

TLS: Socio-Economic Scenarios for South Africa

NBI Energy Initiative

12 May 2016

Programme

- | | |
|----------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------|
| 11:30 - 12:00 | Registration and Arrival Refreshments |
| 12:00 - 12:10 | Welcome and Introduction
Steve Nicholls: National Business Initiative (NBI) |
| 12:10 - 13:00 | Examining socio-economic drivers for South Africa
Jason Muscat, FNB
Manisha Gulati, WWF
Edwin Ritchken, DTI / TIPS
Leon Lizamore, NBI |
| 13:00 – 13.50 | Using the scenario drivers to develop future scenarios for South Africa
Lead: Leon Lizamore, NBI |
| 13:50 – 14.00 | Closing remarks |

Framework for Sustainable Energy Opportunities in South Africa



The aim of the initiative is to establish a sustainable, long term view on collective energy development opportunities in South Africa, through collaborative business and society engagement.

Deliverables:

Understand drivers and uncertainties leading to socio-economic scenarios relevant to energy.

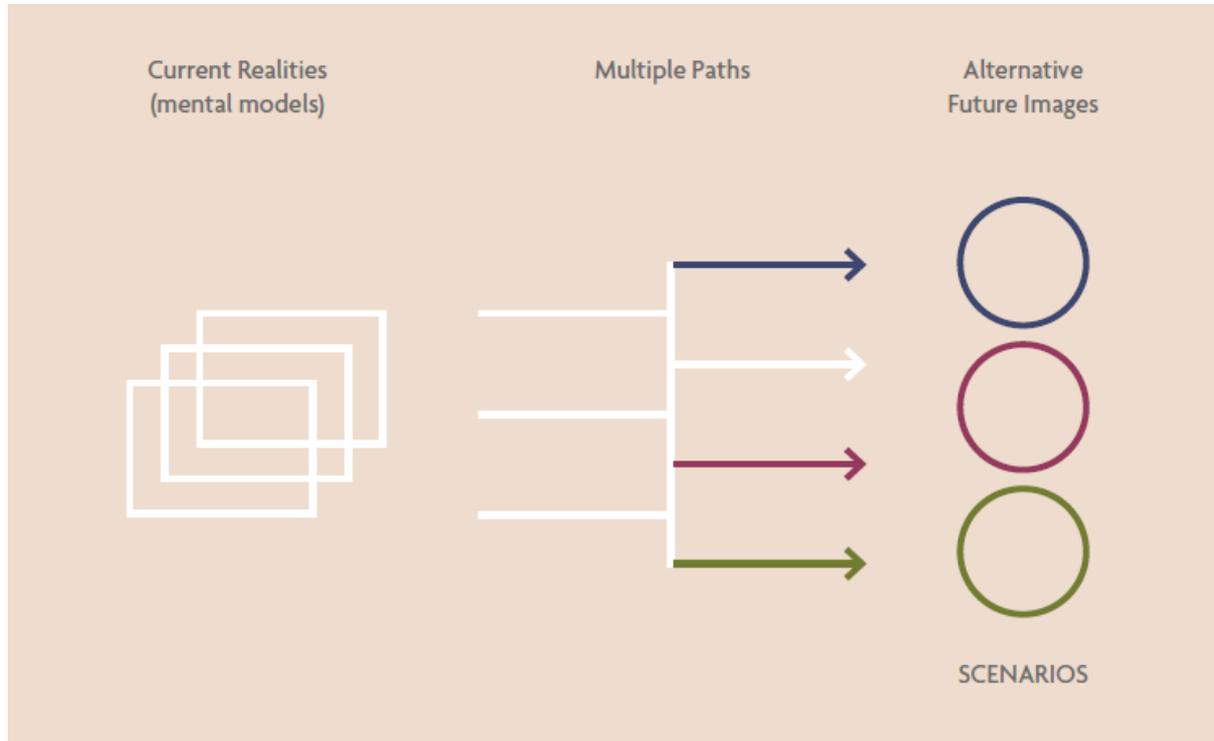
Understand energy drivers and uncertainties to build related energy scenarios.

Develop an NBI members' position on collaborative energy opportunities.

Develop a framework for implementation opportunities.



Scenario methodology



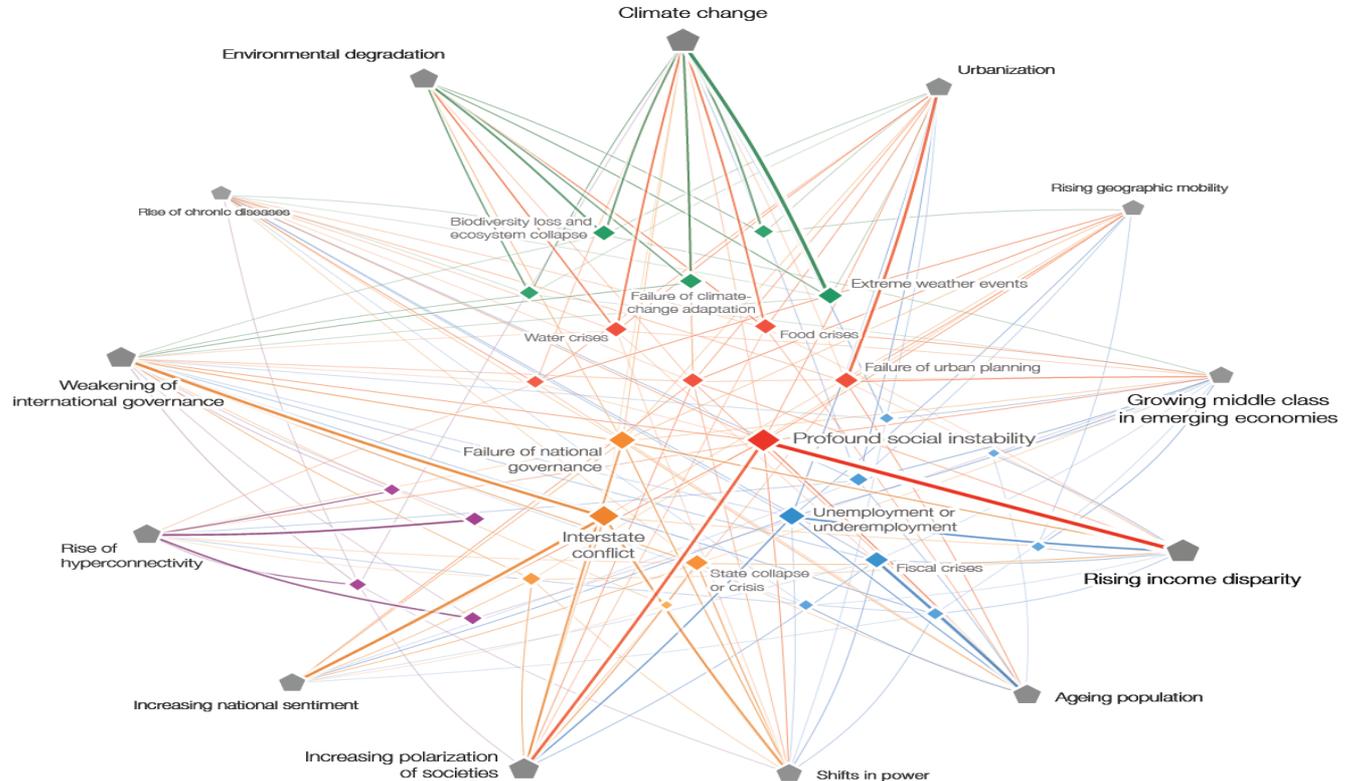
Using WEF Methodology to examine socio-economic drivers and uncertain outcomes (risks).

