international policy UPDATE

No.4, 1997

Tel: 011-339-2021 THE SOUTH AFRICAN INSTITUTE OF INTERNATIONAL AFFAIRS Fax: 011-339-2154

From Inspiration to Implementation: Challenges facing South Africa

Judith Edstrom is the World Bank Resident Representative in South Africa

The brief visit of the World Bank's President James D. Wolfensohn to South Africa in mid-February provides the opportunity for South Africans and the world's largest international development agency to exchange views on South Africa's development prospects and the role government may wish the Bank to play in contributing to achieving its development objectives. What are likely to emerge from these discussions as the critical constraints and opportunities? And how is the nature of the Government-Bank relationship evolving? The following themes are among those driving the dialogue.

The birth of the new South Africa in April 1994 - and the events leading up to this political transformation - held the world in thrall, with promises of hope not only for South Africans, but also for all of sub-Saharan Africa. South Africa has moved from internal conflict and division to reconciliation and commitment to creating a new, more equal society. President Mandela and others have done much to heal the rifts of a fractured society. Yet, while much has been done on the political front to dismantle inequalities, the country faces formidable challenges in redressing the entrenched impacts of apartheid - unparalleled inequality, poverty and unemployment, skewed infrastructure, lack of skills and education, fragmented communities and the loss of opportunity for generations of black South Africans. These challenges are virtually without precedent. South Africa's future depends critically on how - and how fast - it meets them.

Specifically, the government must now transform the political miracle into visible economic results, as the euphoria of political change gives way to impatience for tangible improvement in peoples' lives. The World Bank sees four major challenges confronting South Africa's leadership in this regard:

- **economic growth** must accelerate from the current 3% to 6% - but also must become more labour-absorbing and more equitable;
- **poverty** must be reduced, and **delivery of services** (health, education, water, sanitation, electricity) and **increased access to assets** (housing, land) for the previously disadvantaged groups accelerated;
- **capacity** must be built to implement programmes and policies, particularly at the provincial and local levels; and,
- South Africa must determine in what manner it will play its **regional role** to promote development in its neighbours' economies as well as its own.

The World Bank has to date provided considerable advisory support in areas which respond to all of the above challenges, and is ready to provide further support to move from the conception to implementation of critical programmes.

Growth with Equity

Growth is essential for South Africa to successfully meet the challenges of closing income gaps, raising standards of living and translating political into economic gains. No country has managed to redistribute without growth. Last year, growth was 3%, a welcome shift after the low or negative growth which characterised the early 1990s. However, with population growth of 2% per annum, per capita income only grew at about 1%. At this rate it will take 79 years for South Africa to double its per capita income.

Achieving the government's targeted growth of 6%and creation of a half million jobs per year by the year 2000 requires higher savings, faster export growth and increased productivity through skills upgrading, investment in education and introduction of new technologies. Stimulating growth to the 6% level in this manner would double per capita income in 19 years, and spread its benefits more broadly. The latter is particularly important: while it is imperative that growth increases at a faster rate, it is vital that growth be equitable and create employment - that it increases wealth for all segments the population.

International experience is very clear: without a sound macro-economic programme in place, economic growth, sound delivery of services and the ability to address the problems of poverty may be jeopardised. The macro-economic programme of Government as outlined in the Growth, Employment and Redistribution (GEAR) strategy adopted in June 1996 aims to create a framework that will stimulate this required growth. The challenge remains to implement the full range of policies embodied in the GEAR, including some of the supply-side programmes which are intended to provide the incentives and stimuli to encouraging savings, investment, improved competitiveness and greater flexibility in the labour market in a manner which will encourage job creation, not net job loss. Just as important will be much more decisive action by government to implement effective policies and programmes on the human development front elaborated below.

Poverty Reduction and Delivery of Services

Poverty reduction must be central to the development agenda in South Africa, as elsewhere in sub-Saharan Africa. South Africa is one of the most unequal societies in the world: while its per capita income of about US$3,000 places it firmly in the rank of middle-income countries, South Africa is recognised to consist of a number of societies. One society, with about 13% of the population, is 'first world' with comparable standards of living to other industrialised countries. However, in another society, comprising about 53% of the population and overwhelmingly African, about half have less than a primary school education, one-third of all children suffer from chronic malnutrition, only about one-quarter of the households have electricity and running water, and less than one-fifth have modern sanitation. Unemployment is among the highest in the world: over 30% by some estimates. High unemployment and limited opportunities for skills development have contributed to the problem of crime in all communities, regardless of income level.

