

# REVIEW | Building a future for South Africa's youth

*Ashraf Kariem and Sithembile Mbete*

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## Introduction

Thandi is a 20-year-old girl from a village in KwaZulu-Natal who matriculated in 2010. Although she started school with 1.4 million other learners in January 1999, only 600 000 of her peers sat to write their matric exams in 2010. Of these learners, only 25 per cent achieved the marks necessary to enter a university or a further education and training college. Someone like Thandi who is a poor African woman from a rural area had only a 4.0 per cent chance of attaining further education. As she could not further her education, Thandi joined the 114 000 new entrants in the labour market in the first quarter of 2011. In her first year out of school, Thandi had a 13 per cent chance of getting a job. If we project this to the first five years out of school, Thandi has only a 25 per cent chance of getting a job and a 2.0 per cent chance of earning more than an average income of R4 000 per month. In all likelihood, Thandi will subsist off short-term employment for much of her working life, earning no more than the poverty-line amount of R419 per person per month. The first time she will break through the poverty barrier is when she turns 60 and is eligible for the old age pension.<sup>1</sup>

Thandi's story illustrates the significant challenges facing South Africa's economy. Many are excluded from economic activity and have no access to opportunities to improve their lives. Unemployment and poverty levels are extremely high and persistent, and while there have been some efforts since 1994 to diversify the structure of ownership and participation in the economy, these have benefited only a few. As a consequence, inequality has continued to grow, and South Africa, having surpassed Brazil, today is rated as the most unequal emerging economy in the world. The task of undoing these stubborn structural traits of the economy has been hamstrung by a public education system that has widened access but has underperformed in providing quality education that meets the needs of the economy. Once again, black learners from disadvantaged backgrounds are being marginalised from accessing the opportunities that could drastically change their future prospects. Young people, and poor black youths, in particular, bear the brunt of South Africa's structurally flawed economy.

Like Thandi, millions of young South Africans will probably spend most of their productive years with little opportunity of

gainful employment and self-development. Their prospects of escaping marginalisation through mobility in the labour market are dim, and maybe only in their twilight years will government grants and pensions allow them temporarily to elevate their living conditions to something better. A country that offers so little hope to its youth cannot count on a prosperous, safe and stable future.

It is for this reason that South Africa urgently needed a comprehensive, integrated long-term approach providing a promise of something better. The National Planning Commission (NPC) was established to produce such a vision and an accompanying development plan for South Africa's future. Recognising that young people suffer a disproportionate burden of unemployment and poverty, the Commission adopted a 'youth lens' in preparing its plan. This article summarises the NPC's approach to improving the life chances of Thandi and millions of others like her. The revised National Development Plan (NDP) released on 15 August 2012 aims to eliminate poverty and reduce inequality in South Africa by 2030. The NPC believes that this can be achieved by growing an inclusive economy, building the capabilities of individuals, enhancing the capacity of the state and promoting a more cohesive society. The first section discusses the structural composition of the South African economy, and examines its historical foundations and contemporary features. Central to this is a discussion of the problem of youth unemployment. The article then considers the proposals of the revised NDP to create a more prosperous, equal South Africa by 2030.

## The structure of South Africa's economy

South Africa's classification as a middle-income economy is misleading. As aggregate figures that are based on per capita income often do, this label obscures the country's profound social inequalities. Few live comfortably, while the vast majority toil daily to fend off the existential threats that poverty poses. The country's working middle class is small and vulnerable to external shocks.

This imbalance represents a continuation of the skewed patterns of ownership and economic participation that were forged during apartheid. Mining and agriculture provided



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the cornerstones upon which the South African economy was built, and its current configuration continues to bear evidence of this. During the twentieth century, state intervention contributed to the development of some manufacturing capacity to serve these industries and to provide consumer goods for the domestic and Western markets. The South African economy before 1994, thus, can be characterised as a mineral-energy complex in a dependent relationship with Western economies, based mainly on exports of minerals and agricultural produce and imports of capital and intermediate and finished goods (NPC 2011). Successive apartheid governments invested mainly in 'self-sufficiency' projects such as SASOL and ISCOR. These were highly capital- and resource-intensive enterprises, which, in turn, reproduced this complex of capital-intensive and energy-inefficient industries. The resilience of this model was sustained by cheap hydrocarbon energy. This path-dependency has proven stubborn and difficult for the post-apartheid government to change.

