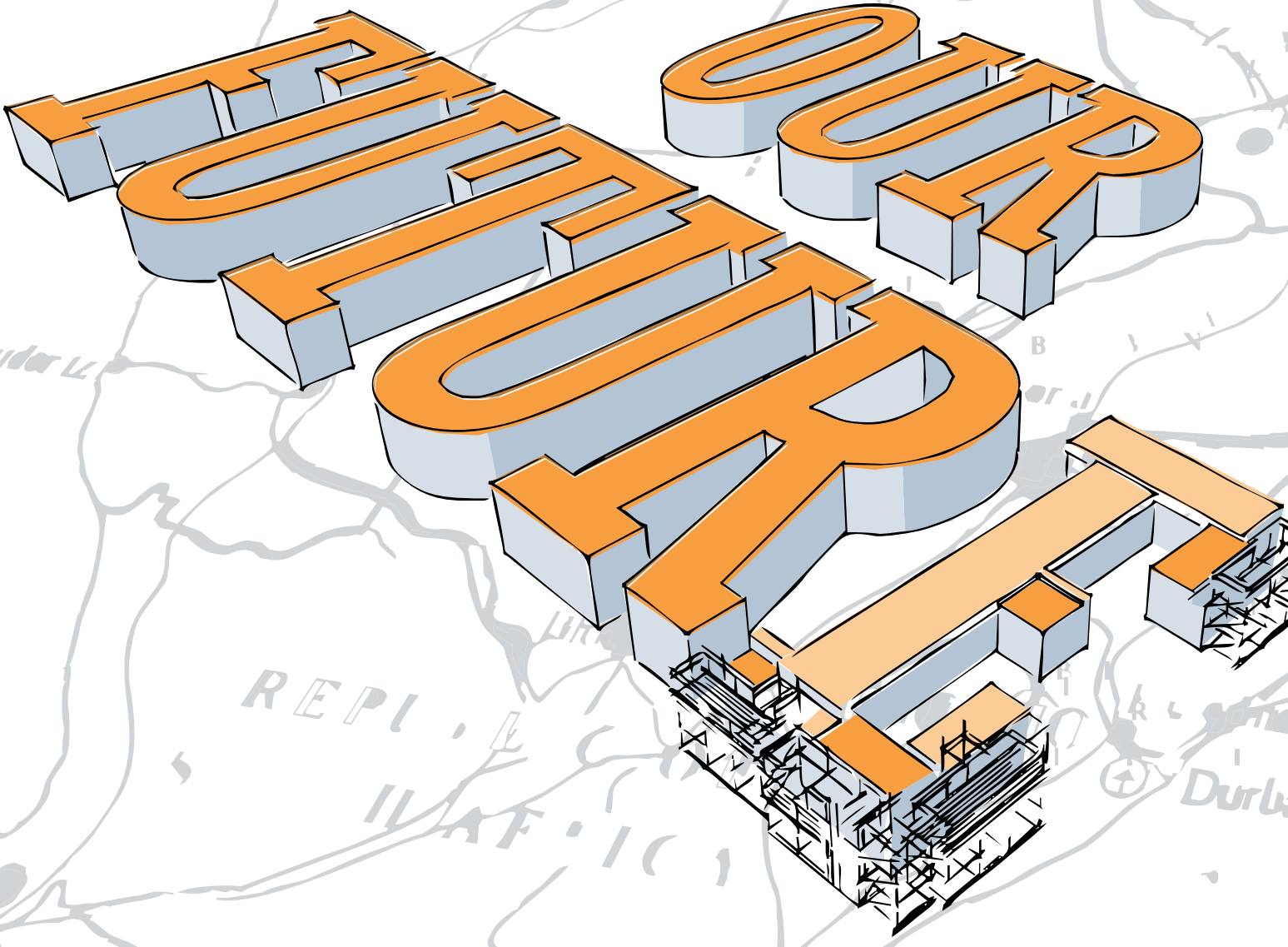
NATIONAL DEVELOPMENT PLAN 2030

Our future - make it work



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NATIONAL PLANNING COMMISSION

Our future - make it work

NATIONAL DEVELOPMENT PLAN 2030

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Our Future-make it work

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Foreword

Our future – make it work.

South Africa belongs to all its people and the future of our country is our collective future. Making it work is our collective responsibility. All South Africans seek a better future for themselves and their children. The National Development Plan is a plan for the country to eliminate poverty and reduce inequality by 2030 through uniting South Africans, unleashing the energies of its citizens, growing an inclusive economy, building capabilities, enhancing the capability of the state and leaders working together to solve complex problems.

South Africa's transition from apartheid to a democratic state has been a success. In the past 18 years, we have built democratic institutions, transformed the public service, extended basic services, stabilised the economy and taken our rightful place in the family of nations. Despite these successes, too many people are trapped in poverty and we remain a highly unequal society. Too few South Africans work, the quality of school education for the majority is of poor quality and our state lacks capacity in critical areas. Despite significant progress, our country remains divided, with opportunity still shaped by the legacy of apartheid. In particular, young people and women are denied the opportunities to lead the lives that they desire. Our Constitution obliges all of us to tackle these challenges.

Drawing on our collective successes and failures as a nation, we need to do more to improve our future. On the present trajectory, South Africa will not achieve the objectives of eliminating poverty and reducing inequality. There is a burning need for faster progress, more action and better implementation. The future belongs to all of us and it is up to all South Africans to make it work.

The approach of the plan revolves around citizens being active in development, a capable and developmental state able to intervene to correct our historical inequities, and strong leadership throughout society working together to solve our problems. The plan addresses the need to enhance the capabilities of our people so that they can live the lives that they desire; and to develop the capabilities of the country so that we can grow faster, draw more people into work and raise living standards for all, but particularly the poor. This is a plan for South Africa, requiring action, change and sacrifice from all sectors of society.

The plan is the product of hundreds of interactions with South Africans, input from tens of thousands of people, extensive research and robust debate throughout the country. We thank South Africans for their contributions and perspectives. We trust that you will see your vision in the plan and your ideas in the proposals.

To establish a commission consisting largely of people from outside government and give them a mandate to be critical, objective and cross-cutting was always going to be risky. The Commission thanks President Zuma for his courage and ongoing support in guiding its work.

All the Commissioners have put incredible effort into producing this plan. They worked in a spirit of common purpose that is inspiring and representative of what the plan seeks to achieve – South Africans from diverse backgrounds working together to solve complex problems. The Commission will continue in its role through mobilising support for the plan, conducting research, advising society on implementation and reporting on progress made in achieving the objectives of the plan.

The future is ours, we must make it work.

Trevor A. Manuel, MP
Chairperson
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Vision Statement

We, the people of South Africa, have journeyed far since the long lines of our first democratic election on 27 April 1994, when we elected a government for us all.

We began to tell a new story then. We have lived and renewed that story along the way.

Now in 2030 we live in a country which we have remade.

We have created a home where everybody feels free yet bounded to others; where everyone embraces their full potential. We are proud to be a community that cares.

We have received the mixed legacy of inequalities in opportunity and in where we have lived, but we have agreed to change our narrative of conquest, oppression, resistance,

We felt our way towards a new sense of ourselves:

- Trying, succeeding and making mistakes
- Proclaiming success and closing our minds to failure
- Feeling orientated and disorientated through our own actions
- Affirming some realities and denying others
- Proclaiming openness to the world, yet courting insularity
- Eager to live together, yet finding it difficult to recognise shared burdens
- Learning to recognise and acknowledge shared successes.

Our new story is open ended with temporary destinations, only for new paths to open up once more.

It is a story of unfolding learning.
Even when we flounder, we remain hopeful.
In this story, we always arrive and depart.

We have come some way.

We know:
What we do, and how we do it, is as important as what we want to achieve.
What we are, is because of who we have been and what we want to become.
We will continue to make it to make us, because we are happy with being who we are.

Who are we?
We are Africans.
We are an African country.
We are part of our multi-national region.
We are an essential part of our continent.
Being Africans, we are acutely aware of the wider world, deeply implicated in our past and present.
That wider world carries some of our inheritance.

We have learned a great deal from our complex past; adding continuously to our experience of being African.

Therefore, in 2030, we experience daily how: We participate fully in efforts to liberate ourselves from conditions that hinder the flowering of our talents.

We feel loved, respected and cared for at home, in community and the public institutions we have created.
We feel understood.
We feel needed.
We feel trustful.
We feel trusted.
We feel accommodative.
We feel accommodated.
We feel informed.
We feel healthy.
We feel safe.
We feel resourceful and inventive.
We learn together.
We talk to each other.
We share our work.
We play.
We worship.
We ponder and laugh.

We are energised by sharing our resourcefulness.
We are resilient.

We love reading.
All our citizens read, write, converse, and value ideas and thought.
We are fascinated by scientific invention and its use in the enhancement of our lives.
We live the joy of speaking many of our languages.
We know our history and that of other peoples.
We have clear values.

We create rather than eliminate; value arises from improving through creativity that which we inherited.

I have a space that I can call my own.
This space I share.
This space I cherish with others.
I maintain it with others.

I am not self-sufficient alone.
We are self-sufficient in community.

We all see to it and assist so that all life's enablers are available in a humane way.

Through our service we show our solidarity.
We enjoy the same quality of service.
We are connected through our caring.
The beating heart of our country is a community that has all the enablers of modern life:

- We have water.
- We use a toilet.
- We have food on the table.
- We fall asleep without fear.
- We listen to the rain on the roof.
- We gather together in front of heat.