Outer perimeter:

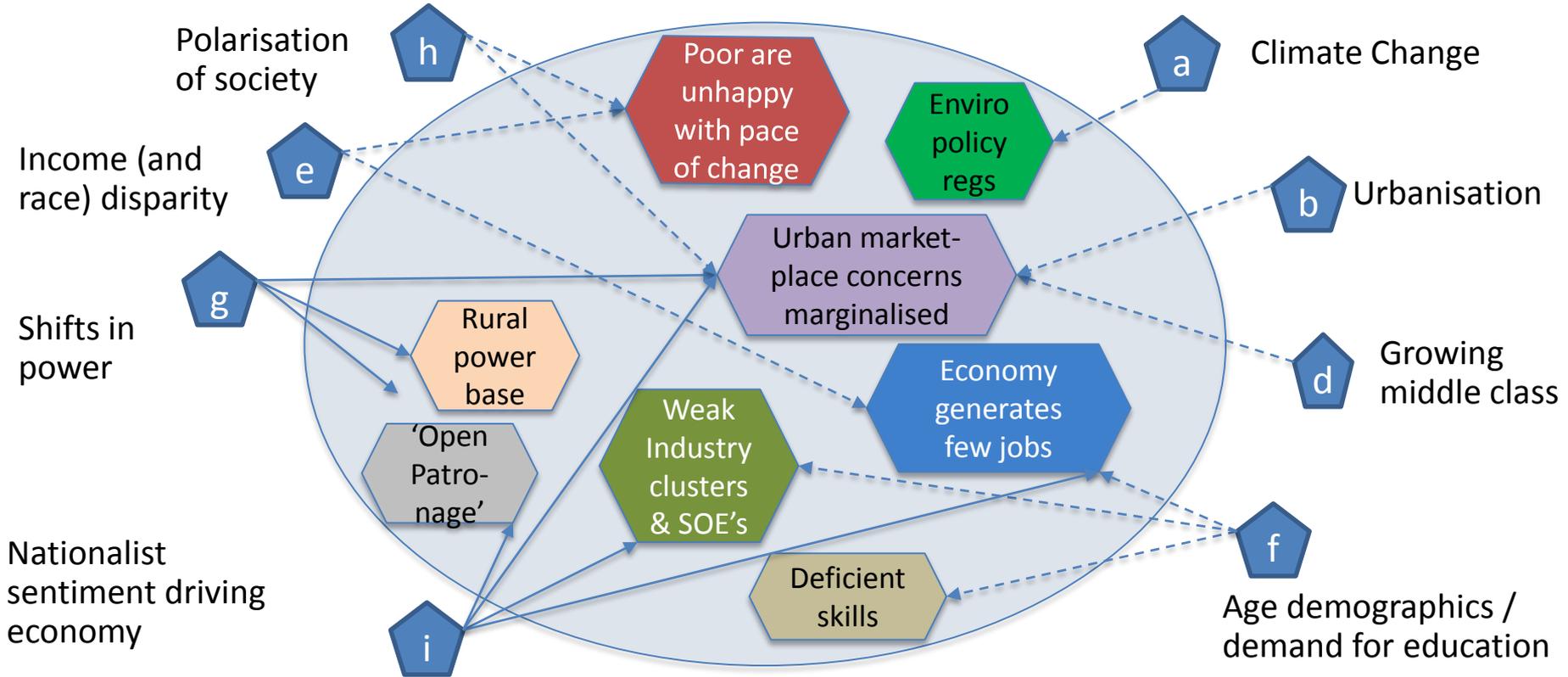
- Drivers of change

Inner connections

- Potential outcomes



Explaining the status quo: State-led economy characterised by patronage with divided, polarised society



Socio-political drivers

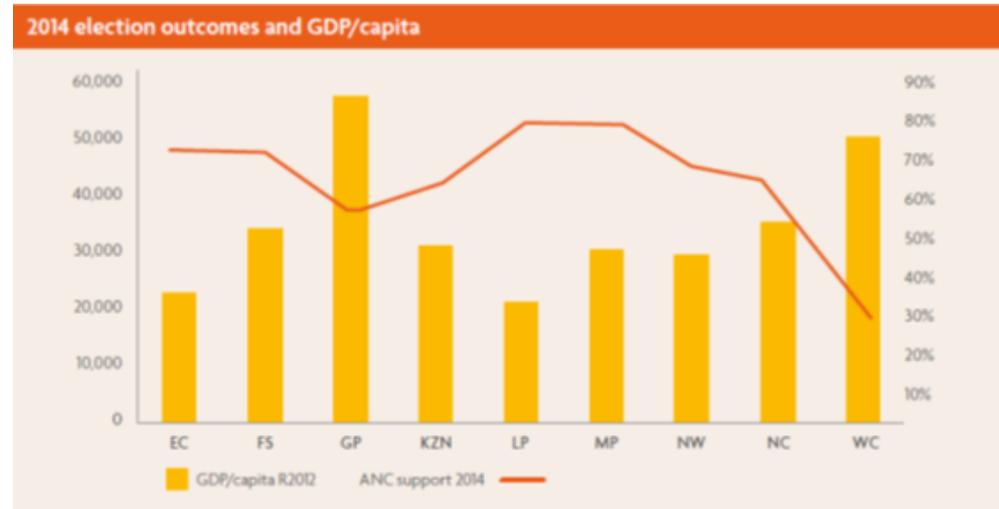
Shift in power – more open patronage?