Global forces and the weak impact of domestic policies have served to reinforce these realities. Below-potential growth, and an inability to absorb more young entrants in the labour market have imposed a 'muddling through' scenario on the country, which has seen it struggling to keep pace with other emerging market peers. The NDP's diagnosis of the South African economy is that it is caught in a 'low-growth, middle-income trap' (NPC 2012: 110). The four features of this trap are: low levels of competition for goods and services; large numbers of workers that are excluded from the labour market; low savings; and a poor skills profile. As a result, the NPC contends that the economic legacy of apartheid has not yet been overcome, and that the majority of black people still struggle to find the opportunities to advance their living standards.

*Low competition levels* constitute one of the most stubborn remnants of South Africa's economic evolution under apartheid. Internally, economic exclusion kept the majority of citizens from competing on an equitable basis with their white counterparts. Because of apartheid laws, the consumer base was circumscribed, as was the labour profile. Racial laws constrained the growth of the domestic market and destroyed entrepreneurship among the majority black population, limiting the growth of small enterprises and the informal sector. Economic sanctions also precluded potential foreign investors from adding diversity to the market. In some instances, export substitution, the apartheid government's response to sanctions, gave rise to the development of oligopolistic relationships within specific industries. The result, uncompetitive goods and services markets, created relatively high profit margins

that were consumed by employers and existing employees, but resulted in limited innovation and investment. This legacy remains, which makes it difficult for new firms to enter the market; consequently, the potential for the creation of new jobs remains constricted.

*Unemployment* means that too many South Africans are excluded from actively participating in the formal economy. South Africa's economy is highly capital intensive, and highly biased against labour. Reversing this bias is the most critical economic challenge South Africa faces. Too few South Africans work, with about 27 per cent of the working-age population being unemployed. Despite making up just 0.5 per cent of the global labour force, South Africa accounts for 2.0 per cent of global unemployment (National Treasury 2011). Only about 41 per cent of the adult population (aged 15–64 years) is employed or self-employed in the formal or informal sector. The comparative figure for emerging market peers, such as Brazil and Malaysia, is 75 per cent; for developed economies, it is 70 per cent (NPC 2011). The only examples of countries with employment levels that are equally low are found in the Middle East where women are excluded from the workforce. The dependency ratio (the number of people depending on one wage earner) is very high at 3.9 (NPC 2012). This means that each employed person supports four other people. Because of the high dependency ratio, the majority of working people live near or below the poverty line of R419 per person per month.<sup>2</sup>

*Low savings* translate into low levels of domestic investment. South Africa's levels of private and public investment (including maintenance) are significantly lower than those of high-growth countries such as South Korea or China. Despite having peaked at 24 per cent in 2008, the country's investment level as a proportion of GDP has averaged below 20 per cent since the mid-1980s. South Korea, in comparison, had an investment rate of about one-third of GDP during its period of rapid economic growth (NPC 2012). Because of the low savings levels, South Africa is reliant on foreign capital inflows. This has reinforced the uncompetitive nature of the economy, as foreign capital has tended to invest in existing high-profit firms, as opposed to green-field investments that create new infrastructure and employment.

*A weak skills base* is one of the primary reasons why investment rates have remained low in South Africa (World Bank 2011). With the global economy becoming increasingly knowledge oriented, investors have sought destinations with skills bases that meet the demands of their industries. South Africa's shortage of critical skills can be attributed partly to the education policies under apartheid, which kept the majority

of the population from entering particular highly skilled occupations. This has been exacerbated by an underperforming education system since the end of apartheid. Although substantial resources have been pumped into public education over the past 18 years, the returns on this investment have been unsatisfactory. The system's major achievement has been close to universal access at the primary level, but, as indicated elsewhere in this publication, retention levels and the quality of outputs have been low. In short, more learners have been exposed to a system that does not adequately prepare them for the demands of a labour market with a distinct skills bias. For more than a decade now, employment for low-skilled workers has grown at a lower rate than for those with higher skills. This, in turn, reinforces income inequality, because the high premium on skills has pushed up wages of workers in this category in a disproportionate measure to that of low-skilled and unskilled workers.

In addition to these challenges, there are others, which we do not go into detail about here, but are worth mentioning. These include extreme pressures on natural resources, such as water, energy constraints, skewed spatial development and limited access to large global markets, because of geographical distance.