What we contribute in our taxes, we get back through the high quality of our public services.

That is why we have:

- Good clinics and hospitals with well trained, caring doctors, administrators, nurses who rush to our aid with empathy and expertise
- Affordable effective medicines, because they were made for all of us
- Good schools with well educated, trained and caring teachers.

Each community has:

- A school
- Teachers who love teaching and learning
- A local library filled with a wealth of knowledge
- A librarian
- A police station with respected and upright police
- A clinic with nurses who love caring for people.

In our well-designed community surroundings we feel safe everywhere.
There, we enjoy meeting one another.
We find so much pleasure in one another's company.
Everywhere we go in our country, we hear the laughter of our children.

We all have actively set out to change our lives in ways which also benefit the broader

We are a people at work.
We work to create plenty.

Our work brings us ever closer to our dreams.
Work grounds our dreams even the more fantastic they are.
The reality of work connects us to our dreams.

We work towards goals with patience invested in actual effort.
We invest in our efforts and are not waiting in disengaged expectation.
Because we are impatient to succeed, we work with painstaking rigour.

Our efforts, not so much those of others, make us stronger.
Then we are patient for the results of our efforts.
This kind of patience, gives birth to our new work ethic.

In this work ethic we ground our dreams.
We have built our own houses.
We are confident and self-sufficient.

We are traders.
We are inventors.
We are workers.
We create companies.
We set up stalls.
We are studious.
We are gardeners.
We feel a call to serve.

We make things.

Out of our homes we create objects of value.
We invest and reap good returns for our efforts.
We travel to trade beyond our borders, carrying our values with us.

As artists we express and celebrate, we expose and nurture, we explore, shift and change frontiers.
Through sports of all kinds, we push the limits of our possibilities.
Our philosophies and stories have enriched the world.

We respect ability, competence and talent.
Now our economy is growing.
Our prosperity is increasing.
We are energised by our resourcefulness.

We are connected by the sounds we hear, the sights we see, the scents we smell, the objects we touch, the food we eat, the liquids we drink, the thoughts we think, the emotions we feel, the dreams we imagine. We are a web of relationships, fashioned in a web of histories, the stories of our lives inescapably shaped by stories of others.

We love sharing our stories in our schools, places of worship, libraries, in the variety of media whatever they may be.

We are inevitably and intimately implicated in one another.

We all assist the institutions we have creatively redesigned to meet our varied needs; we reach out across communities to strengthen our resolve to live with honesty, to be set against corruption and dehumanising actions.

We have made the rules by which we want ourselves to live:

- We hold the Constitution of our country as the covenant guide to a fair society
- Since 1994 we've changed our laws to obey our Constitution
- Now we live it: justice rules us, because just laws make community possible
- The law enables us to live together fulfilling our mutual obligations and responsibilities in the shared public spaces of our mutual affiliation.

We know that those to whom we have given the privilege to govern our land, do so on our behalf and for the benefit of all the people.

Government begins in the home, grows into the community, expands towards the city, flares toward the province, and engulfs the entire land.

We know our leaders as we have elected them and pledged them into office:

- They are wise in the use of our wealth
- Wise in knowing and understanding our wishes and needs
- Wise in expecting us to express ourselves to them in any appropriate manner we have agreed to be allowable
- Wise in not silencing those who criticise, but enable them, through our rules of engagement, to be even more rigorous in supporting a just society.

Our leaders' wisdom is ours, because we sense our wisdom in theirs.

- They do more than respond to us:
- They bring new thoughts and ideas
- They share with us what they think
- They inspire us, because we then seek to aspire with them
- With them we renew our world continuously.

But our gift of leaders extends far beyond politics.
We have them in abundance in every avenue of life.
We have come far with our cultural, religious, and ancestral traditions.
Contemporary citizens that we are, we are conscious of the intimate relationships between tradition and change.

We say to one another: I cannot be without you, without you this South African community is an incomplete community, without one single person, without one single group, without the region or the continent, we are not the best that we can be..

We love the land.
We greet one another again.
We enjoy being visited.
We are courteous and curious.

We love arguing, we debate fiercely, we contest ceaselessly.
We solve our differences through discussion.
We refrain from being cruel, demeaning or hurtful in disagreement.
We feel we belong.
We celebrate all the differences among us.
We are not imprisoned by the roles ascribed to us.

Our family life strengthens the women, men and children who live in it.
The older share their wisdom with the young.
The young invigorate us with their energy, openness, optimism, and questioning minds.

The welfare of each of us is the welfare of all.
Everybody lives longer.
We experience fulfilment in life, living it in the successful society we are creating.
We feel prosperous.

Our connectedness across time and distance is the central principle of our nationhood.

We are a people, who have come together and shared extraordinarily to remake our society.

We ply between our cities and our ancestral origins.
Others' ancestral origins are beyond our country.
Where they go, from time to time, is a piece of our home too.

We discover the country and the world.
We live peacefully with neighbours.
We have good friends in other societies.

We have welcomed people from distant lands, who have chosen to live among us.

We value interdependence and reciprocity.
We feel hospitable.
We are a community of multiple, overlapping identities, cosmopolitan in our nationhood.

Our multiculturalism is a defining element of our indigeneity.
We are, because we are so many.
Our many-ness is our strength – we carry it in us throughout our lives.

We are safe, not so much because we are guarded, but because of the strength of our belonging.

We acknowledge that each and every one of us is intimately and inextricably of this earth with its beauty and life-giving sources; that our lives on earth are both enriched and complicated by what we have contributed to its condition..

South Africa, our country, is our land. Our land is our home.
We sweep and keep clean our yard.
We travel through it. We enjoy its varied climate, landscape, and vegetation.
It is as diverse as we are.

We live and work in it, on it with care, preserving it for future generations. We discover it all the time. As it gives life to us, we honour the life in it.

From time to time it reminds us of its enormous, infinite power.
When rain and floods overwhelm, winds buffet, seas rage, and the sun beats unrelentingly in drought.
In humility, we learn of our limitations.

To create living spaces within this beautiful land is to commensurate with our desired values.

South Africa belongs to all its peoples.

Now, in 2030, our story keeps growing as if spring is always with us.

Once, we uttered the dream of a rainbow. Now we see it, living it. It does not curve over the sky.

It is refracted in each one of us at home, in the community, in the city, and across the land, in an abundance of colour.

When we see it in the faces of our children, we know: there will always be, for us, a worthy future.

Our future - make it work

South African belongs to all its peoples.

We, the people, belong to one another.

We live the rainbow.

Our homes, neighbourhoods, villages, towns, and cities are safe and filled with laughter.

Through our institutions, we order our lives.

The faces of our children tell of the future we have crafted.

INTRODUCTION

The National Development Plan aims to eliminate poverty and reduce inequality by 2030. South Africa can realise these goals by drawing on the energies of its people, growing an inclusive economy, building capabilities, enhancing the capacity of the state, and promoting leadership and partnerships throughout society.

> "No political democracy can survive and flourish if the mass of our people remain in poverty, without land, without tangible prospects for a better life. Attacking poverty and deprivation must therefore be the first priority of a democratic government."
>
> *The Reconstruction and Development Programme, 1994*

South Africa has made remarkable progress in the transition from apartheid to democracy. This transition has been peaceful despite the country's history of violent conflict and dispossession.

In nearly every facet of life, advances are being made in building an inclusive society, rolling back the shadow of history and broadening opportunities for all. South Africa has been able to build the institutions necessary for a democratic and transformative state. The Constitution enshrines a rights-based approach and envisions a prosperous, non-racial, non-sexist democracy that belongs to all its people. Healing the wounds of the past and redressing the inequities caused by centuries of racial exclusion are constitutional imperatives. Access to services has been broadened, the economy has been stabilised and a non-racial society has begun to emerge. Millions who were previously excluded have access to education, water, electricity, health care, housing and social security. About 3 million more people are working today than in 1994, the poverty rate has declined and average incomes have grown steadily in real terms.

Eighteen years into democracy, South Africa remains a highly unequal society where too many people live in poverty and too few work. The quality of school education for most black learners is poor. The apartheid spatial divide continues to dominate the landscape. A large proportion of young people feel that the odds are stacked against them. And the legacy of apartheid continues to determine the life opportunities for the vast majority. These immense challenges can only be addressed through a step change in the country's performance.

To accelerate progress, deepen democracy and build a more inclusive society, South Africa must translate political emancipation into economic wellbeing for all. It is up to all South Africans to fix the future, starting today.

This plan envisions a South Africa where everyone feels free yet bounded to others; where everyone embraces their full potential, a country where opportunity is determined not by birth, but by ability, education and hard work. Realising such a society will require transformation of the economy and focused efforts to build the country's capabilities. To eliminate poverty and reduce inequality, the economy must grow faster and in ways that benefit all South Africans.

In particular, young people deserve better educational and economic opportunities, and focused efforts are required to eliminate gender inequality. Promoting gender equality and greater opportunities for young people are integrated themes that run throughout this plan.

BACKGROUND

President Jacob Zuma appointed the National Planning Commission in May 2010 to draft a vision and national development plan. The Commission is an advisory body consisting of 26 people drawn largely from outside government, chosen for their expertise in key areas.

