



**MINISTRY OF FINANCE
REPUBLIC OF SOUTH AFRICA**

Labour and Social Affairs Commission of the African Union

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African Ministers of Social Development

African Union Commissioners for Social Affairs

Representatives of Workers

Representatives of Employers

Representatives of the ILO

Introduction

Over the last 20 years, vast regions of the developing world have negotiated the perils of globalization to reap its attendant benefits. Technological advance, the growth of new industries, and a new way of thinking about government policies has resulted in a steady rise in economic growth rates and decline in poverty. The Millennium Development Goals, which the international community has set as a measure of our progress in economic development, will be reviewed later this year. Much of the world has progressed. Africa, however, has made only halting advances.

Many of Africa's advances are significant, and we have every reason to be proud of them. The development of our collective institutions, especially the African Union and NEPAD, has been robust. We are strengthening our regional economic institutions to fulfil the role assigned to them in the New Partnership for Africa's Development (NEPAD) and by the African Union. The macroeconomic environment of the continent is far more stable. We have fewer civil and political conflicts and more stable political systems than ever before.

But the Millennium Development Goals remain a distant dream, and it is to this dream that we must now address ourselves.

The risks of not succeeding in achieving the MDGs are substantial – economic and environmental sustainability depend on our people not having to destroy natural resources to survive. Governments that are unable to deliver growth and poverty reduction may be undermined by discontent.

Africa's moment – 'Big Push'

The time is ripe for change. Acting together we have the power to shape history. To do nothing would be intolerable. To do something is not enough. To do everything we can is our clear duty.

Africa needs a “big push” – a coordinated and interdependent set of actions taken by us as African governments, from our private sectors, and from our development partners. Now is the time to act.

Heads of State will meet in September at the UN Summit and Africa will feature strongly on the agenda of the Gleneagles Summit in July.

Africa’s ‘big push’ must address our particular economic circumstances, our history and our geography.

15 of 53 African economies are landlocked. To this day, infrastructure networks service colonial-era trading relationships rather than the needs of diversified industries catering primarily to domestic markets. The railways and roads put in place in colonial times were primarily designed to transport minerals and other raw materials from the African interior to its ports for shipping to Europe. They were not designed to join one part of the continent to another or generate more links to the East. Today Africa’s transport costs – local, national, or international – are today around twice as high as those for a typical Asian country. Shipping a car from Japan to Abidjan costs \$1,500, whereas moving it from Abidjan to Addis Ababa costs \$5,000.

Many modern African states lack any natural geographic, ethnic, political or economic coherence.

In addition to the need for economic diversification, Africa’s economies must expand financial, health and education services beyond a narrow circle of elites – average government expenditure and revenue in Africa is 24 percent of GDP – half that of developed economies.

The Commission for Africa recommendations constitute a massive yet practical investment programme twinned with a series of reforms to governance, policies and institutions.

A recent World Bank research paper estimates that sub-Saharan African needs to spend around 5 per cent of its GDP between 2005 and 2015 on infrastructure investments and a further 4 per cent on operations and

maintenance. This means additional expenditure in the order of US\$20 billion a year.

These investments should support the regional, national, urban and rural priorities identified by AU/NEPAD, the Regional Economic Communities (RECs), national governments, local authorities and municipalities, the private sector and poor people – and should avoid funding prestige projects that have so often turned into white elephants in the past. A significant part of the additional funding will need to be invested in improving the capacity of the public sector (at regional, national and municipal levels).

Education, income and migration

Investment and public sector reforms will, however, remain necessary but insufficient to achieve Africa's economic renaissance. At the end of the day, renewal must arise from the rebirth of our people, our societies and our culture, because these determine our ability to engage in the economic life of the global community in which we inextricably reside.

The vicious circle that we face in this area is especially difficult to address. Low skills levels lead to low levels of labour absorption, low productivity growth and low incomes. That economic dynamic in turn feeds into deep social malignancies, poor health, and entrenched poverty. Our children come to poorly resourced education systems without the energy to learn. The social system reinforces the economic system, and grinding poverty, illiteracy and disease are the outcomes.

Obviously we need to break that system or vicious circle – the only question is how. Other regions of the world provide some lessons about the scale of change that is required.

Africa's population is about 800 million. Of that 800 million, 75 percent or 600 million live on US\$2 per day or less. If we assume that an additional 75 percent of the rest live on income between US\$2 and US\$6 per day, that is a further 150 million people with about 50 million that might be categorized as upper middle and working class – although obviously this is a generous

assumption. Compare Africa's 50 million with *annual* job creation in China of 24 million. Or, compare it to the approximately 400 million counted in India's middle class.