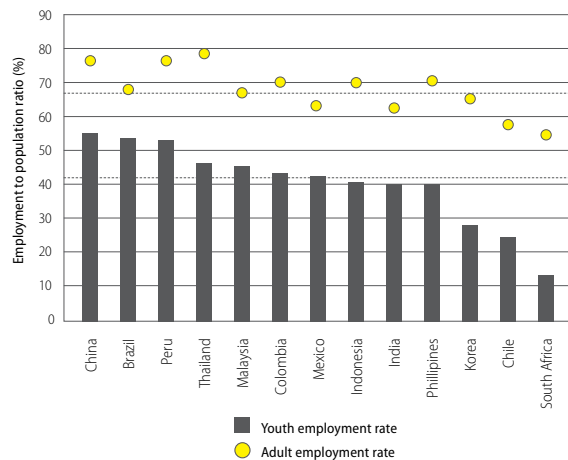
### Youth unemployment: wasting the demographic dividend

While the extent of unemployment is a major concern in itself, the most frightening aspect of it is the proportion of young South Africans falling into this category. Youth unemployment may be a global phenomenon, particularly in a context of international economic stagnation, but the problem in South Africa far exceeds that of most of its peers.

Generally, youth unemployment levels are determined by several factors, including: a lack of work experience; insufficient entry-level jobs to match the number of entrants; a mismatch of available jobs to the skills of the available entrants; and a disconnect between education and the labour market (Moleke 2012). In South Africa, all of these factors are predominant; but, unlike in many other countries, youth in South Africa are not just 'hard to employ' – the majority are economically inactive. Using South Africa's official definition of youth (young people aged 15–34 years), the youth unemployment rate was about 34.5 per cent in December 2010, comprising about 72 per cent of overall unemployment. Using the International Labour Organisation's definition of youth (15–24 years), the youth unemployment rate was 49 per cent, which constituted 30 per cent of total unemployment (Altman 2102). Young black people are most affected by unemployment. In 2009, 53.4 per cent of black African youth between the ages of 15 and 24 years were unemployed, compared to 14.5 per cent of white youth (OECD 2010).

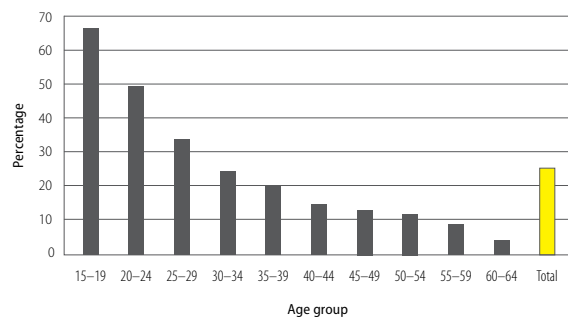
What makes this situation especially unfortunate is the fact that from a demographic perspective South Africa will never have a better opportunity to eradicate its developmental

Figure 1.1.1: Proportion of population in employment (youth aged 18–24, adults 24+)



Source: NPC (2011)

Figure 1.1.2: Unemployment rates by age, 2010 (Q3)



Source: Statistics South Africa (Stats SA) Quarterly Labour Force Survey (QLFS) (2010)

deficits. Like many developing nations, the country is experiencing a 'youth bulge', which means that the proportion of working-age people is high in comparison to the very old or the very young, who are not of working age. Under ideal conditions of full or high employment, this situation can be leveraged to direct revenue in the most optimal way for investment in infrastructure, skills and education, and support for the more vulnerable in society. As indicated above, unemployment precludes this from happening in South Africa. In the absence of better prospects for this country's young, the dependency ratio will remain high and, hence, the youth bulge, if unchecked, has the potential to become a liability rather than an opportunity. Long-term unemployment leads to alienation, increased risk behaviour and violence, which threatens social stability. At present, young people between the ages of 15 and 29 years are likely to make up more than a quarter of the total population until 2030 (NPC 2012). Therefore, there is a window of opportunity to work towards a decline in dependency rates and poverty levels. The cost of failure in this regard should serve as sufficient deterrent against complacency.

