OPINION

BRAIN DRAIN

Exodus of wealthy, educated and skilled South Africans is accelerating

Estimate is that in 2017 the number of SA-born immigrants was 90% higher in major destinations than in 2000

David Kaplan and Thomas Höppli

SA does not collect data on the numbers of people emigrating. The figures have to be obtained from the countries that record the number of residents born in foreign countries. The major destinations for SA emigrants can be divided into three categories: the five large English-speaking countries – UK, US, Canada, Australia and New Zealand (the so-called big five); the United Arab Emirates (the Gulf); and other developed countries of the Organisation for Economic Co-operation and Development (OECD).

In 2000, there were an estimated 435,000 SA nationals in these three combined. Our best estimate for 2017 (extrapolating from earlier data in some cases) is that this number increased by almost 90% to about 820,000, with 76% resident in the big five, a little over 12% in the Gulf and almost 12% in the OECD countries for which data is available.

With the exception of only two years, 2011 and 2014, which registered small declines, there has been a steady net growth in the number of SA immigrants recorded in these country categories since 2000, with a particularly strong net increase since 2015 with over 60,000 South Africans emigrating between then and 2017. These figures represent the total number of South Africans living overseas (emigration net of return migration).

The number of SA-born immigrants in the big five almost doubled between 2000 and 2017 to over 624,000, an average net increase of about 1,500 people per month. The increase has been most rapid in Australia (130%), with numbers increasing by some 6,200 per annum between 2000 and 2017, an average of more than 500 every month. It has been slowest in Canada at 28% between 2000 and 2017, where the last few years the number has been rising by only a few hundred a year. The increase has been constant in all countries, except since 2015 when the number of South Africans in the UK and US accelerated significantly.

In 2000 it was estimated that there were fewer than 30,000 South Africans living in the UAE, but by 2017 the number jumped to more than 100,000. The vast majority of emigrants to the Gulf are temporary and many (but not all) will eventually return to SA, although probably only when they retire or after spending their most productive working lives abroad. This means their return to SA only mitigates the brain drain to a limited extent.

Within the OECD country category there have been divergent trends. Spain, Switzerland and the Scandinavian countries, although not major destinations for SA emigrants, have experienced the most rapid rates of increase. A number of countries saw significant increases – France, Ireland and Netherlands, for example. Belgium, Portugal and Israel experienced only slow growth.

Three countries that have a significant number of SA residents saw a decline – Italy, Germany, and most significantly Greece, where the number of SA-born residents has declined precipitously.

Overall, though, all three country categories show a marked increase in the number of SA immigrants between 2015 and 2017, and there are indications that this rate of increase accelerated significantly in 2018 and may accelerate even further in 2019.

In response to our queries, one immigration consultancy in Australia reported that the number of inquiries from South Africans processed in 2018 was 77% higher than in 2015. For the first two months of 2019 the increase compared with 2015 was 228%.

The most comprehensive data on the education and skills of SA immigrants is from the Australian Bureau of Statistics. Australia accounts for more than a fifth of SA emigrants (22.6%), and a large proportion of them are well educated. According to the bureau, in 2016 more than two-thirds of SA immigrants over the age of 15 had either a bachelor's degree and above (38.5%), an advanced diploma or diploma (15.6%) or a level III or IV certificate (13.2%). Only 8.5% had less than 12 years of education.

The proportion of highly educated SA immigrants was significantly higher than for the total population in Australia, where 22% have a bachelor degree and above and 8.9% an advanced diploma or diploma. More than half of SA immigrants in Australia in 2016 were classified as either professionals (34.1%) or managers (16.9%). A further 13.8% were in clerical and administration, 11.5% technicians and trades, and 8.4% in community and personal services.

According to Australian government data, in the period 2011 to 2015 the top five occupations of entering SA nationals (in descending order) were accountants, ICT and software-related, engineers, teachers, and metal fitters and machinists. The weekly median family income of SA-born immigrants in 2016 was 39% higher than the median income of Australian-born families.

Emigration also leads to outflows of wealth from SA. There is no comprehensive data on the magnitude of wealth outflows, but there are indications. According to the FNB property barometer, the proportion of home sellers citing emigration has increased almost fourfold since 2013 to 7.8% in 2018. It is even higher in the upper-income brackets.

