

## SOUTH AFRICA

The GDP per capita gap with the upper half of OECD countries has failed to narrow since the transition to majority rule, although there has been some convergence in the last few years. Compared with other non-OECD countries, an unusually large part of the gap is explained by low labour utilisation. A large expansion of social grants has been important in alleviating poverty, but structural reforms would help speed up convergence to OECD income levels.

### Priorities supported by indicators

#### **Raise the quality of education and reduce inequalities in attainment**

Enrolment in primary and secondary education has been greatly increased, but educational attainment is poor on average with extremely high dispersion, which hampers human capital formation and productivity.

**Actions taken:** The child support grant has been extended to 18, helping keep older children in school.

**Recommendations:** Improve teacher training, and introduce effective measures to deal with chronically ineffective teachers. Phase out school fees. Improve the provision of textbooks and reading materials, and upgrade school infrastructure.

#### **Enhance competition in network industries**

South Africa's network industries are dominated by state-owned firms, with legal barriers to entry in some cases and inbuilt advantage for the near-monopoly incumbents. As a result, product market regulation in energy, transport and communications is more restrictive than in almost all OECD countries, hampering productivity.

**Actions taken:** The government has proposed separating the generation and distribution activities of Eskom, the state-owned electricity utility.

**Recommendations:** Remove legal barriers to entry in network industries. End the possibility of granting state-owned enterprises exemptions to competition laws. Move towards separating generation, transmission and distribution of electricity. Strengthen the independence and resources of the telecoms regulator. Unbundle the different divisions of the transport parastatal Transnet and move towards privatisation of the separate units where feasible.

#### **Reform the wage bargaining system**

There is a relatively high degree of coordination in wage bargaining, which tends to be associated with poor employment outcomes, and administrative extension of collective bargaining within sectors depresses competition and employment.

**Actions taken:** No action taken.

**Recommendations:** Weaken administrative extension of collective bargains in sectors covered by bargaining councils. Provide for indicative guidelines for wage bargains at a centralised level, with government playing a role to ensure that such guidelines are consistent with inflation targets and thus do not undermine the employment prospects of labour market outsiders.

### Other key priorities

#### **Strengthen policies to tackle youth unemployment**

Unemployment rates for the 15-24 age group approach 50% overall, and exceed that threshold for the black African population, reflecting a number of factors, including labour market policy weaknesses.

**Actions taken:** Public works programmes were expanded in 2009 as a short-term measure to mitigate unemployment. The 2010 Budget Review proposed a wage subsidy for young and/or inexperienced workers.

**Recommendations:** Provide for age-differentiation of minimum wages in sectors where these are set by the state. Implement a wage subsidy, possibly via an expansion of the learnership programme. Intensify placement assistance.

#### **Reduce barriers to entrepreneurship**

Product market regulation is relatively restrictive, including with respect to the burden of licenses and permits and the complexity of rules and procedures.

**Actions taken:** A pilot project was approved to test a Regulatory Impact Assessment (RIA) instrument.

**Recommendations:** Introduce systematic RIA for all new regulation, and review existing legislation with a view to reducing administrative burdens.