Several intertwined factors conspire to keep youth unemployment at its present levels. Firstly, economic growth has been outpaced by the growth of the labour market. While the economy expanded at an annual average of 3.2 per cent between 1993 and 2012, it could not keep up with the rate at which new entrants added to the size of the labour force. Secondly, a faltering education system has failed to keep abreast with the requirements of the new world of work. The system has struggled with high drop-out rates, especially from Grade 9 onwards. However, even those who have obtained a senior secondary certificate have come to realise that secondary schooling no longer guarantees upward mobility in the economy. Unfortunately, evidence suggests that secondary schooling is no longer perceived as a reliable signal of capabilities. While the schooling system has continued to produce weak outcomes, job opportunities for those with lower qualifications have continued to shrink. On the other hand, demand in high-skill sectors, such as finance and business services, have continued to grow, which has further amplified the mismatch between the skills-level requirements of industry and what the labour market can offer. A decade ago, a black African person with only a secondary certificate qualification had a 50 per cent chance of finding employment; the comparative figure today is 30 per cent. Eighty-six per cent of unemployed youth do not have education beyond Grade 12. Since 1995, employment for people with tertiary qualifications has increased by 7.1 per cent a year, while the comparative figure for those with only a senior secondary certificate has increased by an annual average of 4.8 per cent over the same period (Moleke 2012). The situation is even worse for those who have not obtained a senior certificate qualification. In 2012, 59.3 per cent of the unemployed had dropped out of school before obtaining their senior certificate (Stats SA 2012). Several other factors serve to compound the

youth unemployment problem. Among these are: lack of prior experience, which provides an important signal of ability to potential employers; weak social networks (especially for black youth), which link job seekers with employers; poor work-readiness; and a preference for hiring older people, which reduces the company's training bill, because of prior experience.

Given the distorted structure of the South African economy, which fails to create opportunities for the majority of citizens, and the youth in particular, targeted interventions are necessary to enable South Africa to be more prosperous and more equal in the future. The NDP aims to reverse the economic legacy of apartheid, eliminating poverty and reducing inequality by 2030. The following section provides a brief overview of some the NDP's proposed interventions to improve the prospects for young South Africans.

## The NDP's vision for South Africa's economy

As intimated above, for South Africa to escape its current development trajectory, it will not only have to grow faster, but will have to do so in a more inclusive way. The proceeds of growth have to be enjoyed more equitably than has been the case in the past. In fact, higher levels of growth that are inequitably distributed can be as disruptive as no growth at all. In terms of the NDP's vision for 2030, the economy's best bet at becoming more inclusive is to ramp up employment levels to as close to full employment as possible, to diversify ownership, increase investment and foster a more capable, skilled workforce. To reach the goal of near full employment, the economy needs to grow by 5.4 per cent a year over the next 20 years and create some 11 million new jobs. The unemployment rate should fall from 25 per cent in 2011 to 14 per cent in 2020 and to 6 per cent in 2030 (NPC 2012).

### Future scenarios

In pursuit of its objective of finding an appropriate vision for the country, the NPC prepared three employment scenarios to forecast the outcomes of different policy actions or development paths. In the baseline scenario (Scenario 1), South Africa will continue along the current trajectory, 'muddling through' with no improvement to the policy environment and with poor global economic conditions. The rate of investment will remain the same, and unemployment will only decline to 19 per cent, creating a shortfall of 3.3 million jobs (from the target of 11 million jobs by 2030). The jobs deficit will have to be met by the government through more than 5 million public-works job opportunities per year by 2030.

In the solid-minerals scenario (Scenario 2), an improved global environment and good performance in infrastructure programmes will increase the growth rate and expand employment. However, investment will continue to flow to the profitable capital-intensive activities, such as mining and energy, thus reinforcing the minerals-energy complex. Many of the jobs

created would be in low-paid domestically oriented services, such as retail and personal services. The creation of private sector jobs means that only 2.6 million public-works job opportunities will have to be created per year by 2030.

In Scenario 3, the NDP proposes a development path that will create a diversified dynamic economy. Here, substantial investment is made in new and expanding firms, education outcomes are improved to produce a skilled workforce, and state capabilities are enhanced to strengthen municipal infrastructure and services. Investments are made in research and development to increase the number of South African commercial innovations. Improved state capabilities contribute to a fall in living costs, improving the quality of peoples' lives. A fall in the costs of production stimulates local industries, and value-added exports constitute a larger share of sales.