The Commission's *Diagnostic Report*, released in June 2011, set out South Africa's achievements and shortcomings since 1994. It identified a failure to implement policies and an absence of broad partnerships as the main reasons for slow progress, and set out nine primary challenges:

1. Too few people work
2. The quality of school education for black people is poor
3. Infrastructure is poorly located, inadequate and under-maintained
4. Spatial divides hobble inclusive development
5. The economy is unsustainably resource intensive
6. The public health system cannot meet demand or sustain quality
7. Public services are uneven and often of poor quality
8. Corruption levels are high
9. South Africa remains a divided society.

South Africans from all walks of life welcomed the diagnostic as a frank, constructive assessment. This led to the development of the draft national plan, released in November 2011. Building on the diagnostic, the plan added four thematic areas: rural economy, social protection, regional and world affairs, and community safety.

The Commission consulted widely on the draft plan. Our public forums drew in thousands of people; we met with parliament, the judiciary, national departments, provincial governments, development finance institutions, state-owned entities and local government formations; and we held talks with unions, business, religious leaders and non-profit organisations.

South Africans have broadly supported the draft plan, proposing modifications and making suggestions to implement it effectively. Their input has informed this plan.

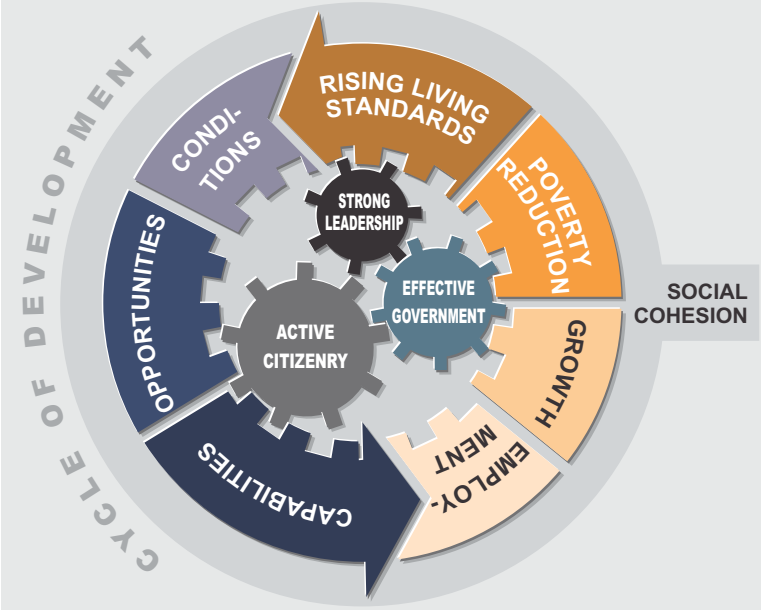
National development has never been a linear process, nor can a development plan proceed in a straight line. Accordingly, we propose a multidimensional framework to bring about a virtuous cycle of development, with progress in one area supporting advances in others.

How will this work in practice? South Africa's principal challenge is to roll back poverty and inequality. Raising living standards to the minimum level proposed in the plan will involve a combination of increasing employment, higher incomes through productivity growth, a social wage[1] and

good-quality public services. All of these challenges are interlinked. Improved education, for example, will lead to higher employment and earnings, while more rapid economic growth will broaden opportunities for all and generate the resources required to improve education.

The graphic below demonstrates the close link between capabilities, opportunities and employment on social and living conditions. It shows how leadership, an active citizenry and effective government can help drive development in a socially cohesive environment.

FIG 1.1 AN APPROACH TO CHANGE



The plan focuses on the critical *capabilities* needed to transform the economy and society. Achieving these capabilities is not automatic, nor will they emerge if the country continues on its present trajectory. Rising levels of frustration and impatience suggest that time is of the essence: failure to act will threaten democratic gains. In particular, South Africa must find ways to urgently reduce alarming levels of youth unemployment and to provide young people with broader opportunities.

Progress over the next two decades means doing things differently. Given the complexity of national development, the plan sets out six interlinked priorities:

- Uniting all South Africans around a common programme to achieve prosperity and equity.
- Promoting active citizenry to strengthen development, democracy and accountability.
- Bringing about faster economic growth, higher investment and greater labour absorption.
- Focusing on key capabilities of people and the state.
- Building a capable and developmental state.
- Encouraging strong leadership throughout society to work together to solve problems.

Moving ahead with the plan

This is a plan for South Africa. It provides a broad strategic framework to guide key choices and actions. Its success will depend on all South Africans taking responsibility for the plan, led by the President and Cabinet.

This overview is a high-level summary of the plan. The 15 chapters address the major thematic areas in detail, providing evidence, recommendations and clear implementation frameworks.

Following publication of the plan, the Commission will focus on:

- Mobilising society to support the plan, and exploring a social compact to reduce poverty and inequality through investment and employment.
- Conducting research on critical issues affecting long-term development.
- Advising government and social partners on implementing the plan.
- Working with relevant state agencies to report on the progress of the objectives.

The Commission believes that to build a better South Africa, we must start today.

Growth and jobs, education and skills, and a capable and developmental state

While the achievement of the objectives of the National Development Plan requires progress on a broad front, three priorities stand out:

- Raising employment through faster economic growth
- Improving the quality of education, skills development and innovation
- Building the capability of the state to play a developmental, transformative role.

A sustainable increase in employment will require a faster-growing economy and the removal of structural impediments, such as poor-quality education or spatial settlement patterns that exclude the majority. These are essential to achieving higher rates of investment and competitiveness, and expanding production and exports. Business, labour, communities and government will need to work together to achieve faster economic growth.

Social cohesion needs to anchor the strategy. If South Africa registers progress in deracialising ownership and control of the economy without reducing poverty and inequality, transformation will be superficial. Similarly, if poverty and inequality are reduced without demonstrably changed ownership patterns, the country's progress will be turbulent and tenuous.

AN APPROACH TO CHANGE: ENHANCED CAPABILITIES AND ACTIVE CITIZENRY

The plan draws extensively on the notion of capabilities.

Key capabilities that emerge from development literature include:

- Political freedoms and human rights
- Social opportunities arising from education, health care, public transport and other public services
- Social security and safety nets
- An open society, transparency, disclosures and a culture of accountability
- Economic facilities, work, consumption, exchange, investment and production.

Alongside hard work and effort, capabilities and the opportunities that flow from development enable individuals to live the lives to which they aspire. A developmental state builds the capabilities of people to improve their own lives, while intervening to correct historical inequalities. Neither government nor the market can develop the necessary capabilities on their own.

Citizens have the right to expect government to deliver certain basic services, and to hold leaders accountable for their actions. They also have responsibilities to other citizens, including mutual respect, tolerance and abiding by the laws of the land. Leaders throughout society have to balance the power they hold with responsibility, including listening to and tolerating different and diverse views, promoting social cohesion and working together to resolve problems.

Making the plan work will require a complex interplay of actors and actions, and progress in any one area is almost always dependent on progress in another. The plan will provide a common focus for action across all sectors and sections of South African society.

To accelerate development, South Africa needs the active support of all citizens, leadership in all sectors that puts the country's collective interests ahead of narrow, short-term goals, and radically improved government performance. In some instances, policy change may be necessary, but in most areas it is about getting the basics right, implementing government programmes, holding people accountable for their actions and finding innovative solutions to complex challenges.

Direct and immediate measures to attack poverty

The plan presents a long-term strategy to increase employment and broaden opportunities through education, vocational training and work experience, public employment programmes, health and nutrition, public transport and access to information. While there are "quick wins" to be achieved in each of these areas, the strategies will take time to have a large-scale effect on poverty. To reduce the acute effects of poverty on millions of South Africans over the short term, the plan proposes to:

- Introduce active labour market policies and incentives to grow employment, particularly for young people and in sectors employing relatively low-skilled people.
- Expand public employment programmes to 1 million participants by 2015 and 2 million by 2020. As the number of formal- and informal-sector jobs expands, public work programmes can be scaled down.
- Strengthen primary health-care services and broaden district-based health programmes, such as the community health worker and midwife programmes, and health education.
- Expand welfare services and public employment schemes, enabling the state to service and support poor communities, particularly those with high levels of crime and violence.
- Introduce a nutrition programme for pregnant women and young children and extend early childhood development services for children under five.
- Improve the quality of education in underperforming schools and further education and training colleges.
- Promote mixed housing strategies and more compact urban development to help people access public spaces and facilities, state agencies, and work and business opportunities.
- Invest in public transport, which will benefit low-income households by facilitating mobility.

DEMOGRAPHIC TRENDS AND EXTERNAL DRIVERS OF CHANGE

South Africa's development is affected by what happens in the region and the world. Success will depend on the country's understanding and response to such developments. In addition to a detailed scan of demographic projections, the plan discusses five notable trends: global economic shifts, technology, globalisation, climate change and African economic growth.

Demographic trends

What will South Africa look like in 2030? The country has reached a stage in its demographic transition where birth rates are falling and the population is stabilising. This transition has profound implications for population structure, the rate of growth of the labour force, and demand for services such as education and health.

Today the labour force (those aged 15 to 64) makes up 64 percent of the population, with the proportion of children and the elderly comprising smaller shares. Internationally, demographic profiles such as these are often associated with rising incomes, faster productivity growth, higher savings and rising living standards. Alternatively, they can lead to a

frustrating and destabilising environment where young people cannot get work, contributing to violence, crime, alcohol abuse and other social ills. The determinant of success is whether a country can harness the advantage of having a large number of young people who are able and willing to work. To do so means providing them with education and skills, and helping school leavers find work that is stimulating and through which they can fulfil their aspirations.