Poverty needs to be addressed both through a more vibrant economy in which there are opportunities for individuals to improve their livelihoods, and through improved delivery of services. Delivery of key services, by the different tiers of government as well as by non-governmental agencies, needs to accelerate, not only to improve people's lives now but to move the economy onto a redistributive development path.

A critical priority for service delivery is increased access to quality education. Education is one of the most important investments South Africa can make to provide a solid base of skills ensuring that the economy is more productive and to reduce income inequalities. In fact, provision of education opportunities has been shown to be one of the most important, if not the most important, variable in translating growth into improved welfare, and has been demonstrated to be a significant factor in reducing income disparities. At the same time that South Africa seeks means of improving the efficiency of its education system, it needs to invest in the transformation of the system.

There has been considerable public debate in South Africa as to whether the Government's macro-economic policy is in conflict with the fundamentals of the RDP aimed at efforts to reduce poverty. However, the problems of delivery relate more, in the Bank's assessment, to the institutional challenges of restructuring government at all tiers, improved understanding of the potential partnerships between the public and private sectors, and seeking better mechanisms for targeting the poor. Implementing the GEAR framework and ensuring sustained delivery of basic services are therefore complementary not contradictory.

Strengthening Capacity for Implementation

Capacity building is critical for South Africa if delivery targets are to be met. As in most of Africa, the country suffers from a shortage of critical skills as well as a concentration of skills in services which cater for the more affluent segments of society. Lack of some skills - in economic development policy, public sector management, and the management of programmes aimed at service delivery - constrains the delivery of urgent services, particularly at local levels. Due to past education and training policies under apartheid, there is an acute shortage of skills among the African population. Resulting high rates of illiteracy in the workforce affect productivity and thus competitiveness.

At the same time, South Africa possesses a strong capacity in some areas, as well as a clear legal system and good regulatory framework, a strong financial sector and a diversified and sophisticated private sector. Building capacity requires re-orienting skills to those areas most in need, as well as providing capacity in new areas. Rapid demands on public administration, particularly at provincial and local levels and in the face of a large exodus of experienced staff under the voluntary retrenchment programme, have resulted in an urgent need to develop capacity for implementing projects and programmes. As President Mandela has stated that the emphasis of government this year is delivery, ways need to be found of improving implementation capacity.

South Africa's Regional Role

South Africa accounts for 29% of southern Africa's population, yet contributes 80% of the subregion's GDP of US$150 billion. As such, it remains the largest and most prosperous market, as well as a major diplomatic player, not just in southern African, but in sub-Saharan Africa as a whole. Regional infrastructure projects - in transport, power and water - are increasing, and the potential gains from regional co-operation are enormous. But questions remain regarding South Africa's openness - with regard, in particular, to trade barriers and immigration from neighbouring countries, and also about South Africa's will and capacity to be an engine for growth for the entire region.

South Africa and the World Bank

The Bank Group re-engaged in South Africa in 1990,[1] as momentum accelerated towards full democracy. With the blessing of the main political players and institutions, the Bank launched an informal programme of economic policy analysis and capacity building. The relationship has been highly participatory - marked by open interaction between the Bank and all relevant sectors of civil society. The dialogue has resulted in a series of informal discussion papers and studies on the economy and key development issues in areas ranging from: poverty analysis to land reform; urban infrastructure to health financing; macro policy to procurement reform; and, small and medium enterprise development to water policy.

The relationship between South Africa and the World Bank Group remains grounded in a strong partnership. The operational staff of the Bank have focused on providing analytical support and advice in key sectors, with the aim of bringing international experience in development to bear on the issues of poverty, inequality and economic growth faced by South Africa. Assistance for poverty reduction has been a key element of the Bank's programme of collaboration: one of the first acts of technical assistance was to launch the South African Labour Development Research Unit (SALDRU) survey, carried out with the University of Cape Town, which provided the first quantified snapshot of the poor. More recently, the Bank has been a principal supporter of the Poverty and Inequality Report analysis under the auspices of Deputy President Thabo Mbeki.

