic growth	The Government has a critical role to play in creating an economic environment that is conducive for more rapid and labour intensive growth. This can be done directly – by investing in critical infrastructure needed for development, such as roads, ports and electricity
➢ Increasing foreign direct investment	Data shows that the public sector has already played a significant role in raising investment from 15% of GDP in 2001 to 22% in 2008. It can also make an indirect contribution – by making it easier and more attractive for foreign and local firms to invest. Here, the data reveals that South Africa has performed poorly, with foreign investment falling to 4% of GDP and most of this explained by short-term portfolio flows
➢ Increasing South Africa's gross savings	South Africa's gross savings as a percentage of gross domestic product (GDP) has also declined, and in 2007, was far lower than other developing countries, especially those in Asia
➢ Reducing government and household debt	The government has succeeded in reducing government debt from 43% of gross national income in 2000 to 28% in 2009. This has largely been a result of prudent government policies during an expansionary phase of the economy. National debt, however, continued to rise over this period as households accumulated higher amounts of debt

Trade	
➢ Improving the current account balance	Given South Africa's low savings rate and high levels of infrastructure expenditure, it is not surprising that the current account has deteriorated over the last decade
➢ Reducing reliance on imports	Imports have consistently outstripped exports over this period
➢ Increasing traded with LDCs and developing countries	Trade with LDCs and developing countries have growing particularly fast, but imports from LDCS remain largely confined to primary goods (most notably crude petroleum), while China accounts for most of the increase in imports from developing countries
Inflation	
➢ Ensuring economic stability	Inflation in South Africa is one of few indicators with a fixed target and a dedicated mandate. To this end the Reserve Bank pursues a target range of 3% to 6% in support of economic stability and to guide public expectations and decisions around prices
➢ Reducing the inflation rate	South Africa has seen relatively high inflation between 2004 and 2008, largely as a result of rising fuel and food costs and a significant depreciation of the currency. All of these factors have reversed over the last few years and inflation has recently fallen to within the Reserve Bank's target range
Research and development and ODA	
➢ Increasing gross expenditure on R&D	Research and development (R&D) investment is a key component of any national policy that seeks to raise economic efficiency, innovation and growth
➢ Increasing gross expenditure on R&D	Gross expenditure on R&D (GERD) as a percentage of GDP has increased in South Africa, from less than 0.7% in 2002 to just over 0.9% in 2007

Research and development and ODA	
➢ Improving human resources	While still well below many developed countries, the South African government has set ambitious targets for future investment in R&D and improvements in human resources
➢ Reducing reliance on ODA	ODA remains an insignificant source of funding for South Africa
Information & communications	
➢ Providing reliable and affordable access to ICT	While South Africa has performed well in terms of overall R&D spend, the country lags behind the rest of the world in terms of providing affordable and reliable access to telecommunications and the internet
➢ Improving levels of internet usage	While mobile usage has increased dramatically, access to fixed line telephony has declined over the last few years while internet usage remains extremely low
➢ Ensuring the provision of broadband infrastructure	Given recent developments in the provisioning of broadband infrastructure, and continued improvements in regulation and legislation, it is likely that future improvements in this area will be more significant

8.10 Conclusion

In relation to strengthening global partnerships, South Africa has rapidly opened up trade, especially to LDCs and developing countries. Trade and in particular imports from both LDCs and developing countries have increased, with the LDC share of imports rising from less than 1% in 2002 to just under 6% in 2008 (before falling to 4% in 2009), while imports from developing countries increased to a high of 47% in 2009.

South Africa is seen as a country characterised by a remarkably stable macro- economic framework. Its major challenge is to increase its economic growth potential. Failure to do so, will limit its ability to address many of the goals set out by the MDG process, major amongst them, the creation of jobs, drastic improvements in the quality of especially technical education, and reversal of the necessary to date, but rapidly ballooning social assistance programme.

The growth experience can be characterised as modest, at least when compared to countries such as Brazil, India and China. Several indicators are instructive. For example, percentage investment share in GDP has shown a positive trend, increasing from 15% of GDP in 2001 to 22% in 2008, before declining in 2009 to 19%, a likely result of the global financial crisis. South Africa's share of investment in GDP is lower than high-performing developing countries such as China (44%) and India (40%) but similar to that of Egypt (22%), Turkey (22%) and Brazil (19%).