Birth rates for white South Africans began to fall in the 1950s and 1960s, while birth rates for Africans began falling in the late 1970s and early 1980s. In both cases, rising urbanisation and better educational standards were decisive factors. Today, South Africa's population is growing at 1 percent a year and by 2030, it is projected to grow by 0.5 percent a year.

Our observations include the following:

- The proportion of South Africans living in rural areas has fallen by about 10 percentage points since 1994. Today, about 60 percent of the population lives in urban areas. In line with global trends, the movement of people from the countryside to the cities is expected to continue, and by 2030 about 70 percent of the population will live in urban areas. Gauteng and the cities of eThekwini and Cape Town are the fastest-growing city-regions, with implications for planning and delivery of basic services.
- Immigration is projected to add between 0.1 percent and 0.2 percent a year to the rate of population growth in the period to 2030.
- HIV/AIDS has had a profound effect on the population, raising overall deaths significantly since 2000 and reducing the proportion of women of child-bearing age. There are signs that the country has begun to turn the corner in response to an effective education and treatment campaign. The HIV infection rate has stabilised at about 10 percent. New infections among young people have fallen and life expectancy is rising. Despite these gains, there will still be a sizeable number of AIDS orphans and children requiring concerted support from the state and communities for decades to come.

To maximise the benefits of this "demographic dividend" the country requires better nutrition and health care, improved educational standards, increased access to further and higher education, easier entry into the labour market and greater labour mobility (the ability to move to where jobs are on offer). All of these factors need to be taken into account in national planning.

BUILDING A FUTURE FOR SOUTH AFRICA'S YOUTH

South Africa has an urbanising, youthful population. This presents an opportunity to boost economic growth, increase employment and reduce poverty. The Commission, recognising that young people bear the brunt of unemployment, adopted a "youth lens" in preparing its proposals, which include:

- A nutrition intervention for pregnant women and young children.
- Universal access to two years of early childhood development.
- Improve the school system, including increasing the number of students achieving above 50 percent in literacy and mathematics, increasing learner retention rates to 90 percent and bolstering teacher training.
- Strengthen youth service programmes and introduce new, community-based programmes to offer young people life-skills training, entrepreneurship training and opportunities to participate in community development programmes.
- Strengthen and expand the number of FET colleges to increase the participation rate to 25 percent.
- Increase the graduation rate of FET colleges to 75 percent.
- Provide full funding assistance covering tuition, books, accommodation and living allowance to students from poor families.
- Develop community safety centres to prevent crime and include youth in these initiatives.
- A tax incentive to employers to reduce the initial cost of hiring young labour-market entrants.
- A subsidy to the placement sector to identify, prepare and place matric graduates into work. The subsidy will be paid upon successful placement.
- Expand learnerships and make training vouchers directly available to job seekers.
- A formalised graduate recruitment scheme for the public service to attract highly skilled people.
- Expand the role of state-owned enterprises in training artisans and technical professionals.

Policy in a dynamic global environment

International and regional developments affect South Africa in complex ways. Our view is that on balance, global trends can have positive implications for South Africa's development, notwithstanding several notable risks. Understanding and responding appropriately to complex global challenges is the first task of planning.

A changing global economy

Long-term shifts in global trade and investment are reshaping the world economy and international politics. Chief among these developments is the emergence of rapidly growing economies, particularly China, India and Brazil. After nearly three centuries of divergence, inequality between nations is decreasing. Urbanisation and industrialisation in China and India are likely to keep demand

for natural resources relatively high for a decade or more. The emergence of more consumers in developing countries will broaden opportunities for all economies.

In decades to come, as emerging economies increase their share of world trade and investment, the relative decline in the economic weight of the United States, Europe and Japan will have concomitant effects on their political and military influence. This could lead to a reorganisation of the international diplomatic and governance architecture, reflecting new centres of influence.

South Africa can benefit from rapid growth in developing countries that leads to increased demand for commodities and expanding consumer markets. At the same time, these trends pose challenges for middle-income countries as a result of greater competition in manufacturing and certain information technology-enabled services. The rise of emerging markets also increases international competition, placing downward pressure on the wages of low-skilled workers in tradable sectors.

Over the past five years, South Africa's exports to advanced economies have slowed in response to lower demand. This decline has been offset by increased demand from Asia and higher prices for commodities. While South Africa has maintained a reasonably sound trade balance, owing largely to high commodity prices, it is of concern that high value-added and labour-intensive exports are slowing.

In the medium term, South Africa has to respond to this trend by bolstering competitiveness and investment in high value-added industries and increasing the volume of mineral exports. Over the longer term, South Africa has to do more to enhance competitiveness in areas of comparative advantage that can draw more people into work. By improving the skills base and increasing competitiveness, the economy can diversify, offsetting the distorting effects of elevated commodity prices on the rand.

It is likely that world economic growth over the next decade will be lower than it was during the previous one. This will require greater policy focus, effective implementation of industrial policies and improved skills development.

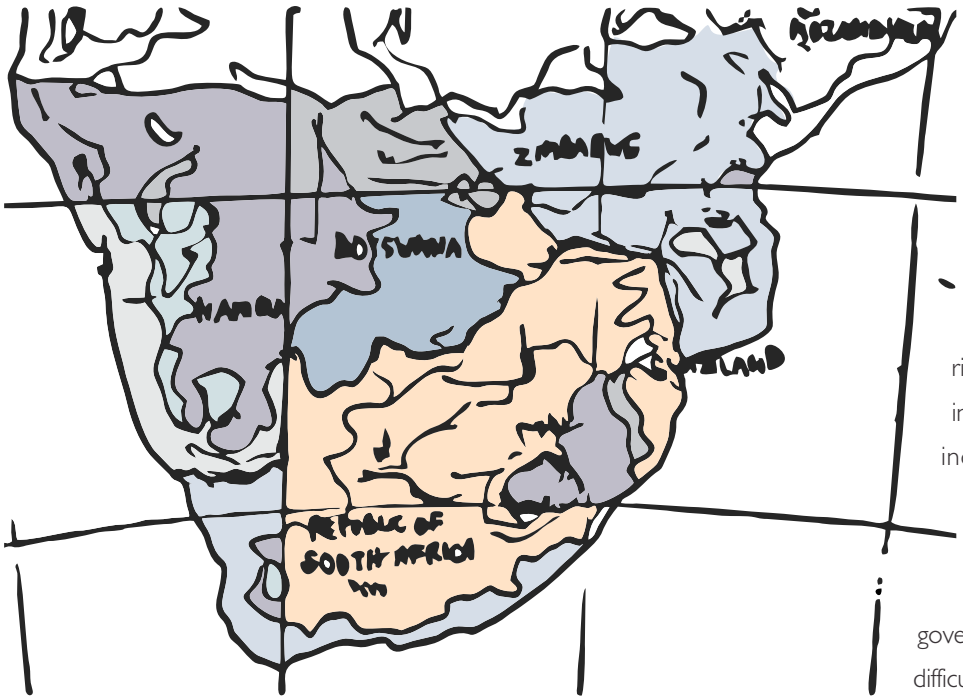
Globalisation

Globalisation broadly refers to rising global trade and increased flows of people, capital, ideas and technologies across borders in recent decades. These trends have generally supported the development of poor and middle-income countries, enabling them to access markets, goods, services, capital, technology and skills. Globalisation has also contributed to a growing "interconnectedness" that has lowered barriers to entry and expanded the reach of knowledge.

Yet globalisation has also contributed to heightened risk and complexity in world affairs – from financial market volatility, to the migration of skilled people from developing countries, to changing power relations between states and capital. As a result of these patterns, the current economic slowdown in developed countries poses a significant risk to developing countries.

South Africa's experience of globalisation includes tangible benefits and increased complexity. The challenge is to take advantage of opportunities while protecting South Africans – especially the poor – from the risks associated with new trade and investment patterns. For example, South Africa has a low level of savings and relies on foreign capital to finance its investments. Dependence on external capital flows increases the risk of volatility in the domestic economy. Slower growth in developed

countries has been accompanied by strong demand from developing countries, contributing to a welcome rebalancing of the country's exports. Yet this trend also poses a challenge for policy makers and manufacturers, because present demand from emerging markets is weighted towards commodities and raw materials, rather than a more diversified basket of products required by developed countries.



Africa's development

The economies of many African countries have grown more rapidly over the past decade, significantly reducing extreme poverty for the first time in about half a century, and the continent has carved out a greater voice in global institutions.

On the political front, democracy has made uneven headway. The recent uprisings in North Africa are a stark reminder of the risks of poor governance and weak institutions that allow elites to accumulate wealth at the expense of the people.

Strong African growth also provides opportunities for South African firms and industries, which have contributed to development by investing in telecommunications, banking, mining, construction and retail. Closer partnership between countries, firms and people would deepen economic and social integration, contributing to higher rates of growth and development.