- Global changes of political establishment
- “State capture” not an occasional scandal but the way things work
- Those who wield power and rely on patronage to stave off poverty will remain loyal...and press for a sympathetic replacement
- “This faction is not the only source of power in the ANC —those who know that (patronage) cannot work for the urban marketplace”
- “May be beginning of a major split in the African National Congress (ANC) that will take shape in the coming months and years”
- “ANC may become a de facto coalition, with factions exercising power in their own sphere of influence, in the way that a federal party could do”

Socio-political drivers

Polarised society

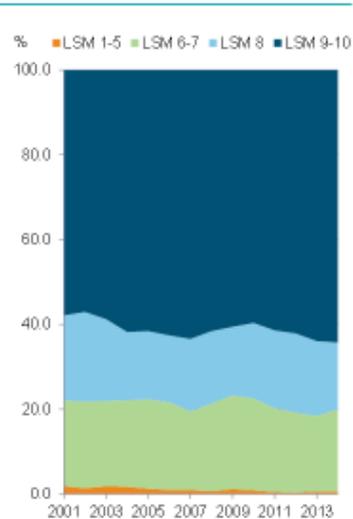
- Global change in society's conformance to 'establishment' positions
- Reduced (?) CSO space post-Polokwane
- Idea that elected governments can and should be all-powerful
- Needs of middle class
- Needs of poor
 - Free education
 - Health insurance
 - Low energy costs
 - Scrapping E-tolls?



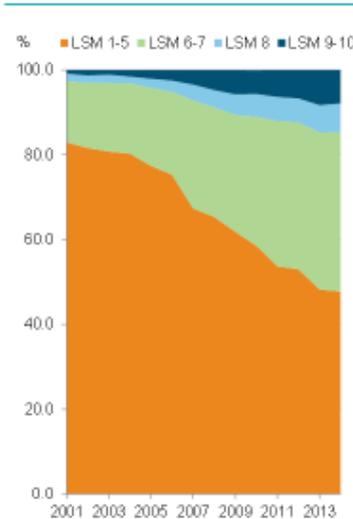
'Urban market-place' concerns

Emerging urban middle class want to maintain benefits of growth and jobs for their families

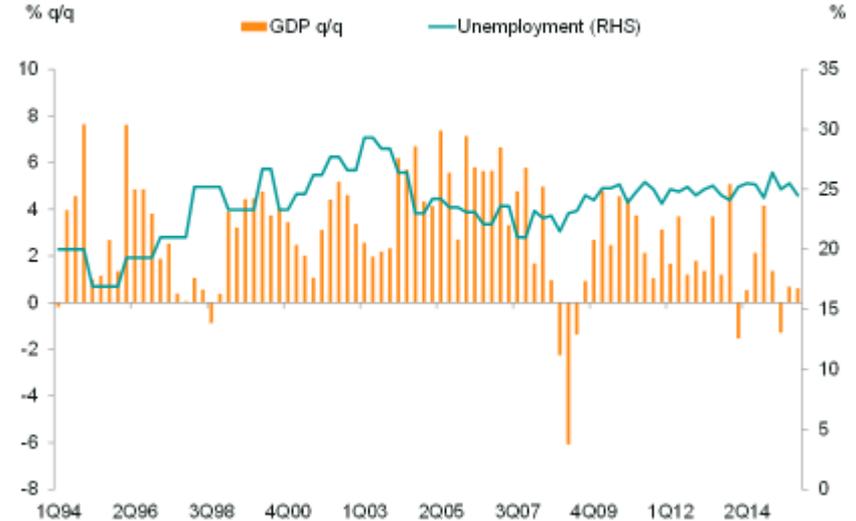
White



Black



Unemployment is structural.
Higher growth will not solve the problem



First National Bank – a division of First Rand Bank Limited, An Authorised Financial Services and Credit Provider (NCRCP20)

Source: Amps, FNB Economics

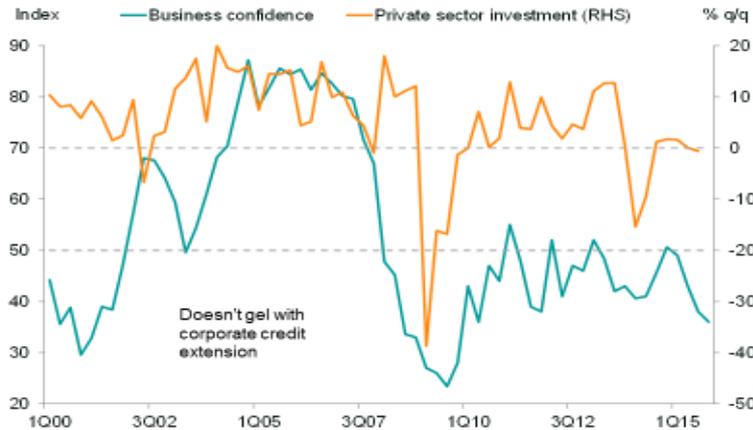
First National Bank – a division of First Rand Bank Limited, An Authorised Financial Services and Credit Provider (NCRCP20)

Source: StatsSA, SARB, FNB Economics

'Urban market-place' concerns

The national developmental economy has been increasingly geared towards the socio-economic demands including pressures to provide free education, contain electricity tariffs, eradicate e-tolls, and provide some form of national health insurance. This has resulted in rising national indebtedness.