The second indication is the number of high-worth individuals. Reports suggest that between 2012 and 2017 the number of individuals in SA with a net worth of over $5m declined by 3,030 – almost a quarter of the total – while the number of individuals with a net worth of over $50m declined by 140, more than a fifth of the total. The number of individuals with a net worth over $500m remained constant at 30.

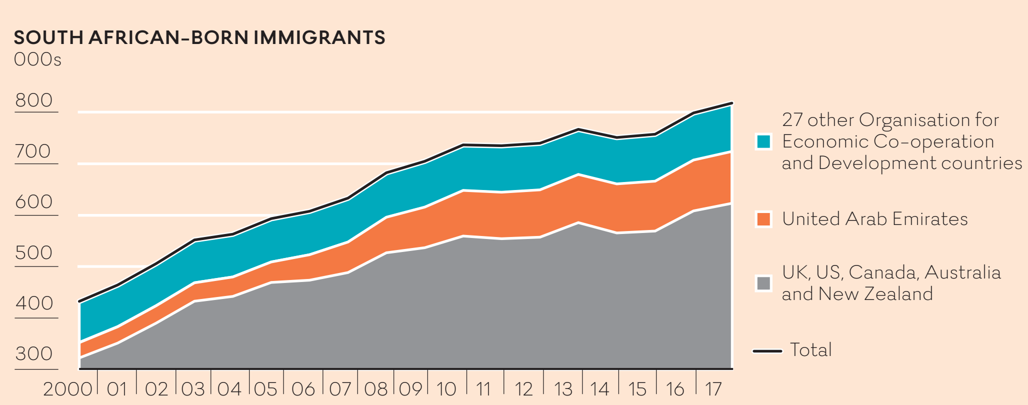
While the reduced numbers of wealthy individuals is primarily a result of economic factors – the declining value of the currency and the slow rate of growth of the economy, among others – emigration has certainly played a part.

Moreover, indications are that the rate of emigration of the wealthy will accelerate. In 2018, Frank Knight conducted surveys on emigration plans and trends among ultra-high net worth individuals in Africa (largely South African). Almost 28% had dual citizenship or a second passport; 27% were considering getting a second passport, and 19% were considering permanently moving to another country.

Accelerated emigration of SA's wealthy individuals would be in line with expectations for the overall rate of emigration from SA, and is cause for concern. Accelerated rates of emigration will exacerbate the chronic skills shortage in the country, inhibit already low rates of growth and further constrain government's limited capacity to raise tax revenues.

● *Höppli is an economist, and Kaplan professor emeritus at the University of Cape Town School of Economics.*

SA LOSING SKILLS AND WEALTH



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INDEPENDENCE

If only SOEs' walls were as strong as those of the Bank

RON DERBY

If the mandates of the most important state-owned enterprises (SOEs) such as Eskom and the eternally loss-making SAA were cast in stone in the constitution, much like the SA Reserve Bank's inflation-targeting mandate, they would be in a far more secure state than they are at present.

Without this form of protection, the SOEs have been subject to damaging political interference. Governance plans put together by the state in the early 2000s were shelved in favour of an activist type of shareholding as the ANC demanded cadre deployment.

That loss of structure and reporting lines has resulted in the governance collapse of today, where the key funders of these institutions aren't really interested in the plans of the executives so much as the ability of the shareholder to manage its debts.

The loss of credibility of these agencies is damaging. But how much more damaging would it have been for the country if the Bank, the custodian of the most traded and volatile of emerging-market currencies, the rand, had lost its credibility to the same extent as the other SOEs in recent years?

Imagine a world over the past decade where instead of looking to the Bank's monetary policy committee meeting for guidance on interest rates, investors had rather focused on what Jacob Zuma's office was saying about monetary policy? With an administration that was notorious for its policy incoherence, the central bank and the rand itself would have lost all credibility.

That has been the case with Turkey, where its big man president, Recep Tayyip Erdogan, has usurped the powers of the central bank governor. The uncertainty and investor concern that has arisen since Erdogan's climb to "economist-in-chief" of the world's 17th-biggest economy has resulted in the Turkish lira falling almost 30% in the last year alone and helped propel annual inflation to an asphyxiating 25%.