South Africa, has struggled to attract foreign direct investment (FDI). FDI in fact declined substantially from 8% in 2001 to just under 1,5% in 2009, with net outflows recorded in some years. The ability to attract foreign investment is important given South Africa's savings rate, which is low compared to some other developing countries, especially those of Asia. South Africa's gross savings as a percentage of gross domestic product (GDP) was 14.8% in 2007, compared to countries such as China (54,1%), India (37,8%), Thailand (32%) and Mexico (25,5%). Gross savings, as a percentage of gross disposable income (GDI), indicates that South Africa's rate of saving has declined steadily for most of the last decade, before improving slightly in 2008 and 2009.

One of the key structural constraints in the South African economy is the current account balance (difference between exports and imports of goods and services). South Africa's current account balance has deteriorated significantly between 2003 and 2008, recovering slightly in 2009 to -4% of GDP. South Africa has made great progress in telecommunications for the masses. The percentage of South Africans with access to a cell phone is rapidly approaching 9 out of 10.

8.11 Recommendations

- Government needs to have a programme for funding NGOs
- Ensure that governments, NGOs, and the private sector work together in partnership in order to ensure the complete implementation of the MDGs
- Civil Society and Government should engage international partnerships to support the development and implementation of gender-responsive rights-based policies and programmes, including accessing technical assistance to improve gender responsive and sex-disaggregated data.
- Create means and strategies for strengthening Partnership between Government and Civil Society
- Identify the essential drugs required in the South African context. Then develop the necessary partnership with pharmaceutical manufacturers on making them readily available in the country at an affordable price.
- Reporting on ODA must include development aid received by all stakeholders, including CSOs
- The state to have an oversight function (not regulatory) on all funds for development assistance entering the country

8.12 Annexure

Consumer Price Index and Repurchase Rates

Consumer prices: Memorandum item: Official target (All urban areas) = CPT
Repurchase rate = Repo Rate

	2003		2004		2005		2006		2007		2008		2009		2010	
Date	CPT	Repo Rate	CPT	Repo Rate	CPT	Repo Rate	CPT	Repo Rate	CPT	Repo Rate	CPT	Repo Rate	CPT	Repo Rate	CPT	Repo Rate
January	10%	13,5%	4%	8,0%	4%	7,5%	4%	7,0%	5%	9,0%	9%	11,0%	8%	11,5%	6%	7,0%
February	9%	13,5%	5%	8,0%	3%	7,5%	5%	7,0%	5%	9,0%	9%	11,0%	9%	10,5%	6%	7,0%
March	9%	13,5%	4%	8,0%	4%	7,5%	4%	7,0%	6%	9,0%	10%	11,0%	9%	9,5%	5%	6,5%
April	9%	13,5%	4%	8,0%	4%	7,0%	4%	7,0%	6%	9,0%	10%	11,5%	8%	9,5%	5%	6,5%
May	8%	13,5%	4%	8,0%	4%	7,0%	4%	7,0%	6%	9,0%	11%	11,5%	8%	7,5%	Not Available yet	
June	6%	12,0%	5%	8,0%	4%	7,0%	5%	7,5%	6%	9,5%	12%	12,0%	7%	7,5%		
July	7%	12,0%	4%	8,0%	4%	7,0%	5%	7,5%	7%	9,5%	13%	12,0%	7%	7,5%		
August	6%	11,0%	4%	7,5%	5%	7,0%	5%	8,0%	6%	10,0%	14%	12,0%	6%	7,0%		
September	5%	10,0%	4%	7,5%	5%	7,0%	5%	8,0%	7%	10,0%	13%	12,0%	6%	7,0%		
October	4%	8,5%	4%	7,5%	4%	7,0%	5%	8,5%	7%	10,5%	12%	12,0%	6%	7,0%		
November	4%	8,5%	5%	7,5%	4%	7,0%	5%	8,5%	8%	10,5%	12%	12,0%	6%	7,0%		
December	4%	8,0%	4%	7,5%	4%	7,0%	5%	9,0%	9%	11,0%	10%	11,5%	6%	7,0%		

Source: *KBP7173A*, SARB

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