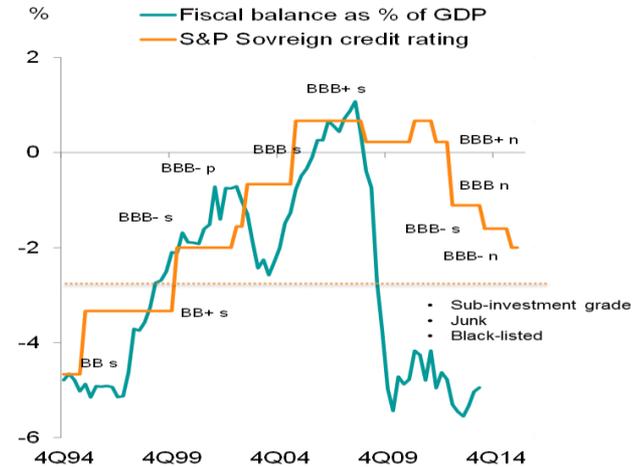
Confidence vs investment



First National Bank - a division of First Rand Bank Limited. An Authorised Financial Services and Credit Provider (NCRCP20)

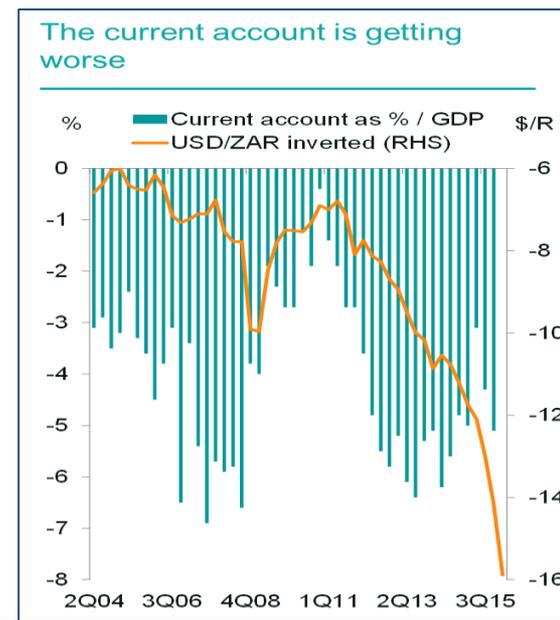
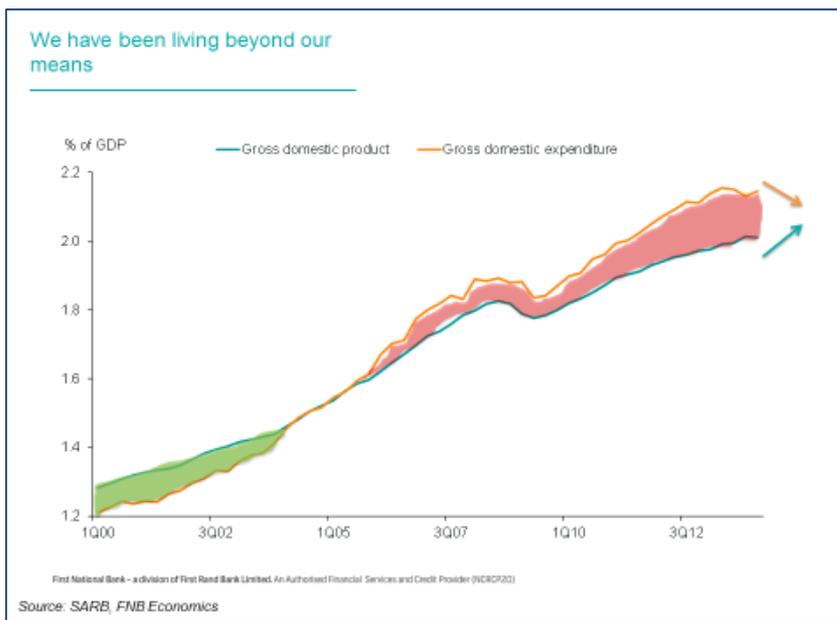
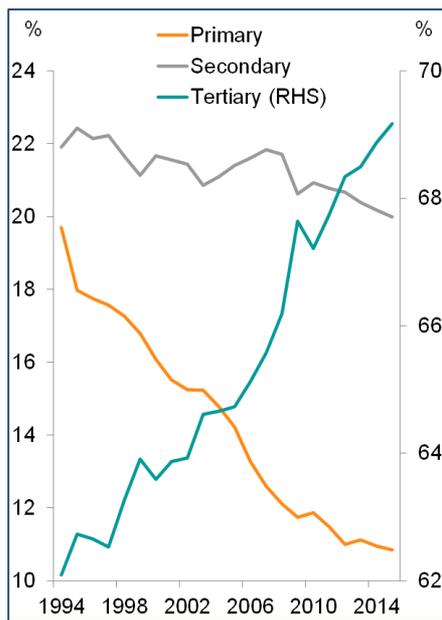
Source: EconoStat, FNB Economics

Credit ratings agencies want to see us walk the talk



'Urban market-place' concerns

Export capability has been impacted by the poor performance of the industrial sectors and ongoing growth in consumption expenditure - exacerbated by the commodity downturn.



Exploring the nationally coordinated, state-led scenario

a) Industrial Policy

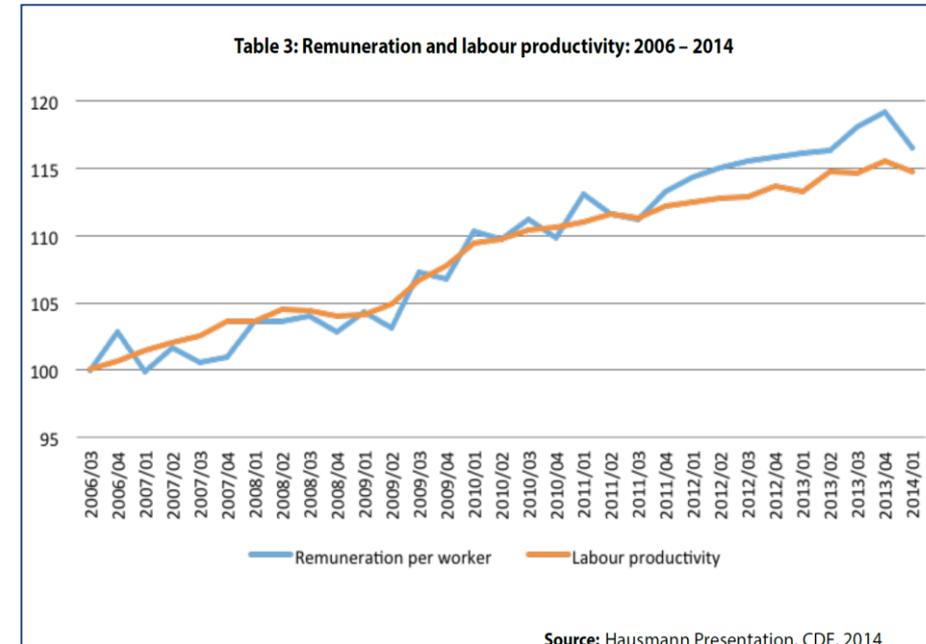
Government-wide policy perspectives:

