Overview

South Africa is the largest economy in Africa, leading in industrial output and mineral production, with a stock exchange ranked among the top twenty in the world. South Africa is well integrated into the global economy, with external trade flows of about US$150 billion in 2010.

Since the end of apartheid and white minority rule in 1994, South Africa's society and economy have entered a period of prolonged change, dedicated to move society away from a history of racial discrimination and inequality. In policy terms, one of the most prominent examples of such efforts is “Broad-based Black Economic Empowerment” (BBBEE), a set of measures aiming to extend ownership of, and participation in, the economy to historically disadvantaged groups. So far, such policies have only partially succeeded in changing the ownership structures of the economy, and some groups are growing frustrated with the perceived slowness of change.

Over the past decade and a half, the government has generally followed broadly liberal economic policies, while at the same time reinforcing workers’ rights. Economic growth averaged around 3.9% per annum over the last 15 years, with a small but steady flow of net Foreign Direct Investment (FDI) of US$2-3 billion per year. Such trends have, however, failed to significantly reduce very high rates of unemployment, poverty and negative health indicators (life expectancy has decreased from 60 to 51 years between 1994 and 2010, according to World Bank figures).

While the richest South Africans enjoy some of the highest living standards in the world, 40% of the country’s people live on an estimated US$3-4 or less a day. More than 1 million households lack access to water, over 3 million households lack access to adequate sanitation, and 3.3 million households lack access to electricity. An estimated 5 million South Africans are HIV positive, one out of three adults has limited access to formal financial services, and 18% of the adult population has no education at all, according to the 2001 census. Lack of job creation, rising levels of corruption and a crisis in education constitute some of the most pressing challenges policymakers face. Nevertheless, immense opportunities exist at the BoP. A national grant scheme, Africa’s first comprehensive social security programme, provides a basic monthly income to 15 million people, and has boosted the consumer market at the BoP. Spending grew significantly, especially on food, clothing, healthcare products and housing. According to the Next4Billion report (2007), the BoP in South Africa represents a US$40 billion market. Companies are therefore increasingly investigating and developing inclusive business models aimed at BoP consumers.

Market Data

<table>
<thead>
<tr>
<th>Population</th>
<th>50.5 million (2011)</th>
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</thead>
<tbody>
<tr>
<td>Population living in extreme poverty (&lt;$1.25/day)</td>
<td>17.35% (2006)</td>
</tr>
<tr>
<td>Population living at the BoP (&lt; $3,000/year)</td>
<td>77.38% (2006)</td>
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<tr>
<td>GDP (nominal)</td>
<td>$408 billion</td>
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<tr>
<td>GDP growth (2010)</td>
<td>2.8%</td>
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<tr>
<td>GDP / per capita</td>
<td>$10,700</td>
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<tr>
<td>Unemployment rate</td>
<td>23.3%</td>
</tr>
<tr>
<td>HDI ranking (2011)</td>
<td>113/172</td>
</tr>
<tr>
<td>CPI ranking (2010)</td>
<td>54/178</td>
</tr>
</tbody>
</table>

(All data for 2009 unless otherwise noted / all $ in purchasing power parity)
Examples

**Woolworths**, a leading up-market retailer, has begun sourcing supplies made organically or with low environmental impact from the BoP. The Beaufort West Hydroponics Project, for instance, sources fresh herbs and by-products such as jams and jellies from an impoverished rural area, employing an average of 50 people, making it one of the largest employers in the region. Despite challenges in terms of training and people management, Woolworths is committed to the sustainable development of the enterprise.

**RTT Group**, South Africa’s largest privately owned distribution company, is currently testing the Unjani Clinic franchise model. The model seeks to provide basic, essential medicines, primary healthcare and healthcare education to low-income communities – usually from a modified, easily accessible shipping container. Unjani Clinics will ultimately be registered as a business, with at least 50% black ownership. The model, currently piloting, is aiming for expansion in 2013.

**Shoprite**, one of South Africa’s largest retailers, runs 212 “Shoprite U Save” stores specifically aimed at the BoP consumer market in seven African countries. The store removes the costs associated with packaging and pricing, and allows customers to buy “bulk value” without buying bulk amounts. Shoprite also sells insurance products specifically tailored for low-income customers.

**Standard Bank**, one of South Africa’s “big four” establishment banks, offers an inclusive banking solution to improve access to financial services for the estimated 15 million people currently unbanked or under-banked in South Africa. The AccessAccount, a low-cost entry-level retail account, is accessible through alternative channels, such as mobile phones and a network of 10,000 informal retailers trading in low-income communities. Account holders can deposit and withdraw cash, purchase prepaid mobile phone airtime and electricity, settle utility bills and send money to family and friends.

Directory

**Literature & web sites**

- Business Day. www.businessday.co.za
- It’s time for Africa – Africa attractiveness survey, Ernst and Young, 2011. www.ey.com

**Contacts & support**

- B4D Pathfinder An initiative of the Southern Africa Trust for inclusive business development | www.b4dpathfinder.org
- BoP Learning Lab South Africa Institute of the University of Stellenbosch Business School that encourages knowledge and information exchange about inclusive business in South Africa | www.bop.org.za
- African Inclusive Market Facility (AFIM) Regional programme that is supporting the development of inclusive, pro-poor markets across Africa | www.undp.org

**Fact sheet editors**

Pierre Coetzee and Nicolas Pascarel are Associates at Reciprocity, based in Cape Town. Reciprocity conducts market research, designs and implements pilot projects at the BOP. pierre@reciprocity.co.za / nico@reciprocity.co.za.

Trends

How will the society continue to develop?

South African society will continue to focus on translating its political revolution into economic benefits for the poor. This challenge is at the centre of most national debates and affects many aspects of public life.

The ruling ANC is likely to remain in office for some time, but its hold on power is weakening. Powerful constituencies, such as trade unions and much of the electorate, are critical of the party’s tolerance of corruption and incompetence.

Which sectors currently offer the greatest opportunities?

- Retail, incl. white goods
- Housing and construction, incl. upgrading of informal housing
- Renewable energy
- Education
- Financial services, incl. (micro) insurance

Is the support by the government likely to change?

South Africa is generally business-friendly. There is pressure on the government for higher taxes, more restrictive labour practices and nationalisation of certain industries as a solution for faster redistribution. Government could consider incentives for inclusive businesses if they bring tangible benefits to low-income communities.

What are future risks?

The prospect of losing power could lead the ANC towards more populist and radical policies, however, existing checks on executive power (media, an independent judiciary and civil society) are likely to prevent any serious erosion of democracy.

Ordinary South Africans, impatient at the slow pace of economic change, may pressure business and government to ensure faster transformation.