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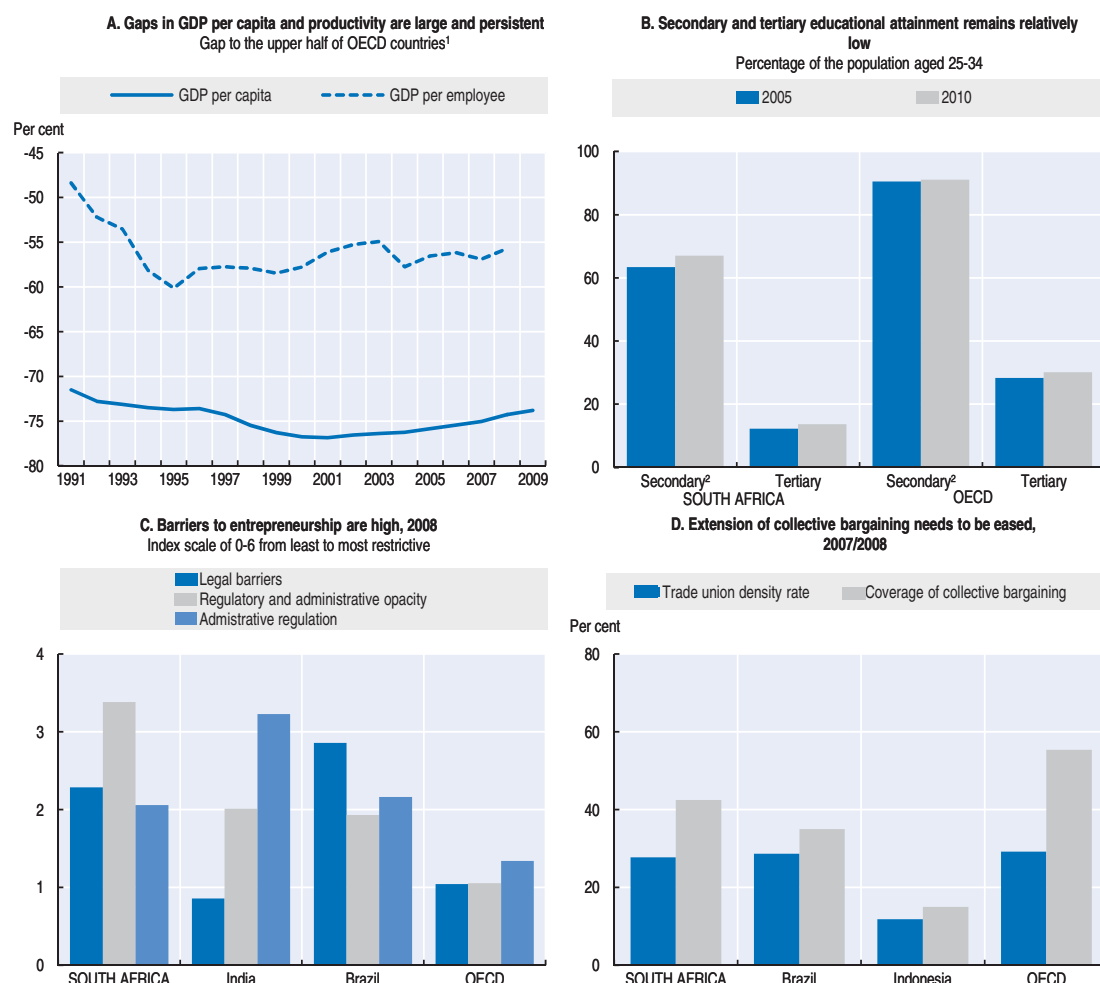
## Structural indicators

Average annual trend growth rates, per cent

	1998-2008	1998-2003	2003-08
GDP per capita	2.5	1.2	3.7
Labour utilisation	..	..	..
of which: Employment rate	0.7	-1.5	3.0
Average hours	..	..	..
Labour productivity <sup>1</sup>	1.7	2.7	0.7
of which: Capital intensity	..	..	..
Multifactor productivity	..	..	..

1. Labour productivity is measured as GDP per employee.

Source: Estimates based on World Bank (2010), *World Development Indicators (WDI)* and ILO (2010), *Key Indicators of the Labour Market (KILM) Databases*.



1. Percentage gap with respect to the simple average of the highest 17 OECD countries in terms of GDP per capita and GDP per employee (in constant 2005 PPPs).
  2. Secondary educational attainment measures the share of the population aged 25-34 that has reached at least lower-secondary education.
- Source: Chart A: World Bank (2010), *World Development Indicators (WDI)* and ILO (2010), *Key Indicators of the Labour Market (KILM) Databases*; Chart B: Samir et al. (2008), "Projection of Population by Level of Education Attainment, Age and Sex for 120 countries for 2005-2050", International Institute for Applied Systems Analysis Interim Reports; Chart C: *Product Market Regulation Database*; Chart D: *OECD employment Outlook and J. Visser, Database*, Amsterdam Institute for Advanced Labour Studies (2010), *ICTWSS Database 3.1*.

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