- Undeniable reality that the domestic economy is characterised by deep seated structural fault lines that brake development:
- Manufacturing sector is core to the industrialisation process / linkages.

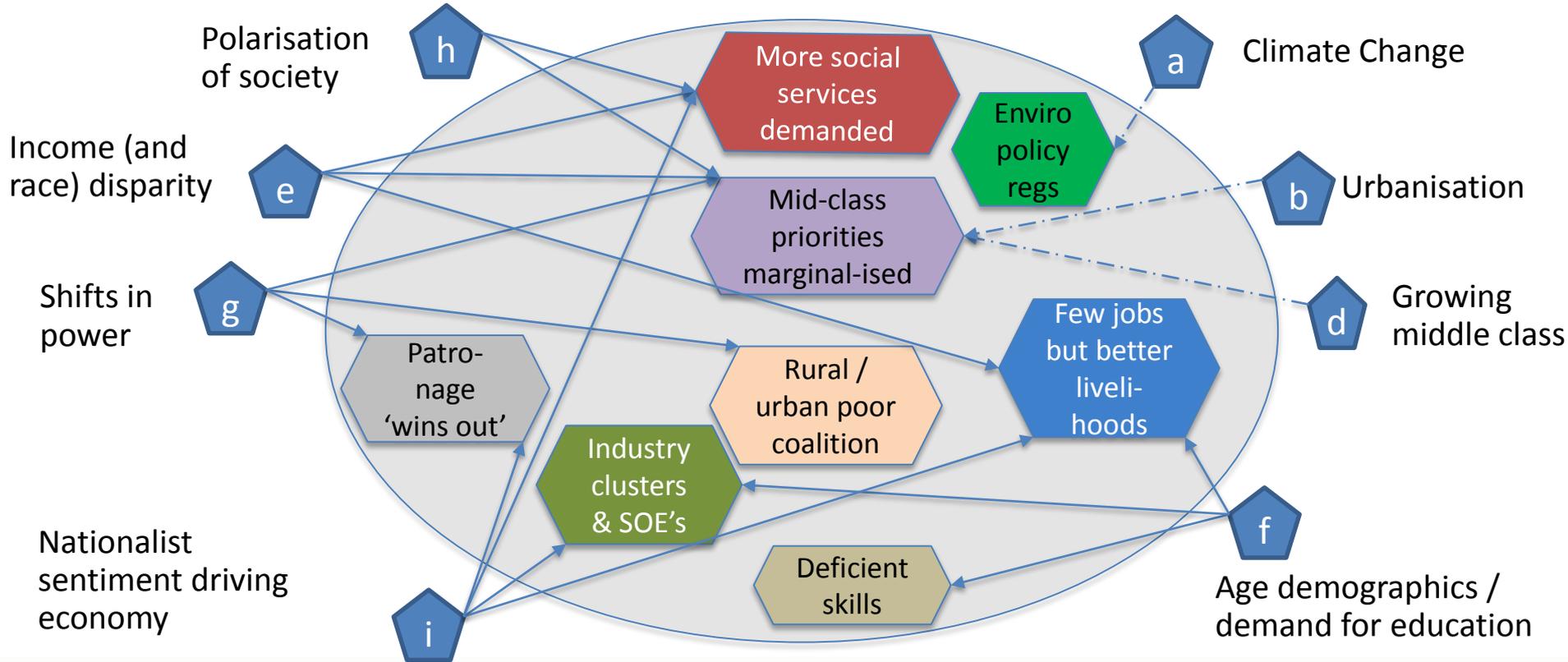
IPAP focus

- Optimise the impact of government, SOEs and private procurement including infrastructure roll-out
- Leverage resources
 - Maximise linkages and multipliers between mining and manufacturing
 - (Significant work already completed on future gas- based industrialisation)
- Support for (diversified) manufactured exports: OEM's, regional integration, clothing, agro-proc, BPS,
- Black industrialists / radical transformation

But is SA industry competitive, sustainable?



Scenario A. Patronage, state-led economy largely retained but more social services demands are met