### Reaching vision 2030

No doubt, the achievement of a more prosperous and equal society is a long-term project. It requires building a more competitive, diversified economy that includes a greater number of South Africans in ownership and economic activity. This will require: improvements in economic infrastructure, particularly transport; more sophisticated telecommunications; the provision of energy and water; human resources investment, through better education and healthcare; removing the spatial legacy of apartheid, by improving human settlements and public transport; strengthening public service capabilities; and promoting regional development.

The NPC has identified three strategic interventions to develop a more competitive and diversified economy: raising levels of investment; improving skills and human capital formation; and increasing net exports. It is convinced that success in these areas will lead to rising employment, increased productivity, improved living standards and declining inequality.

*Higher levels of investment* will initially be state-led to address those infrastructure backlogs that have created disincentives to private sector investment. This should be infrastructure that promotes efficiency in the economy and reduces the cost of business and living. Several of the projects that were announced earlier this year by President Zuma in his State of the Nation Speech are intended to do just that. Yet, the provision of infrastructure per se is not enough. For private sector investment to follow, it also needs to be backed up by policy certainty that allows South African companies to plan and be more competitive. Private sector investment in infrastructure is most likely to occur if its expansion goes into consumer markets, also in the rest of Africa.

*Improved skills and enhanced human capital* require not only better quality education, but also improvements in health interventions, better located and maintained infrastructure, a sound social safety net, and more efficient public services. The NPC has identified the improvement of the accessibility and effectiveness of the post-school training system as the most important task in building human capital in the short

term. This, together with active labour market policies to match job seekers and employers, will be necessary to reduce unemployment, particularly amongst young people.

*Increased export volumes* will be pursued through a focus on those areas in which South Africa already has endowments and comparative advantage, such as mining, construction, mid-skill manufacturing, agriculture and agro-processing, higher education, tourism and business services. Given the modest pace of growth expected for the world economy, it will be necessary to focus not only on the areas in which we have comparative advantage but also where there is growing global demand. A greater proportion of exports will be directed to emerging markets, and more strategic efforts will be made to leverage our regional position to increase trade with the rest of the continent.

Other proposals include:

- » reducing the cost of living for poor households by focusing on reducing the costs of food, commuter transport and housing, as well as raising the quality of free or low-cost education and health care;
- » reducing the costs of doing business, especially for small and medium-sized firms, by reducing the cost of regulatory compliance;
- » positioning South Africa to attract offshore business services and leverage on the success of our telecommunications, banking and retail firms operating in other countries;
- » increasing rail, water and energy infrastructure;
- » broadening the expanded public works programme to cover 2 million full-time equivalent jobs by 2020;
- » adopting a more open immigration approach to expand the supply of high-level skills;
- » simplifying dismissal procedures for non-performance or misconduct, especially for smaller firms;
- » refining the approach to handling probationary periods to reflect the intention of probation;
- » strengthening dispute resolution mechanisms in the labour market in order to reduce tension and violence; and
- » creating a larger and more effective innovation system.

### Building a future for South Africa's youth

As far as the position of young people is concerned, the NPC makes a number of proposals to improve their economic opportunities. Given the causal relationship between unemployment and low educational qualifications, it is important for young people to stay in the education system for as long as possible. The NDP aims to ensure that 80 to 90 per cent of learners stay in the education system up to Grade 12, or equivalent vocational education, with at least 80 per cent successfully completing the exit exams. Assuming that the quality of the system itself improves, this should also improve the employment prospects of young people.

In the medium term, strengthening the accessibility and effectiveness of the post-school training system will be an



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important step towards improving the capabilities of young people. The post-school system should be responsive to the needs of business and industry, produce highly skilled professionals and technicians, promote lifelong learning and enhance the country's research and innovation capacity. Training in entrepreneurial skills should be provided for school leavers and unemployed youth. Improvements to the education and skills system must be combined with active labour market interventions to be effective. One million learning opportunities should be provided through community education and training centres for youth to improve their qualifications. These opportunities should include non-formal education and a range of life skills.

For the short to medium term, various labour market interventions have been proposed to improve the employability of young people. The NPC proposes offering a tax subsidy to employers to reduce the initial cost of hiring young labour market entrants. This has the potential to provide many unemployed youth with that vital first work experience. In this regard, it would be important to facilitate agreement between employers and unions on entry-level wages to ensure that young, inexperienced labour does not crowd out older, experienced workers. Other short-term proposals include: providing driver's training for school leavers to increase their chance of employment; subsidising the placement sector to identify and prepare matriculants and place them in work opportunities; expanding learnerships and making training vouchers directly available to work seekers; and establishing a formalised graduate recruitment scheme for the public service to attract skilled young people to the public service.

