



Quick Brief

A news update from the NBI on its programmes, business leadership and issues on sustainable development.

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South Africa's Socio-Economic Future

The National Business Initiative (NBI) is developing socio-economic scenarios to help understand the uncertain environment in which stakeholders in our society operate. We will use these scenarios to give a business perspective on energy opportunities for South Africa, amongst other NBI initiatives. The NBI recently held a Round Table discussion with economists, government officials, a political analyst, the WWF, and business executives to understand the key drivers for scenarios of the future in South Africa.

In exploring the drivers for socio-economic change we used a World Economic Forum framework based on global surveys with leading business executives. We tested this approach for local relevance with an advisory group of NBI members. Since South Africa has an open society and economy, the global drivers provide a useful high level guide but local outcomes clearly need to take into account our very specific circumstances.

For example, shifts in political power around the world are driven by anti-establishment and other change movements, as social and conventional media makes information more accessible. With the help of a well-respected local political analyst, our engagement examined the drivers for fundamental social and economic compromise among stakeholders in our society. We also considered the pace of socio-economic transformation in the last twenty-two years since democracy. During the course of the discussion, participants noted that political influence could be described by the extreme poles of patronage influences in society - including various forms of 'state capture' by business interests - and the role of a rising educated middle class.

Several potential future scenarios were discussed and a ***socio-economic compromise scenario*** is a key focus of our further work. The compromise scenario will require various forms of redistribution since inequality is

hard to address through growth alone. Unemployment is structurally entrenched due to skills, labour rigidity and economic structure and the growth rates required to create sufficient jobs are not achievable ('a fantasy') in this scenario. Many people will rely on decent livelihoods rather than decent jobs. Affordability of services by the state, financed by the formal economy will be an important part of the socio-economic compromise and ratings agencies will look to the socio-economic stability achieved at the risk of financial sacrifices.

A key aspect of this scenario is the 'urban marketplace'. This recognises that it is in the cities that many of the important decisions may be taken, rather than at national level where vested interests are too strong. This is where new, nimbler, less resource intensive and especially less energy intensive business start-ups will employ future biased technologies - rather than large state-owned enterprises (SOE) or large oligopolies. One participant commented that 'In a sense we are looking for a clean, efficient and sufficiently diversified economy and as labour intensive and skilled as possible'.

The participants also recognised that a **patronage scenario** in which widespread state capture by business at many levels could be a feature of our economy. At its extreme, in this scenario, social and economic compromise is less plausible and a lack of social cohesion resulting in a polarised society allows autocratic leadership to persist in many spheres, limited only by the Constitution. In such a scenario an elected government does not pander to media or other opposing voices. Investment downgrading (similar to other BRICS countries with the exception of China) is perceived as a manageable risk and government bilateral financial assistance is pursued as far as possible. Industrial policy relies heavily on state-owned enterprises as private investment is more risk averse and sometimes less open to patronage relationships. Urban socio-economic development in this scenario continues but the middle class influence in the cities is politically weak and unable to significantly impact the scenario.

While these scenarios are the main focus so far, others are also being developed. For the energy project an important next step is to consider how energy fits into these alternative futures. In a scenario that is more city-led with important financial constraints, small nimbler energy projects may be more relevant but the challenge will be how to accelerate such projects if policies and regulations are designed for a more SOE oriented economy. An expert commented 'The shift must be towards developing an architecture for energy that prioritises less a model based on supply but rather on energy services and the quality of access it can offer'. Alternatively, a more state-led energy system provides security in the form of large energy supply projects based on long term off-take guarantees. Questions such as these will be considered by NBI member company executives and energy experts at future round table conferences.

If you would like to comment on our thinking so far or contribute your thinking or for more information, please contact: [Leon Lizamore](mailto:Leon.Lizamore@nbi.org.za).

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