Several structural weaknesses must be overcome if Africa is to translate rapid growth and higher demand for commodities into rising employment and living standards. Crucially, poor transport links and infrastructure networks, as well as tariff and non-tariff barriers, raise the cost of doing business and hobble both investment and internal trade. Weak legal institutions and, in some cases, poor governance heighten the risks of investing. The picture is improving steadily, but challenges remain, including in the Southern African Development Community (SADC), which faces hurdles related to infrastructure, trade barriers and governance. While South Africa will find it difficult to compete in low-skills manufacturing because of its high cost structure, many countries on the continent can compete as production costs rise in East Asia.

Several of South Africa's challenges can only be addressed through regional cooperation. While South Africa is a water-scarce country, several neighbouring countries have abundant supply. There are other areas in which complementary national endowments offer opportunities for mutually beneficial cooperation. For example, South Africa should invest in and help exploit the wide range of opportunities for low-carbon energy from hydroelectric and other clean energy sources in southern Africa.

Climate change

Emissions of carbon dioxide and other greenhouse gases are changing the earth's climate, potentially imposing a significant global cost that will fall disproportionately on the poor. Rising temperatures, more erratic rainfall and extreme weather events are likely to take a heavy toll on Africa, with an increased spread of tropical diseases and growing losses (human and financial) from droughts and flooding. Climate change has the potential to reduce food production and the availability of potable water, with consequences for migration patterns and levels of conflict.

South Africa is not only a contributor to greenhouse gas emissions – it is also particularly vulnerable to the effects of climate change on health, livelihoods, water and food, with a disproportionate impact on the poor, especially women and children. While adapting to these changes, industries and households have to reduce their negative impact on the environment. This will require far-reaching changes to the way people live and work.

The impact of climate change is global in scope and global solutions must be found, with due consideration to regional and national conditions.

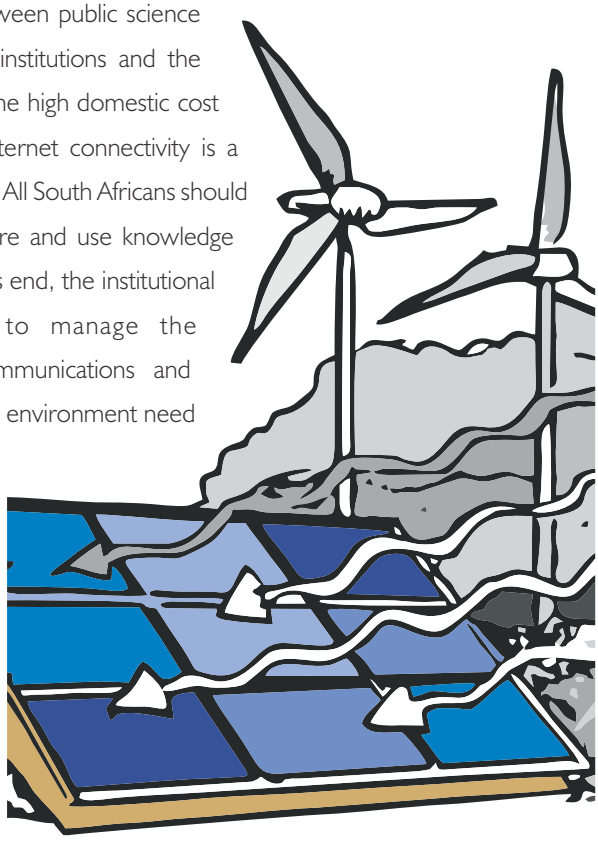
Technological change

Science and technology continue to revolutionise the way goods and services are produced and traded. As a middle-income country, South Africa needs to use its knowledge and innovative products to compete. On its own, a more competitive cost of production will not be sufficient to expand the global presence of South African industry. This applies to both new industries and traditional sectors, such as mining. Innovation is necessary for a middle-income country to develop.

Science and technology can also be leveraged to solve some of the biggest challenges in education and health. Many parts of Africa that have never enjoyed fixed-line telephony are widely served by efficient cellular phone networks that provide a range of services. Educational materials can be delivered electronically to remote villages. Science is breaking new frontiers in fighting diseases and lowering the cost of water purification.

Today, about 17 percent of South Africa's population is able to access the internet – a number that is rising by about 20 percent a year. The use of digital communications has changed society in ways that are not yet fully understood. It is clear, however, that young people have embraced the new media, and this represents a potentially powerful means of fostering social inclusion.

South Africa needs to sharpen its innovative edge and continue contributing to global scientific and technological advancement. This requires greater investment in research and development, better use of existing resources, and more nimble institutions that facilitate innovation and enhanced cooperation between public science and technology institutions and the private sector. The high domestic cost of broadband internet connectivity is a major hindrance. All South Africans should be able to acquire and use knowledge effectively. To this end, the institutional arrangements to manage the information, communications and technology (ICT) environment need to be better structured to ensure that South Africa does not fall victim to a "digital divide".



By 2030

- Eliminate income poverty – Reduce the proportion of households with a monthly income below R419 per person (in 2009 prices) from 39 percent to zero.
- Reduce inequality – The Gini coefficient should fall from 0.69 to 0.6.

Enabling milestones

- Increase employment from 13 million in 2010 to 24 million in 2030.
- Raise per capita income from R50 000 in 2010 to R120 000 by 2030.
- Increase the share of national income of the bottom 40 percent from 6 percent to 10 percent.
- Establish a competitive base of infrastructure, human resources and regulatory frameworks.
- Ensure that skilled, technical, professional and managerial posts better reflect the country's racial, gender and disability makeup.
- Broaden ownership of assets to historically disadvantaged groups.
- Increase the quality of education so that all children have at least two years of preschool education and all children in grade 3 can read and write.
- Provide affordable access to quality health care while promoting health and wellbeing.
- Establish effective, safe and affordable public transport.
- Produce sufficient energy to support industry at competitive prices, ensuring access for poor households, while reducing carbon emissions per unit of power by about one-third.
- Ensure that all South Africans have access to clean running water in their homes.
- Make high-speed broadband internet universally available at competitive prices.
- Realise a food trade surplus, with one-third produced by small-scale farmers or households.
- Ensure household food and nutrition security.
- Entrench a social security system covering all working people, with social protection for the poor and other groups in need, such as children and people with disabilities.
- Realise a developmental, capable and ethical state that treats citizens with dignity.
- Ensure that all people live safely, with an independent and fair criminal justice system.
- Broaden social cohesion and unity while redressing the inequities of the past.
- Play a leading role in continental development, economic integration and human rights.

Critical actions

1. A social compact to reduce poverty and inequality, and raise employment and investment.
2. A strategy to address poverty and its impacts by broadening access to employment, strengthening the social wage, improving public transport and raising rural incomes.
3. Steps by the state to professionalise the public service, strengthen accountability, improve coordination and prosecute corruption.
4. Boost private investment in labour-intensive areas, competitiveness and exports, with adjustments to lower the risk of hiring younger workers.
5. An education accountability chain, with lines of responsibility from state to classroom.
6. Phase in national health insurance, with a focus on upgrading public health facilities, producing more health professionals and reducing the relative cost of private health care.
7. Public infrastructure investment at 10 percent of gross domestic product (GDP), financed through tariffs, public-private partnerships, taxes and loans and focused on transport, energy and water.
8. Interventions to ensure environmental sustainability and resilience to future shocks.
9. New spatial norms and standards – densifying cities, improving transport, locating jobs where people live, upgrading informal settlements and fixing housing market gaps.
10. Reduce crime by strengthening criminal justice and improving community environments.

THE PLAN IN MORE DETAIL

The National Development Plan is a broad strategic framework. It sets out a coherent and holistic approach to confronting poverty and inequality based on the six focused, interlinked priorities summarised below.

Uniting South Africans around a common programme

The Constitution provides a vision of a united, prosperous, non-racial and non-sexist society; a country that belongs to all who live in it, united in its diversity. The Constitution also obliges the country to heal the divisions of the past, recognising that South Africa emerged from a system where the majority of its citizens were robbed of opportunity.

These dual imperatives are prerequisites for successful national development. Uniting South Africa is both an essential input into the process of reducing poverty and inequality and a direct outcome of successful poverty reduction. To build a socially cohesive society, South Africa needs to reduce poverty and inequality by broadening opportunity and employment through economic inclusion, education and skills, and specific redress measures; promote mutual respect and inclusiveness by acting on the constitutional imperative that South Africa belongs to all who live in it, and that all are equal before the law; and deepen the appreciation of citizens' responsibilities and obligations towards one another.

The struggle against apartheid was first and foremost about the construction of a non-racial and non-sexist democratic society, in which all people have equal rights. Despite consistent progress since 1994, South Africa remains a divided society, with race still forming the main divide. Individual stereotyping of race and ethnicity is widespread and discrimination persists. The country's institutional framework and its broad economic and social trends have contributed to gradual deracialisation, but progress is not sufficient or deep enough. Although progress has been made to improve the lives of women; discrimination, patriarchal attitudes and poor access to quality education persists. The plan deals with these factors holistically, recognising that key priorities such as education or rural development will have the biggest impact on poor women.

South Africa's own history and the experiences of other countries show that unity and social cohesion are necessary to meet social and economic objectives. The preamble to the Constitution captures this balance best. It recognises the obligation of the state to reverse the effects of apartheid, in a context where all citizens feel part of the country and its programmes.

Achieving and maintaining this balance requires the confluence of several factors, not all of which are under government's control. A growing economy, rising employment and incomes, falling inequality, an improving education system, fertile conditions for entrepreneurship and career mobility will contribute significantly to uniting South Africa's people. Programmes such as affirmative action, black economic empowerment and land reform are most effective when the economy is growing and the education system is improving. Without such an environment, these measures can raise the level of social tension. This plan makes several proposals to improve the efficacy of redress programmes, especially those relating to broadening economic opportunities for the historically disadvantaged.