It further suggests interventions aimed at the youth in areas outside of education and the labour market as well. Youth make up a large proportion of the urbanising population. The young people moving from rural areas to cities are largely of working age and mainly unemployed or involved in marginal enterprise. In reshaping South Africa's towns and cities, attention must be given to the needs and concerns of the youth. Rural areas should be made vibrant, productive sources of opportunity for youth. Youth-oriented spatial development includes putting in place the infrastructure they need to build their capabilities, access education and employment and engage in recreational activities. Furthermore, youth should be included in planning processes and encouraged to be active citizens.

Proposals have also been made to address the social circumstances that obstruct young people's participation in the economy. They are often the main victims and perpetrators

of crime, and, in order to build safer communities, the plan suggests mobilising the youth to participate in crime prevention and safety initiatives. Education about alcohol and substance abuse (as well as anger-management programmes) in schools from an early stage has been proposed as part of diversion initiatives for youth at risk of offending. The building of recreational facilities will also assist in this regard. In cases where crimes have been committed, the Department of Correctional Services will have to prioritise rehabilitation to increase young offenders' chances of making a meaningful contribution to society in future.

Finally, South Africa will be unable to reap the dividend of a young population if they do not remain healthy. The plan makes proposals for addressing lifestyle diseases such as diabetes, obesity and alcoholism. It also addresses the prevention and treatment of HIV/AIDS, which disproportionately affects young women.

### Sequencing interventions for sustained growth

Achieving and sustaining GDP growth in excess of 5.0 per cent over the next 20 years will be a difficult feat. Most countries sustain accelerated growth for about eight years. Only 13 countries have achieved an average of 7.0 per cent a year for 20 years. To reach South Africa's growth targets, the NDP recommends adopting a binding-constraints approach – identifying the key constraints to growth, eliminating them, and then advancing to the next round of constraints. This sequencing of actions to remove those constraints to growth that are within the power of policy-makers to address can be an effective way to sustain growth.

The NDP makes proposals for the short, medium and long term. In the short term, the emphasis should be on absorbing the unemployed, especially youth, into economic activity. Ultimately, skilled labour should be the predominant feature of the workforce. Urgent investments must be made in rail, water and energy infrastructure to reduce business costs, and regulatory reforms must be implemented to reduce policy uncertainty. Opportunities for mass exports to sub-Saharan Africa and other emerging markets should be prioritised. To prepare for the next phase, the government will have to commit to: improving education standards and throughput at the primary and secondary levels; improving the labour relations environment; ensuring the supply of energy and water; changing the approach to land tenure systems to stimulate production and economic opportunity; and expanding public employment programmes.

In the medium term, the country should focus on the diversi-



fication of its economic base. This includes developing the resource-cluster to produce capital goods, provide engineering services and engage in beneficiation activities. Innovation across the state, business and social sectors should be prioritised to improve public services that serve low-income sectors, but also to increase efficiency across the economy.

In the long term, South Africa will have to consolidate the gains made in innovation, productivity and global market share.

## What does all this mean for Thandi?

To improve Thandi's life chances, three priorities must be reached by 2030. The most critical of these is the sustained growth of the economy to raise employment. The state must support the development of new businesses that will be the main employers of the future. In the short term, improving the operation of public employment schemes will be important for enabling the state to service and support communities, while employing individuals. The upgrading of the education system will be critical to Thandi's chances of getting employment. For someone who has already left school, this requires improving post-school training, particularly through community education and training centres. Training in entrepreneurship and business skills will be crucial for enabling young people to create their own opportunities and employ themselves. Thandi needs the state to deliver the basic services necessary for building her capabilities; this means the efficient provision of electricity and water, public transport, social security and public employment schemes.

For the goals of the NDP to be realised, South Africa requires focused leadership, broad support across society, capable institutions and increased accountability. If each South African plays a role in their corner of the country, these goals can be achieved. Following the submission of the NDP to the government, the next challenge will be to galvanise the energies of the state and all citizens towards making it work.

## Notes

- 1 Taken from *Planning for Thandi's future – Diagnostic report*, video produced by the National Planning Commission. Available at <http://www.youtube.com/watch?v=pliRsFYsRcg>.
- 2 In 2009 prices.