

Lift your eyes to the horizon

Elias Masilela, executive chairman of DNA Economics, board member of the United Nations Global Compact (UNGC), and former CEO of the Public Investment Corporation (PIC), discusses the importance of long-term thinking in driving sustainability. He also argues that South Africa needs to shift the balance of its economy to reduce inequality.

What do you think will make responsible investment mainstream?

The most important determinant of responsible investment is long-termism, followed by markets. Many economic players are still short term in their thinking and this mindset is one of the factors that led to the financial crisis.

The challenge is that our current incentive structures tend to be short term in nature – the world over. It is difficult for executives to think ten to 20 years ahead when their incentives are for three to five years, at most. Shareholders need to change mandates, and the incentive structures around them, to be more long term. Until owners of capital lead, behaviour will not change. This is easier for owners of long-term funds, such as sovereign wealth and pension funds, but many of these behave short term because of the risk appetite of their boards and investment committees.

While investors that pursued long-term and sustainable investments were negatively affected by the financial crisis, they were better equipped to ride out the downturn than short-term investors.

What role should business play in addressing income inequality?

This is a vast and complex social issue that cannot be the responsibility of a single economic player. There are two levels to dealing with it: getting people gainfully employed; and improving the quality of jobs that people have. The first level requires growth of the economy, which is based on many variables – including policy environment, skills and labour market.

The second level, quality of jobs, depends on the skills in the country, the nature of production processes and the value added to the end product that is ultimately delivered to markets. South Africa struggles in all three of these areas and needs to diversify its skills and production bases. As long as we produce a narrow set of low-value products, returns to labour will remain low.



Elias Masilela: Board member of the UNGC

How do you think the South African economy should grow and how can it be more inclusive?

The National Development Plan (NDP) clearly articulates South Africa's problems, but underlying all of them is education and skills. The NDP notes that the South African education system is still not functioning optimally and needs to be augmented, or we will never leapfrog our competitors.

We also need to encourage more research and development; South Africa's investment in industrial research as a percentage of GDP underperforms that of similar economies elsewhere in the world. And we need to encourage links among the primary, processing and services sectors of our economy.

What can we expect from the post-2015 agenda as the Millennium Development Goals (MDG) reach their end-date?

We need to recognise the reasons for our failure to meet many of the MDGs, which in Africa was largely due to governments not having the necessary financial and human resources to deliver against these goals. Social and political instability in some countries also diverted attention from the MDGs.

To minimise the risk of failure, the emphasis of the post-2015 agenda will be on collaboration between the public and private sectors, with increased reliance on private sector capital. Long-term asset owners, in particular, will be incentivised to deliver on the agenda and we are already seeing pension and sovereign funds from developed markets getting involved in private equity and infrastructure in emerging and developing countries.

How is the UNGC contributing to this?

The UNGC has developed a UNGC Africa Strategy to ensure that the post-2015 agenda is implemented effectively in Africa. This initiative is led by African business, together with global partners. There is an extensive need for infrastructure on the continent and the strategy looks at creating an environment that attracts private sector capital for transport, housing, education and health infrastructure.

What words of advice would you give to South African executives?

Each one of us needs to ask: "What is it that we want future generations to inherit? Are we going to be proud of what we bequeath?"