Our nation building effort has been more difficult in periods of slower economic growth. South Africa cannot afford a downward spiral that sharpens social tensions. Strong leadership is needed to promote the vision of the Constitution. A formal social compact may help to strengthen the alignment between growth, development and nation building, generating a virtuous circle.

ARTS, CULTURE, ECONOMY AND SOCIETY

Arts and culture open powerful spaces for debate about where a society finds itself and where it is going. Promoted effectively, the creative and cultural industries can contribute substantially to small business development, job creation, and urban development and renewal.

South Africa's music industry was worth R2.2 billion in sales in 2011; the craft sector contributed R3.3 billion to GDP in 2010 and employs more than 273 000 people; and the visual arts sector has a turnover of nearly R2 billion. The country's rich cultural legacy and the creativity of its people mean that South Africa can offer unique stories, voices and products to the world. In addition, artistic endeavour and expression can foster values, facilitate healing and restore national pride.

Effective measures to promote the arts include:

- Providing financial and ICT support to artists to enable the creation of works expressing national creativity, while opening space for vibrant debate.
- Strengthening the Independent Communications Authority of South Africa's mandate for nation building and value inculcation.
- Incentivising commercial distribution networks to distribute and/or host art.
- Developing and implementing plans for a more effective arts and culture curriculum in schools with appropriate educator support.
- Supporting income-smoothing for artists in a special unemployment insurance scheme and evaluating funding models for such initiatives.
- Developing sectoral determination legislation frameworks to protect arts-sector employees.

In addition to measures that promote social equity outlined elsewhere, we propose the following:

- The Bill of Responsibilities, developed by the Department of Basic Education and others, should be popularised, encouraging every-one to live the values of the Constitution.
- A pledge based on the Constitution's preamble should be developed and used in school assemblies. The preamble should be displayed in all workplaces.
- All South Africans should be encouraged to learn an African language and government programmes should work to make this a reality.
- The Commission on Gender Equality and the Ministry for Women, Children and People with Disabilities should jointly set clear targets for the advancement of women's rights and report on progress annually.
- Employment equity and other redress measures should be made more effective by focusing on the environment in which capabilities are developed.
- The country should continuously seek to improve the efficacy of black economic empowerment models.
- Redress measures in the workplace should focus on enterprise development, access to training, career mobility and mentoring.

Citizens active in their own development

In many respects, South Africa has an active and vocal citizenry, but an unintended outcome of government actions has been to reduce the incentive for citizens to be direct participants in their own development. To prevent this practice from being entrenched, the state must actively support and incentivise citizen engagement and citizens should:

- Actively seek opportunities for advancement, learning, experience and opportunity.
- Work together with others in the community to advance development, resolve problems and raise the concerns of the voiceless and marginalised.
- Hold government, business and all leaders in society accountable for their actions.

Active citizenry and social activism is necessary for democracy and development to flourish. The state cannot merely act on behalf of the people – it has to act with the people, working together with other institutions to provide opportunities for the advancement of all communities.

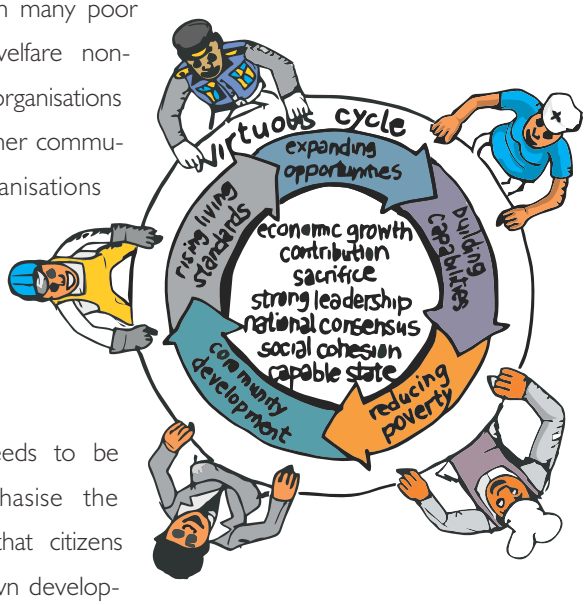
All sectors of society, including the legislatures and judiciary, have to ensure that the fruits of development accrue to the poorest and most marginalised, offsetting possible attempts by elites to protect their own interests at the expense of less-powerful communities.

Legislation provides numerous avenues for citizens to participate in governance beyond elections. Forums such as school governing bodies, ward committees, community policing forums and clinic committees provide voice to citizens and opportunities to shape the institutions closest to them. Communities can also participate in drafting local government plans. Despite these avenues, there is growing distance between citizens and the government. Outbreaks of violence in some community protests reflect frustration not only over the pace of service delivery, but also concerns that communities are not being listened to sincerely.

Better communication, more honesty and a greater degree of humility by those in power would go a long way towards building a society that can solve problems collectively and peacefully.

Citizens have a responsibility to dissuade leaders from taking narrow, short-sighted and populist positions. Robust public discourse and a culture of peaceful protest will contribute to a deeper understanding of the challenges facing communities and reinforce accountability among elected officials. For example, if learning outcomes in a school are below their legitimate expectations, a community can help to remedy the situation by strengthening school governance, ensuring that learners and teachers are punctual, and that the support structures from public officials are effective.

Civil society promotes development and community cohesion. In many poor communities, welfare non-governmental organisations (NGOs) and other community-based organisations deliver vital social and employment programmes.



More work needs to be done to emphasise the responsibilities that citizens have in their own development and in working with others in society to resolve tensions and challenges. The refrain, "sit back and the state will deliver" must be challenged – it is neither realistic nor is it in keeping with South Africa's system of government.

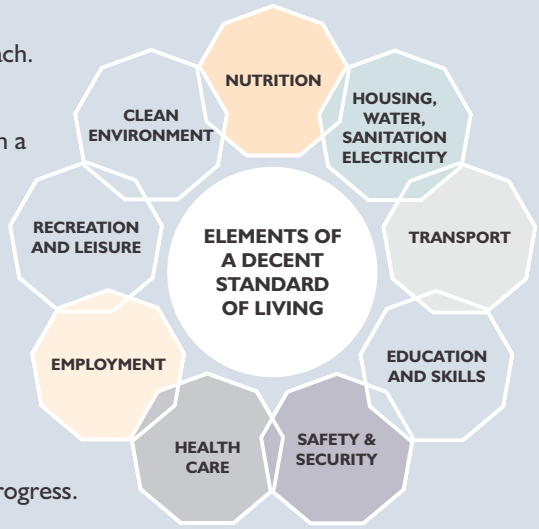
ELEMENTS OF A DECENT STANDARD OF LIVING

Income, through employment or social security, is critical to defining living standards, but human beings need more than income. They need adequate nutrition, they need transport to get to work, and they desire safe communities and clean neighbourhoods. These elements require action either from individuals, government, communities or the private sector.

The National Development Plan makes a firm commitment to achieving a minimum standard of living which can be progressively realised through a multi-pronged strategy. In this plan, we do not define that minimum standard of living but we do provide a framework for the adoption of a minimum standard of living by society. This approach is consistent with the Commission's view that the achievement of such a floor would require support and participation from all social partners and hence its definition is left for ongoing work of the Commission.

The following picture illustrates the approach.

This approach to defining living standards in a holistic way is consistent with the capabilities approach advanced by the Commission. The approach focuses on the key capabilities that individuals need to live the life that they desire. Of these capabilities, education and skills, and the opportunity to work are the elements where South Africa most needs to make progress.



Faster and more inclusive economic growth

An economy that will create more jobs

South Africa needs an economy that is more inclusive, more dynamic and in which the fruits of growth are shared equitably. In 2030, the economy should be close to full employment, equip people with the skills they need, ensure that ownership of production is more diverse and able to grow rapidly, and provide the resources to pay for investment in human and physical capital.

South Africa displays features of a low-growth, middle-income trap, characterised by lack of competition, large numbers of work seekers who cannot enter the labour market, low savings (hence a reliance on foreign capital inflows) and a poor skills profile. Many of these features are rooted in the evolution of the economy over the past 150 years. The net effect is a high levels of unemployment and inequality, and low levels of investment.

Transforming this economy is a challenging, long-term project. In summary, we propose to enhance

human capital, productive capacity and infrastructure to raise exports, which will increase resources for investment and reduce reliance on capital inflows. Higher investment, supported by better public infrastructure and skills, will enable the economy to grow faster and become more productive. Rising employment and productivity will lead to rising incomes and living standards and less inequality. Shifting the economy towards more investment and lower consumption is necessary for long-term economic prosperity.

Employment scenarios prepared by the Commission suggest that most new jobs are likely to be sourced in domestic-orientated businesses, and in growing small- and medium-sized firms. While most jobs are not created directly in exporting firms, the sectors that are globally traded tend to have more potential to stimulate domestic spin-offs. Given South Africa's low savings rate and the need to invest at a higher rate, it is important to grow exports and expand output in those sectors. South Africa's trade profile has not fulfilled either of these objectives over the past 15 years. Making progress will mean intensifying the country's global presence in areas of competitive advantage, while building the necessary infrastructure and skills.