Shaken by global growth concerns, the world's other big man presidents, and those who seek to be seen as such, like US President Donald Trump, have also sought to throw their weight around when it comes to the independence of their central banks.

Earlier in April Trump put forward plans to place an ally on the board of the Fed, despite concerns about the conservative economic analyst's qualifications, political independence and past legal troubles. It's a decision that has led to a barrage of criticism, especially since planting a loyalist breaks with US tradition.

The reality is that, as US president, Trump is custodian of the world's reserve currency, and as such he knows the globe will be tied to the dollar until that distant day when the world decides the Chinese renminbi or some other currency is the safest to hold. Were it just another economy, today we would be speaking of a currency crisis.

SA does not have the luxury of being a reserve currency, which means we are in pretty much the same position as Turkey. Were the Bank's independence not guaranteed, the currency would become very vulnerable indeed. Imagine the damage a finance ministry, led by a minister whose economic adviser was one Prof Chris Malikane, might do. The messages that ministry would put out would send a rand already battered by a strong dollar and negative sentiment towards emerging markets into an even deeper dive.

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Rescuing the economy from those depths would have been a monumental task even for the supposed "new dawn" brigade of President Cyril Ramaphosa.

The strength and independence of institutions such as the Bank have been our saving grace. While I may occasionally complain about the conservative nature of the Bank in light of the pressure on consumers, the alternative is a much scarier prospect.

Our leaders from a more sober age of ANC leadership ensured the independence of the Bank but could not quite protect SOEs such as Eskom from the meddling that was to come. They couldn't set their mandates in stone as they are different beasts and face different market forces.

However, if we are to rescue these institutions from collapse, a real and imminent threat in some cases, there have to be more formal reporting lines between parliament, cabinet and the various boards of these institutions. Party politics needs to be divorced from the day-to-day decision-making of executives.

● *Derby, a former Business Times editor, hosts Power Business on PowerFM.*

TOURISM BILL

Hospitality sector must disrupt old ways

This week, Tiger Woods rolled back the years by winning the US Masters to claim his first Major since 2008. Woods's comeback from his lost decade led many to speculate on whether this is indeed the greatest comeback in sporting history.

Another contender for that title, Muhammad Ali, was famous for his comebacks, plus a lot of knockout blows and quotes. One of his most memorable quotes, "I'm so fast that last night I turned off the light switch in my hotel room and was in bed before the room was dark," resonated this week after the publication of the Tourism Amendment Bill.

The aim of the bill is to update provisions of the act relating to the SA Tourism Board. The bill also aims to empower the minister to determine thresholds for short-term home sharing. In other words, to regulate entities such as Airbnb.

The emergence of platforms such as Airbnb, Uber and Netflix has caused a regulatory conundrum across the globe. As the world evolves between industrial revolutions, the role of regulators is to not only keep up with the changing trends, but also find a way to balance the tensions between market evolution and competing stakeholder interests.

These stakeholder interests – ranging from employment groups, competition rules and consumer choice to tax residency issues – are not always complementary and the inherent conflicts require that unpopular decisions are made.

The ability to make such decisions is linked to the market power commanded by the consumer base of a particular country. Consequently, China's ability to set regulations to curb the unbridled power of multinational disruptors such as Uber is much greater than SA's.

On one extreme, a country can opt for a wholesale ban on such platforms as a way of insulating its local industries and their associated jobs. This practice, with its protectionism effects, is unpopular and simply impractical in countries that champion free markets.

For such countries, the most practical and efficient instrument of intervention is regulatory reform.

The new bill's fundamental weakness is the long-standing SA problem of the gap between policy formulation, implementation and oversight.

KHAYA SITHOLE

In this case, the formulation itself requires scrutiny. In seeking to regulate the "short-term home sharing" industry, the bill seeks to intervene in the hospitality market. As it stands, the state has oversight over traditional hospitality agents by accrediting them and grading them – at a cost.

The rationale behind this model is that any potential tourist looking for accommodation options needs to have the comfort of knowing that an establishment has been duly registered and graded. The stamp of approval by the Tourism Grading Council, for example, provides this assurance. In the past, nonregulated establishments posed a risk for the consumer as there was limited information regarding their quality and comfort.

This persuaded consumers to use accredited establishments rather than gamble with the unknown.