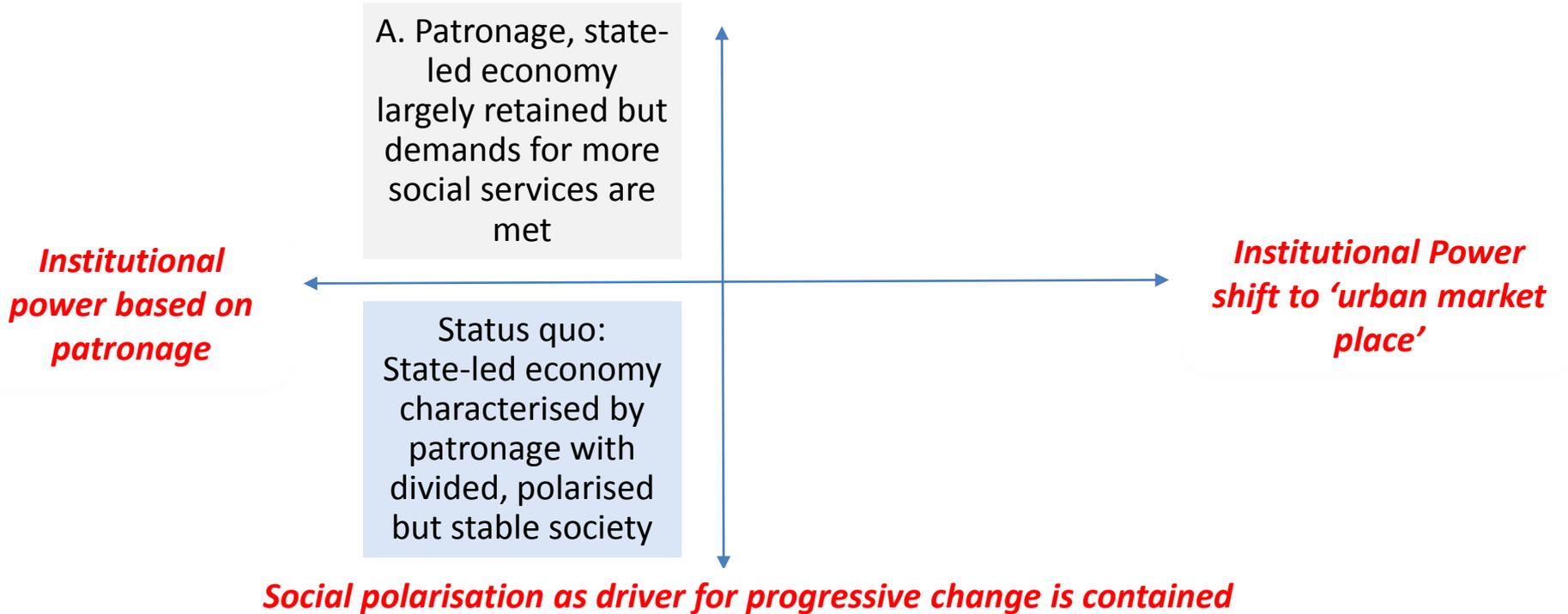
Plausible scenarios?

A. Patronage, state-led scenario

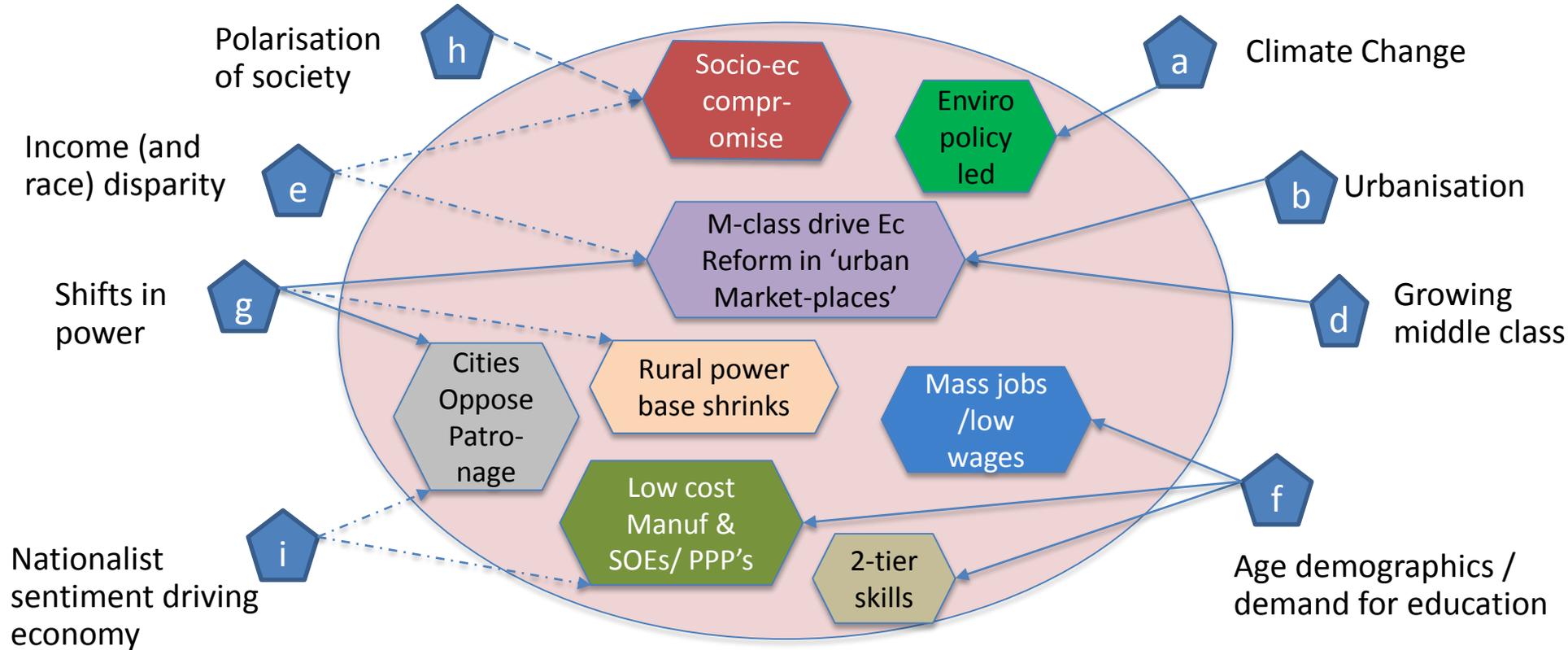
- Political power rural-based but increasingly supported by coalition with poor in cities.
- Jobs remain scarce but people demand more services
 - Free education; medical insurance; electricity prices; eradicate e-toll?
- Middle class concerns marginalised.
 - Growth, ratings, R/\$, jobs
- Reliance on low skill industry clusters and SOE's.