Economic growth needs to accelerate in a more inclusive manner. These are twin imperatives. Government's New Growth Path aims to create 5 million new jobs between 2010 and 2020. It seeks to do so by providing a supportive environment for growth and development, while promoting a more labour-absorbing economy. Its proposals are intended to lower the cost of living for poor households and for businesses through targeted microeconomic reforms, especially in transport, public services, telecommunications and food. Lowering the cost of living is a necessary adjunct to raising the *standard* of living and encouraging investment; it will also facilitate the call for wage moderation at both the middle and top end of the income spectrum.

The Commission believes that the country can create 11 million jobs by 2030 by:

- Improving economic policy coordination and implementation
- Building partnerships between the public sector, business and labour to facilitate, direct and promote investment in labour-intensive areas
- Raising competitiveness and export earnings through better infrastructure and public services, lowering the costs of doing business, improving skills and innovation, and targeting state support to specific sectors
- Strengthening the functioning of the labour market to improve skills acquisition, match job seekers and job openings, and reduce conflict.

Meeting the objectives of the plan requires leadership to drive implementation, and to convince South Africans of the need to make mutual sacrifices for longer-term benefits. It will also require a change in the structure of the economy and the pace at which it grows. The crisp question is how. Transforming the economy and creating sustainable expansion for job creation means that the rate of economic growth needs to exceed 5 percent a year on average. To bring this about we propose:

- **Increasing exports,** focusing on those areas where South Africa already has endowments and comparative advantage, such as mining, construction, mid-skill manufacturing, agriculture and agro-processing, higher education, tourism and business services.
- **A more efficient and competitive infrastructure.** Infrastructure to facilitate economic activity that is conducive to growth and job creation. An approach will be developed to strengthen key services such as

commercial transport, energy, telecommunications and water, while ensuring their long-term affordability and sustainability.

- **Reducing the cost of living for low-income and working-class households.** Inequality and poverty can be addressed by raising incomes through productivity growth and reducing the cost of living. A commitment to a minimum living standard will ensure that all households can meaningfully participate in the economy. The costs of food, commuter transport and housing must be reduced, while raising the quality of free or low-cost education and health care.
- **Reduced cost of regulatory compliance,** especially for small- and medium-sized firms.
- **A larger, more effective innovation system,** closely aligned with firms that operate in sectors consistent with the growth strategy.
- **Support for small businesses** through better coordination of relevant agencies, development finance institutions, and public and private incubators.
- **An expanded skills base** through better education and vocational training.
- **Strengthened financial services** to bring down their cost and improve access for small- and medium-sized businesses.
- **A commitment to public and private procurement** approaches that stimulate domestic industry and job creation.
- **A higher rate of investment,** with public-sector investment crowding in private investment. This will depend on partnerships with the private sector, policy certainty and building confidence in the long-term growth of the economy.
- **A labour market that is more responsive to economic opportunity.** This requires lifelong learning and career advancement; stabilising the labour environment; strengthening dispute resolution institutions; reviewing regulations and standards for small and medium enterprises; addressing public sector labour relations; strengthening the application of minimum standards among employers, recruitment agencies and brokers; strengthening active labour market policies and labour matching; and enabling skilled immigration.
- **Enhanced commercial diplomatic services** to support the expansion of South Africa's global market share.

These objectives complement the goals set out in the New Growth Path.

Increasing economic growth to above 5 percent a year will require business and labour to endorse a shared vision.

South Africa has to act on the fact that millions of able-bodied people want to work. In the short term, the economy needs to create jobs for unemployed South Africans, many of whom are young and low-skilled, while upgrading skills and knowledge for a different economy in future. Raising employment levels will have benefits beyond the empowering experience of having a job. It will help people invest in their children's education, upgrade their homes and manage life's risks. Work and education will enable citizens to improve their own lives.

It is essential to lower the cost of living for poor households. Some elements of the plan will have a cost-raising effect on the economy. In particular, modernising infrastructure after decades of underinvestment may require higher tariffs. To offset these increases, policy should focus on increasing competitiveness and investing in new infrastructure in areas that directly affect the poor, such as the food value chain, public transport,

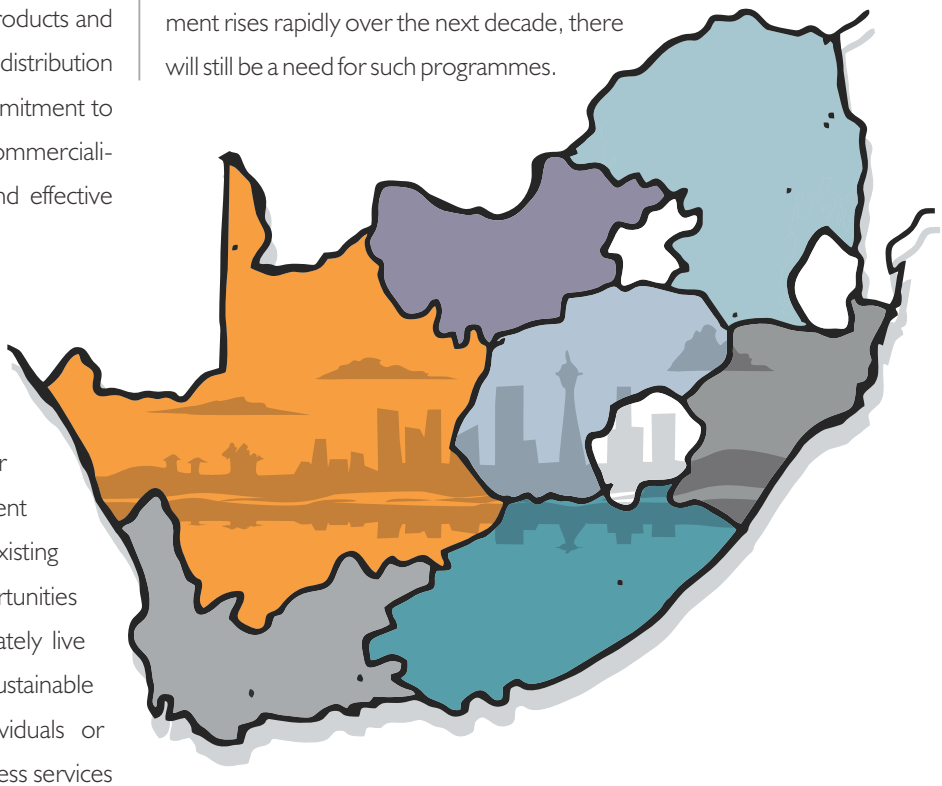
education and health, and telecommunications. Greater public-sector efficiency will also lead to a lower cost structure for the economy.

A contentious issue is whether South Africa can mobilise unemployed people into production for export markets. Some argue that the economy is not competitive in labour-intensive manufacturing because the cost structure is too high, the exchange rate is too volatile, infrastructure is inadequate and the skills base is too limited. Yet South Africa could compete in a range of categories should these concerns be addressed – and in large part, they can be addressed. Exchange-rate volatility creates a barrier to success and the plan proposes that resolving domestic resource costs and skills availability would have a more sustained impact on costs. As a middle-income country, South Africa has to compete on the basis of excellent products and brands, and effective entry into global distribution channels. This will require greater commitment to research and development and its commercialisation, an efficient logistics platform and effective economic diplomacy.

In moving towards decent work for all, the short-term priority must be to raise employment and incentivise the entry of young people into the labour market, while taking due care to prevent substitution or the diminution of existing working conditions. Some work opportunities may not enable individuals to immediately live the lives that they desire. To promote sustainable livelihoods, it is important that individuals or families, irrespective of income, can access services such as quality education, health care or public transport. It is also important for a person who loses their job to be able to access work from public works programmes or community-based employment schemes. In these ways, public policy and public action complements individual effort in the labour market, providing sustainable livelihoods to the working poor.

Difficult choices will have to be made. To promote large-scale job creation, the functioning of the labour market will have to improve. The Commission makes proposals aimed at helping young people get into the labour market, easing rules for small businesses, reducing tension and conflict, and clarifying dismissal and misconduct procedures. More attention also needs to be given to continuous training for existing workers and to providing career paths for all workers.

The role of public employment initiatives, such as the expanded public works programme, should also be considered. Even if South Africa achieves GDP growth above 5 percent a year and employment rises rapidly over the next decade, there will still be a need for such programmes.

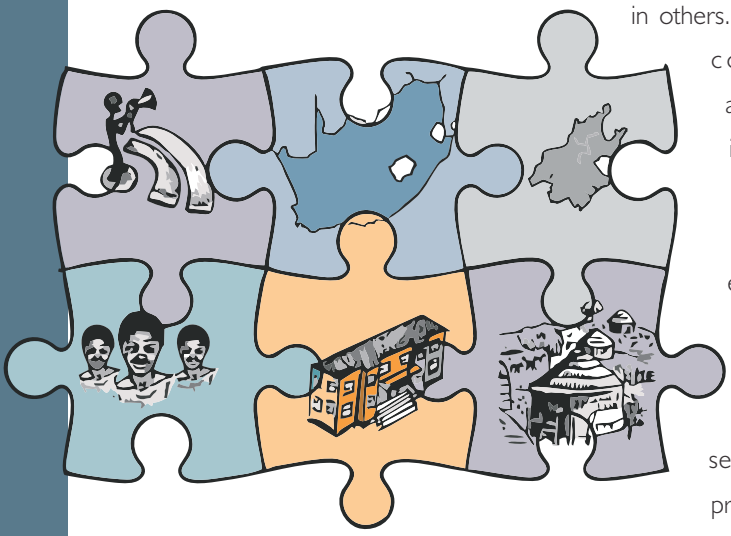


Transforming the economy also means changing patterns of ownership and control. To date, efforts to transfer ownership of productive assets have not yielded the desired results, with employee share ownership schemes playing a less significant role. A bolder approach and clearer targets are required.

