

World Bank Diagnostic Report highlights what South Africa needs for an economic recovery

The World Bank recently released its diagnostic report on South Africa. The diagnostic report is the culmination of years of research and consultation with government, academia and private sector which summarises the key strengths and weaknesses of the South African economy. The document is primarily used to assess the countries' viability as an investment destination for the World Bank and affiliated agencies but it also provides an invaluable perspective on the changes needed to improve the country's investment potential.

The report cuts across multiple sectors, assessing the key constraints and enablers both from a legislative point of view as well as assesses the country's relative strengths and weaknesses. The manner in which this is done is by rating critical components of the economy in terms of its global competitiveness. The are very interesting indeed. Herewith some key figures from the diagnostic report:

Robust capital markets and logistics infrastructure seen as a strength

South Africa is bolstered by the most advanced capital market in the region and boasts sophisticated logistics infrastructure, ranked 29th out of 167 countries on the World Bank global logistics performance index.

Skills shortage a key factor likely to limit growth

South Africa will soon face a dire shortage of skills as we are ranked a paltry 126th out of 157 countries in the World Bank Human Capital Index. Whilst we rate 84th out of 140 on the skills index, only 19% of our school leavers enter into tertiary education compared to a global average of 36%. This is certainly a cause for concern and it is estimated that this will be a limiting factor for economic growth. One way to overcome this impasse in the short term (3-5 years) is to source critical skills through immigration, however here we are hampered by a restrictive policy environment as critical skills visas are exceptionally difficult to obtain.

Energy security needs urgent attention

Whilst our electricity woes will come as no surprise to most businesses, the scale of the challenge is brought home by the fact that we are ranked 112th out of 157 countries as far as the efficiency of our energy supply is concerned. Needless to say, this is another crucial factor limiting growth but there is a silver lining; should the sate be able to rationalise its policies

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around independent power producers, renewable energy and embedded generation, private and DFI investment should be able to make a real impact on our energy security.

Need to plan for water scarcity

Another key figure worth taking note of is that the World Bank's estimate that South Africa will face a water demand deficit of between 2.7 and 3.8 million cubic meters of water per annum by 2030. The World Bank therefore makes recommendations to improve the efficiency of water sector management and regulation.

Agricultural and agribusiness sectors the silver lining

The diagnostic report also places special emphasis on agriculture and agro-processing. These sectors are lauded in the report as several South African companies are world leaders despite our small standing in the world market. The report highlights how the sector has managed to dramatically increase productivity and competitiveness in the past 3 decades which puts it in a good position to lead export led growth along with the ICT and automotive sectors.

That being said, there are real challenges around climate change, barriers to entry and concentration, water scarcity, low levels of labour uptake, policy uncertainty around land and water rights as well as access to finance for the emerging sector. These items are well known as the sector has continuously called for an enabling policy environment to facilitate growth and employment. Perhaps most importantly, the report notes that there is no shortage of information in South Africa. We know what the challenges are and there are several proposals on how to fix them. All that is required is for this knowledge to translate into actionable decisions.