The main change from the status quo

Social polarisation results in strong populist pressure for progressive change



B. Power shift to business friendly industrial growth policies – polarization remains but is contained



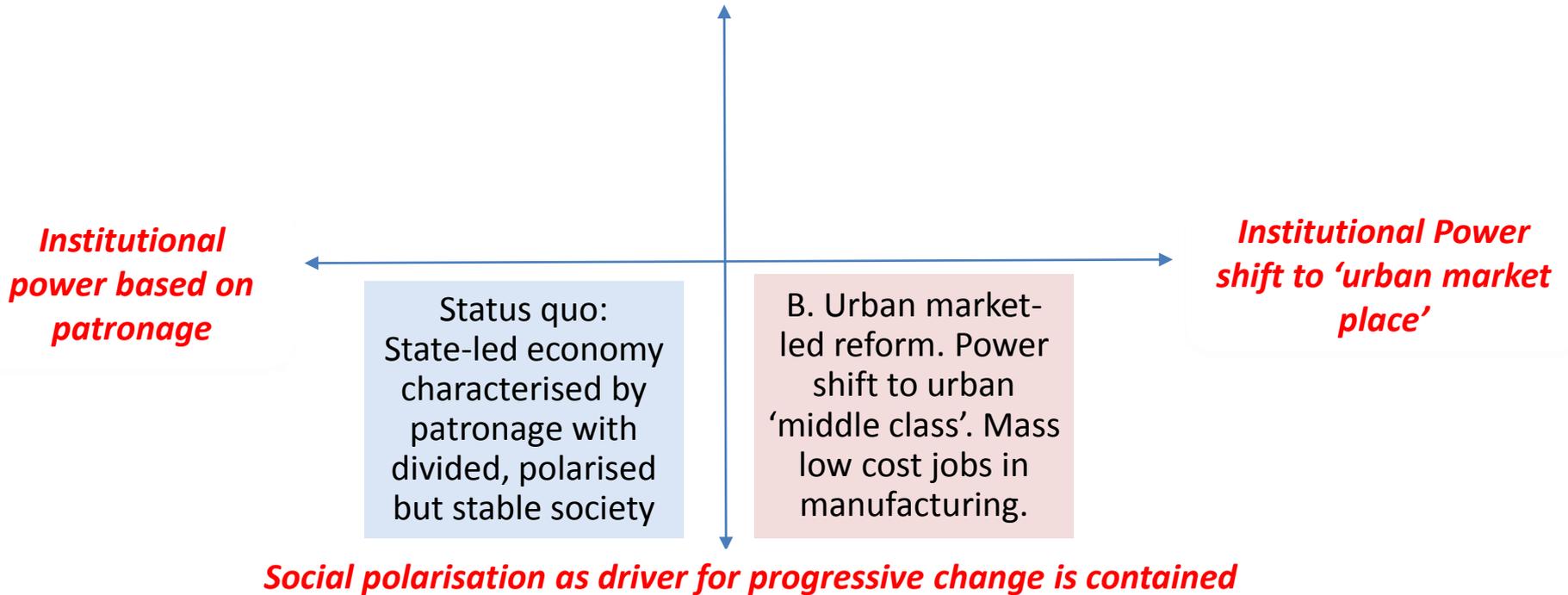
Three Plausible scenarios?

B. Urban market reform

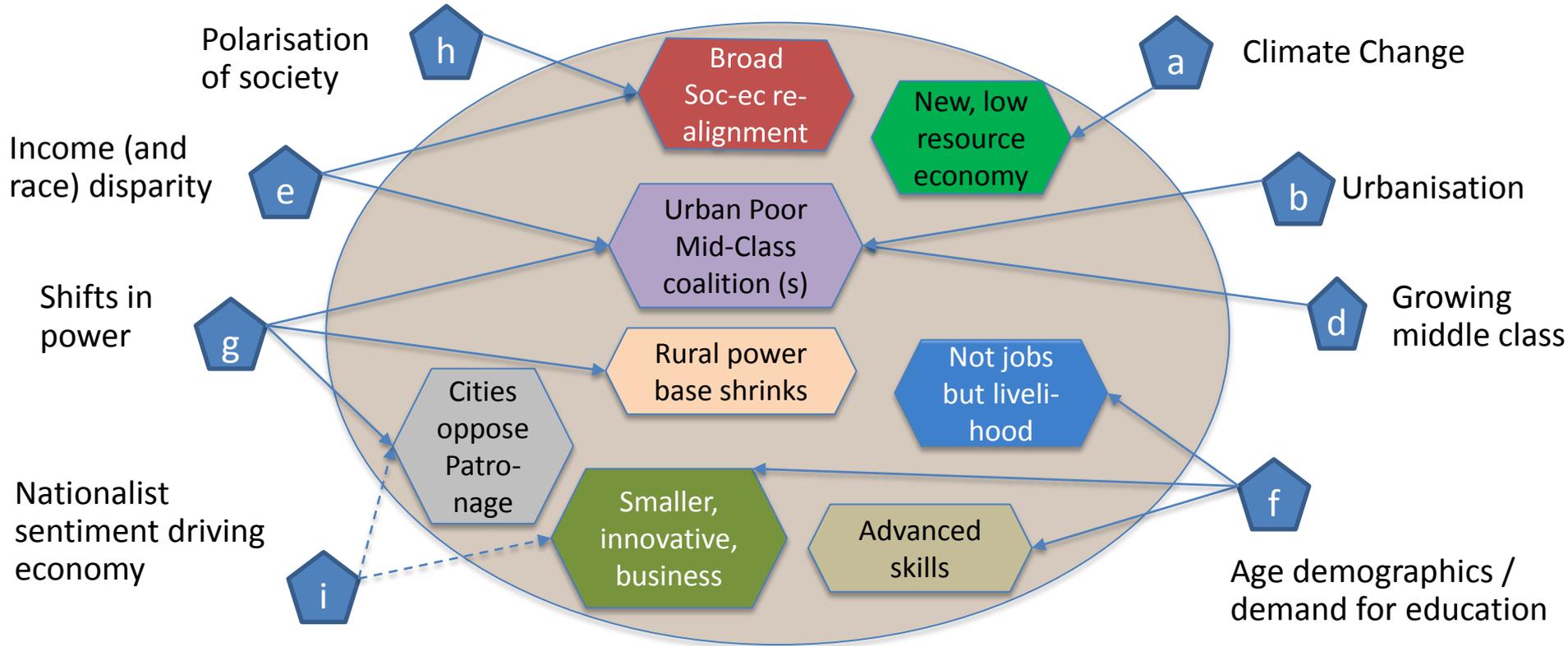
- Shift in power to urban emerging middle class
 - Opposition to patronage.
 - Growth, ratings, R/\$, jobs
- Growth based on market based policies driving mass manufacturing employment
- Initially low skills driven.
- Increasing wage inequality tolerated,
 - Polarised society
 - city slums

Plausible scenarios?