These days, however, accreditation and grading councils have to compete with unfiltered access to information that allows consumers to tap into the collective wisdom of fellow consumers who have no vested financial interests. This lack of incentive allows for less sanitised and more objective reviews that inform user choice. The confluence of these factors, plus the lower cost associated with such platforms, increases consumer choice and drags down the average unit cost.

To keep up with increased competition and reduced prices in a country where wages cannot be lowered, traditional establishments are forced to adapt. Regulations themselves cannot provide insulation simply because disruptors, by their nature, remain ahead of the curve.

In simple terms, disruptors are nimble enough to pull an Ali on traditional industries. This means that rather than getting to bed before the light goes out, traditional industries are left in the dark as soon as the disruptors flick the switch.

● *Sithole (@coruscakhaya) is a chartered accountant, academic and activist.*

TESTIMONY

PIC twists and turns more gripping than Zondo inquiry

I am following the testimony at the commission of inquiry into the Public Investment Corporation (PIC) with a great deal of interest. Somehow it is more gripping than the Zondo inquiry into state capture as it is more financially orientated. So far, it is drama all the way.

My two favourite issues have been the devastating testimonies of Siphiwe Nodwele and Kevin Hardy, former executives of Ayo Technologies, and the interrogation of Bantu Holomisa by lawyers hired by Harith General Partners.

Let's start with Ayo. The allegations that its February 2018 interim financials were fraudulent trumps everything else we have heard or read to date about overvaluations.

MAGDA WIERZYCKA

If true, this has serious implications for both Ayo as well as its listed parent company, African Equity Empowerment Investments (AEEI). If Ayo's financials are incorrect, so are AEEI's. It means investors have bought and sold the shares based on false information.

The fact that it is alleged the massaging of the numbers was done with the involvement of Iqbal Survé and his brother-in-law and CEO of AEEI, Khalid Abdulla, means that if proven true they are both likely to face dire consequences.

At the same time, the Financial Sector Conduct Authority has finally launched an investigation into the trading of shares in AEEI, Ayo and Premier Fishing and Brands (another subsidiary company of AEEI) during 2018. Rumours and articles about share price manipulation have been circulating since August 2018.

One needs to question why this did not trigger anything at the JSE, which claims to have "very sophisticated systems" to detect share price manipulation. Perhaps because of the revelations, or because of being summoned to appear in front of the PIC commission themselves, the JSE has finally been jolted out of its stupor and has demanded that auditors audit the financials of Ayo as at February 28 2018 and 2019 (interim results do not ordinarily need to be audited).

And finally, AEEI announced a delay in the release of its own interim results to February 28 2019, quoting "unexpected developments" within the AEEI Group. "Unexpected" is a nice euphemism. It also cancelled its presentation to analysts. One could argue that, given the nature of the allegations, trading in all these shares should be suspended, but I guess that is too much to ask of the JSE.

I am really looking forward to the JSE annual general meeting. As a shareholder I want to know why the questions I put to it on May 17 2018 regarding Ayo were simply swept aside. Given the tsunami of media articles and allegations, all these investigations should have ensued a long time ago.

The other testimony that has been riveting revolves around Harith Fund Managers and Harith General Partners, two entities that manage the assets of the Pan African Infrastructure Development (Paid) Funds 1 and 2, in which the Government Employee Pension Fund (GEPF) invested $600m.

It is a story full of twists and turns, which has made billionaires of Tshepo Mahloele, former head of corporate finance and the Isibaya Fund division of the PIC, and Jabu Moleketi, former deputy finance minister and chair of the board of the PIC between 2004 and 2008, which spans the period the first Paid fund was set up.

Together, they became 70% shareholders in Harith, which manages the assets of the Paid funds without putting a cent of its own money into the pot.

They also purchased Capitec shares from the PIC with financial help from the same PIC.

Given that he is not a financial expert, Holomisa did an outstanding job testifying, as well as subjecting himself to cross-examination by Mahloele's and Moleketi's lawyers. One can't help feeling that there is still a lot to come out, as the same lawyers were as jumpy as cats on a hot tin roof. Whenever you see facts and figures being quoted out of context, listen closely. It is never random.

The old adage holds true. There is never a dull day in SA.

● *Wierzycka (@Magda_Wierzycka) is Sygnia Group CEO.*