Exceptional growth in job creation and the resulting rise in income leads to a rapid reduction in poverty and economic growth. As people get wealthier, demand for goods and services increases, which results in growth in the size of markets, and the public resources available to ensure that the education system can sustain economic development.

So our challenge is in part one of improving education systems and associated social policies that assist students to learn. But it is also about reaping the rewards of more rapid economic growth and labour absorption itself – not least because the two reinforce and sustain growth in the other.

Research by the Financial Mail in 2004 shows that almost 300 000 black South Africans have become middle-income earners over the last three years. Another 500 000 raised their status to the lower middle-income group.

Another recent study, this time conducted by Unisa's Bureau for Market Research (BMR), picked up similar trends.¹ The BMR's household expenditure survey found that the highest percentage increases in household expenditure by black consumers between 1993 and 2003 were on education (up 21.4% per year) and domestic workers (up 23.4% per year).²

If African governments do nothing, the reality is that people will move to where they perceive job creation and income to be. Migration worsens the developmental challenges of the regions people move from by reducing the skills and income base.

¹ According to the BMR, although 95% of the poorest 20% of all households in the country are black, 38% of the top-earning 20% of households are also black. Data from Saarf also shows that the number of black people in the LSM 10 (R18 649 per month) bracket has more than doubled to 6.3%

² Recent research (Overseas Development Institute project on Inequality in Middle Income countries – study of China, Brazil and South Africa 2003) indicates a fall in income inequality: South Africa GINI coefficient: 0.67 (1991); 0.56 (1995); 0.57 (2000). If you include the estimated benefits of public expenditure in providing health and education, the GINI falls to 44.

The Commission for Africa noted that many educated Africans have over the years quit their homelands because they are frustrated at not being able to put their skills to good use. They can also earn more and have a better life elsewhere. 60% of a cohort of Ghanaian medical graduates between 1986 and 1995 work outside the country. Zambia has lost all but 400 of its 1,600 doctors in recent years.

A study by the World Bank finds that some 70,000 highly qualified African scholars and experts leave their home countries every year to work abroad, often in more developed countries.³ The problem of recruiting, retaining and motivating qualified staff is especially acute in the public sector. Africa spends an estimated US\$4billion annually on recruiting some 100,000 skilled expatriates to replace the many African professionals or managers with internationally marketable skills who have found the lure of emigration too strong.⁴

The migration problem is merely a symptom of Africa's economic development challenge and a suggestion of its magnitude.

Concluding remarks

Our AU Declaration on Employment and Poverty Alleviation in Africa goes far in identifying the actions needed to address the migration and underdevelopment challenges we face.⁵ The means for further developing plans for the priority and actions, and plans for implementing them, are required. And while this can be usefully approached from a regional and continental perspective – indeed it needs to be – we must also recognize that such efforts will only succeed if we make progress at the national level – through our national development plans and public expenditure frameworks.

And it is at that national level, that it seems important to me that we think about the role of ministers of labour, social development, and even finance. An appropriate and quality education system should feed into the broader,

³ World Bank, 2002 in International Development Select Committee, 2004.

⁴ World Bank, cited in International Organization on Migration, 2003.

⁵ Declaration on Employment and Poverty Alleviation in Africa, 8-9 September 2004, Burkina Faso.

society-wide development of skills, which in turn supports the creation of employment. The system of labour rights and regulations, in turn, should help to define what society needs from the education system, such that the system of education, skills development, employment creation and labour regulations and rights sustains itself, economic growth and poverty reduction.

Part of the difficulty many of us face in our societies is that too often, each of those are seen as stand-alone areas of public policy – rather than as components of a larger system that has upstream and downstream elements that seek to achieve a socially-necessary goal in a consistent way.

To take one example, it is not sufficient for us as governments to only consider the importance of labour rights. For one thing because labour rights themselves do not translate into any particular level of income or productivity, but rather enable a framework of regulation and negotiation that can over time achieve better distribution and stability of income. From that perspective, labour rights and labour regulation are two different but interdependent things. They both, however, need to reflect the broader system of education, skills development, and employment creation – and how these fit into the investment climate. If they do not do so, then they run the risk of being inconsistent with other elements of the endeavour to reduce poverty and achieve the MDGs.

We need to look at the appropriateness of education, especially maths and science, in terms of a demand analysis we need to link this to skills development. We need a new investment in African universities. Without the appropriate skills base we cannot improve the investment climate and attract the necessary skills to support private sector investment and employment creation.

I trust that we can identify the sets of actions for ministers of labour and social development to support the broader agenda of Africa's economic and social renaissance. This is Africa's moment of opportunity, we cannot let it pass.

Thank you.