Social polarisation results in strong populist pressure for progressive change



C. Cities drive broad social and economic realignment linked with diversification



Three Plausible scenarios?

A. Patronage, state-led scenario

- Political power rural-based but increasingly supported by coalition with poor in cities.
- Jobs remain scarce but people demand more services
 - Free education; medical insurance; electricity prices; eradicate e-toll?
- Middle class concerns marginalised.
 - Growth, ratings, R/\$, jobs
- Reliance on low skill industry clusters and SOE's.

B. Urban market reform

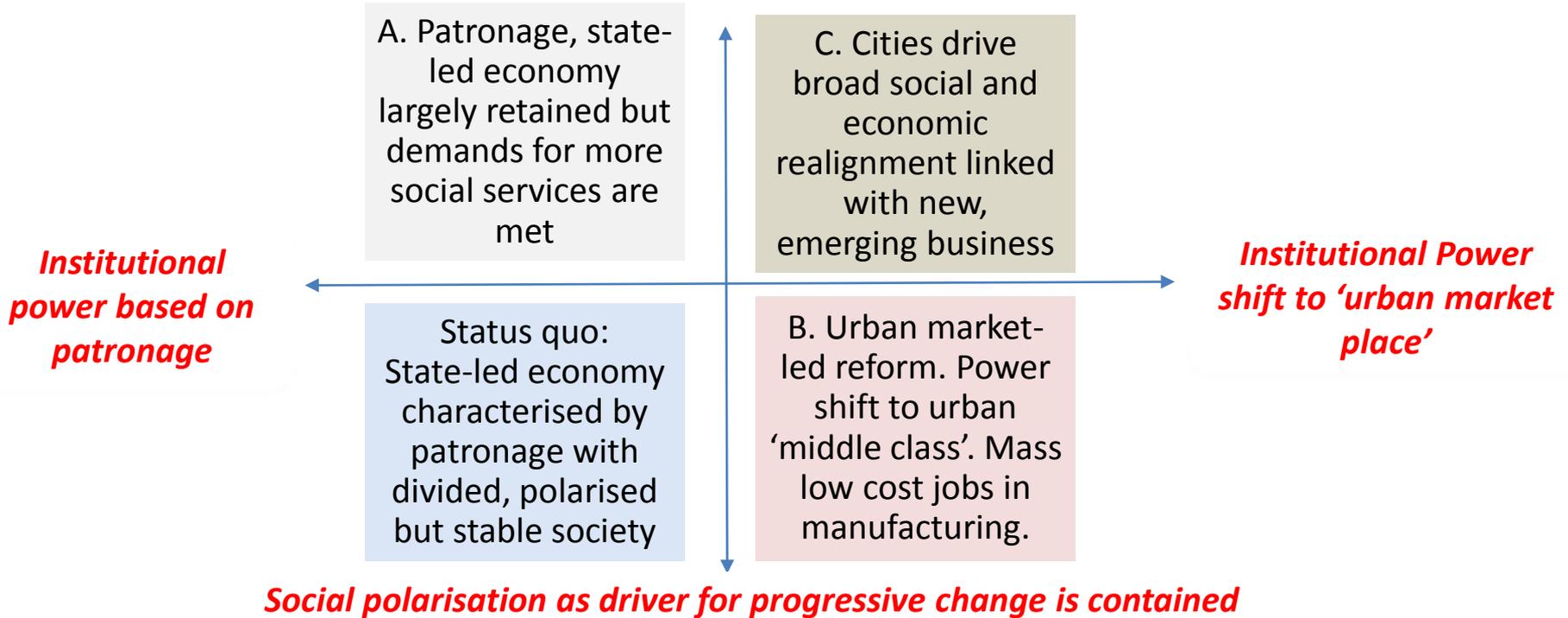
- Shift in power to urban emerging middle class
 - Opposition to patronage.
 - Growth, ratings, R/\$, jobs
- Growth based on market based policies driving mass manufacturing employment
- Initially low skills driven.
- Increasing wage inequality tolerated,
 - Polarised society
 - city slums

Social and economic realignment

- Poor / middle class forced to fundamental realignment.
- Opposition to patronage
- Focus on replacing large concentrated business with emerging economy :
- Smaller, innovative, less resource intensive business.
- Unemployment remains a challenge - but less income disparity, better livelihoods.
- New skills based on low cost, private sector education

Plausible scenarios?

Social polarisation results in strong populist pressure for progressive change



Energy could influence scenarios outcome

Patronage, state-led economy

- Little institutional change
- State base load projects crowd out flexible energy . . . base load imports, nuclear, LNG
- Renewables become largely Eskom driven

B. Urban market reform

- Complete change in management of energy system.
- Energy decisions devolved to cities
- Eskom 20% (?) privatized and more PPP's
- Suppliers bid daily to supply the grid – lowest cost, no social services.

Social and economic realignment

- Complete change in management of energy system.
- New technologies key
- Need to provide affordable energy to the poor

3rd Floor, Building D, Sunnyside Office Park, 32 Princess of Wales Terrace, Parktown, 2193

PO Box 294, Auckland Park, Johannesburg 2006, South Africa

0861 123 624 (0861 123 NBI) | Tel: +27 11 544 6000 | Fax: +27 86 505 5678



The National Business Initiative is a voluntary coalition of South African and multinational companies, working towards sustainable growth and development in South Africa and the shaping of a sustainable future through responsible business action. Since our inception in 1995, the NBI has made a distinct impact in the spheres of housing delivery, crime prevention, local economic development, public sector capacity building, Further Education and Training, schooling, public private partnerships, energy efficiency and climate change.

The NBI is a global network partner of the World Business Council for Sustainable Development (WBCSD), the focal point of the United Nations Global Compact (UNGC) Local Network in South Africa and an implementation partner of the CEO Water Mandate, We Mean Business and the CDP.

www.nbi.org.za

www.facebook.com/NationalBusinessInitiative

@NBISA



Network South Africa

Business Action for Sustainable Growth