The Bank has awarded small grants to date in the areas of early childhood development, increasing AIDS awareness among youth, school health education, public procurement reform to encourage small contractors, and telecommunications advisory support. A residential Bank intern programme has trained 40 young South Africans, many of whom now hold leadership positions in government or the private sector. The World Bank has supported several regional initiatives, including the Lesotho Highlands Water Project, the Maputo Corridor, a regional power pool and a regional payments system. Governments on both sides of South Africa's borders have requested the Bank to continue playing either an advisory or investment role in regional programmes.

A number of other agencies of the World Bank Group have also been active in South Africa. The Bank's **Economic Development Institute** (EDI) has organised training programmes and workshops for several hundred South Africans on a range of topics. The **International Finance Corporation**, which lends solely for private sector investments, has specifically targeted projects that directly or indirectly benefit previously disadvantaged groups; its portfolio totals US$45 million, of which almost US$20 million has been disbursed. The project pipeline is growing rapidly, particularly in capital market transactions (equity and quasi-equity investment funds), light manufacturing and small projects in agribusiness. The African Project Development Facility (APDF) provides advisory support to small entrepreneurs. The Multilateral Investment Guarantee Agency (MIGA) has issued guarantees for three investments into South Africa, for a total of about US$20 million.

Government is currently exploring the possibility of borrowing from the World Bank to finance a programme in the portfolio of the Department of Trade and Industry. The programme is aimed at improving the international competitiveness of firms, with a particular focus on small-, micro- and medium-sized enterprises (SMMEs). The objective would be to encourage smaller firms to respond to opportunities for exporting or other productivity-stimulating innovations, in order to increase prospects for sustainable, job-creating growth. The project builds on international experience which has shown that SMMEs geared to the export markets can contribute significantly to economic growth. Other areas in which initial expressions of interest for project support have been voiced by government include, *inter alia*, borrowing for urban infrastructure, in collaboration with the Development Bank of Southern Africa, and accessing grant funding under the Global Environment Fund for environmental bio-diversity support in the Cape Peninsula.

The relationship between the Bank and South Africa has in many respects been pathbreaking, in that it has been driven by South Africa's demand for advisory services over lending. South Africa's recourse to grant funding from official development sources on one hand, and to private sector funding on the other, have justified a relationship with the Bank built on consultation and sharing of international experience. A wide variety of Bank instruments remain at South Africa's disposal - advisory services, and lending or other financial instruments such as guarantees. As the government now seeks to now put the focus on delivery, the World Bank is in a position to share its vast experience in implementing programmes and projects. Much of the investment lending of the Bank goes for developing implementation capacity in conjunction with the expansion of physical infrastructure. The key to its success lies in the financing of the borrowers' own programmes, in which the local implementing agency is responsible for procurement and programme management. For this reason, the Bank's project expertise lies in assisting institutions on the ground to develop sustainable capacity - to plan, programme, procure, implement and evaluate.

South Africa does not by any means face an easy road ahead. Moreover, the uniqueness of its situation - the legacy of apartheid and isolation - make it difficult to base solutions on experience elsewhere. Yet there are few countries today which have inspired the rest of the world as South Africa has done. In a few short years, it has moved from pariah to powerhouse in the region. In has effected a complete transformation - capped by the bringing into law of a new Constitution. Now comes an equally difficult challenge: effecting an economic and social transformation. The economy must adjust, but in a way that will result in growth and higher incomes for all. Opportunities must be created for previously disadvantaged groups, above all employment and education opportunities. Living standards must be raised and services provided. Achieving this transformation will require moving from policies to programmes, from inspiration to implementation. The World Bank looks forward to helping South Africa achieve its second 'miracle'.

Endnote

1. The World Bank made loans totalling about US$250 million to South Africa during the period 1951-1966, all in the transport of energy (ESKOM) sectors. These loans were disbursed fully by 1968 and further lending and dialogue with the government in power were suspended as Bank joined in support of the movement against apartheid. All of these loans have been repaid.