Policy instruments to encourage the private sector to change ownership patterns include voluntary scorecards, procurement regulations, licensing arrangements (such as in telecommunications and mining) and development finance.

There is a need to improve the effectiveness of the instruments mentioned above, with an understanding of the trade-offs that exist. In addition, more emphasis is needed to support small businesses, encourage government and the private sector to procure from small firms, and to enhance the development of black and female managers and professionals. A rapidly growing economy that is diversifying into new sectors will open up opportunities for black-owned firms and smaller businesses, promoting inclusive growth.

South Africa has to exploit its strengths to increase exports. If the economy is less competitive in one area, it will have to do better in others. The country's comparative advantages include its mineral and natural resource endowments, a sophisticated financial and business services sector, proximity to fast-growing African markets, high-quality universities and a modern, productive agricultural sector. South Africa also has companies that are global leaders in sectors like civil construction.



South Africa holds large global shares in platinum group metals, gold, diamonds, manganese, coal, iron ore and uranium. Yet over the past decade, domestic mining has failed to match the global growth trend in mineral exports due to poor infrastructure, alongside regulatory and policy frameworks that hinder investment. South Africa can benefit greatly from Asia's growing demand for commodities. To do so means improving water, transport and energy infrastructure, and providing greater policy and regulatory certainty to investors. This will enable the mining sector to deploy the skills, resources, know-how and capital that are available, and allow government to raise much more tax revenue than it does at present.

There are important trade-offs to be considered in mineral beneficiation. South Africa is losing global market share in products such as ferrochrome. How-ever, first-stage processing or smelting is highly energy and capital intensive, potentially drawing energy and capital away from other sectors. South Africa should be selective about the areas in which it intends to support first-stage beneficiation. Priority areas should include those where suitable capacity already exists, or where beneficiation is likely to lead to downstream manufacturing. Beneficiating all of the country's minerals is neither feasible nor is it essential for developing a larger manufacturing sector.

Over the next several years the world economy is expected to grow at a modest pace. In these circumstances, South African businesses need to think carefully about what they produce, for which markets, using what capabilities. As a small open economy, South Africa can develop niche products. Capturing a small share of global demand in areas where local firms can compete can have a big impact. For example, South Africa could be a global leader in manufactured goods and services for the mining industry, where it has substantial know-how. This would make an important contribution to industrialisation in a global niche market.

Regional economic integration can boost economic growth in all countries in southern Africa. The region has grown rapidly over the past decade, with strong performances in minerals, agriculture, telecommunications and tourism. Achieving economic integration requires identifying practical opportunities where cooperation can offer mutual benefits; investment in infrastructure; strengthening regional trade-blocs; lowering tariffs; and addressing non-tariff barriers, such as inefficient border posts.

South Africa needs to implement its economic policy priorities effectively. Coordination failures, split accountability and overlapping mandates hinder the implementation of existing policies.

Long-term growth and investment requires a shared vision, trust and cooperation between business, labour and government. Today, the level of trust is low, and labour relations have become unduly tense (and sometimes violent). It is inconceivable that the economy will evolve in a more labour-intensive manner if these conditions persist. Promoting more rapid, job-creating growth means tackling these tensions in an honest and open manner.

WOMEN AND THE PLAN

Women make up a large percentage of the poor, particularly in rural areas. The plan takes gender – along with race and geographic location – into account, proposing a range of measures to advance women's equality. In summary, our recommendations along these lines are as follows:

- Public employment should be expanded to provide work for the unemployed, with a specific focus on youth and women.
- The transformation of the economy should involve the active participation and empowerment of women.
- The role of women as leaders in all sectors of society should be actively supported.
- Social, cultural, religious and educational barriers to women entering the job market should be addressed. Concrete measures should be put in place and the results should be evaluated over time. Access to safe drinking water, electricity and quality early childhood education, for example, could free women from doing unpaid work and help them seek jobs.
- By 2030, people living in South Africa should have no fear of crime. Women, children and those who are vulnerable should feel protected.
- Security of tenure should be created for communal farmers, especially women.
- The Department of Health should design and pilot a nutrition intervention programme for pregnant women and young children.
- Coverage of antiretroviral treatment to all HIV-positive persons requiring such drugs should be expanded, alongside treatment of high-risk HIV-negative persons. Effective microbicides should be offered routinely to all women 16 years and older.

An inclusive and integrated rural economy

South Africa's rural communities should have greater opportunities to participate fully in the economic, social and political life of the country, supported by good-quality education, health care, transport and other basic services. Successful land reform, job creation and rising agricultural production will contribute to the development of an inclusive rural economy.

South Africa's hinterland is marked by high levels of poverty and joblessness, with limited employment in agriculture. The apartheid system forced much of the African population into barren rural reserves. The result was an advanced and diversified commercial farming sector relying on poorly paid farm labour, and impoverished, densely populated communities with limited economic opportunities and minimal government services.

To change this, we propose a multifaceted approach:

- Creating more jobs through agricultural development, based on effective land reform and the growth of irrigated agriculture and land production.
- Providing basic services that enable people to develop capabilities to take advantage of opportunities around the country, enabling them to contribute to their communities through remittances and skills transfer.
- Developing industries such as agro-processing, tourism, fisheries and small enterprises where potential exists.

Institutional capacity is integral to the success of this approach, including reforms to address contested relationships between traditional and constitutional bodies.

Building capabilities

At a country level, critical capabilities include legal and other institutions, infrastructure (telecommunications, water, energy and transport), the education and training system, sustainable management of the environment, systems of innovation and patterns of spatial development. Human capabilities include education, health, social protection and community safety.

Improving infrastructure

Infrastructure is not just essential for faster economic growth and higher employment. It also promotes inclusive growth, providing citizens with the means to improve their own lives and boost their incomes. Infrastructure is essential to development.

Investment spending in South Africa fell from an average of almost 30 percent of GDP in the early 1980s to about 16 percent of GDP by the early 2000s. Public infrastructure spending is also at low levels by historical standards. In effect, South Africa has missed a generation of capital investment in roads, rail, ports, electricity, water, sanitation, public transport and housing. To grow faster and in a more inclusive manner, the country needs a higher level of capital spending. Gross fixed capital formation needs to reach about 30 percent of GDP by 2030, with public sector investment reaching 10 percent of GDP, to realise a sustained impact on growth and household services.

Both the public and private sectors can play important roles in building infrastructure, including bulk infrastructure. In the wake of the 2009 recession, the private sector has been reluctant to invest its healthy levels of retained earnings in productive capacity. At the same time, the public sector has favoured consumption over investment. Acknowledging this, the government has announced a shift in the composition of expenditure towards investment, a necessary precondition to breaking the stalemate. Over time, public-sector

investment can help crowd in private investment.

The Commission's recommendations on economic infrastructure cover financing, planning and maintenance.

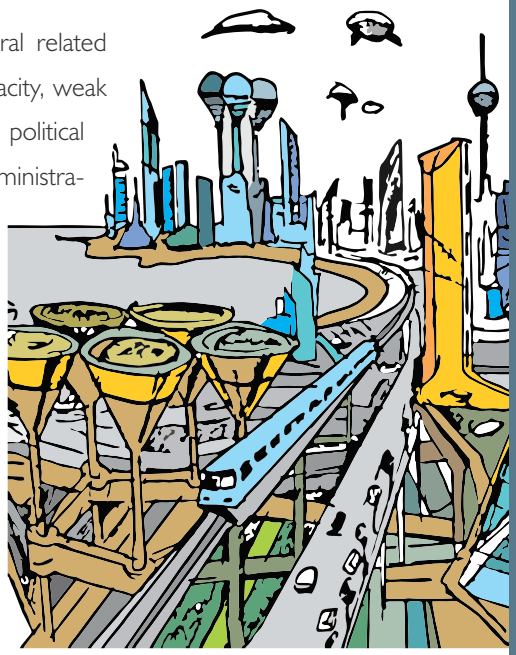
Who pays for economic infrastructure? Some types of infrastructure provide broad social and economic benefits. But playing catch-up means that charges have to increase in the short to medium term to make services financially viable. The fact that one new power station (producing 4 800MW of electricity) costs about twice the entire depreciated capital stock of existing power stations (producing 40 000MW) illustrates the challenge. Moreover, high levels of joblessness and inequality make some of these services unaffordable for most people unless they are subsidised.

The Commission's view is that in the long term, users must pay the bulk of the costs for economic infrastructure, with due protection for poor households. The role of government and the fiscus is to provide the requisite guarantees so that the costs can be amortised over time, thereby smoothing the price path. The state must also put in place appropriate regulatory and governance frameworks so that the infrastructure is operated efficiently and tariffs can be set at appropriate levels. For infrastructure that generates financial returns, debt raised to build facilities should be on the balance sheets of state-owned enterprises or private companies that do the work. Guarantees should be used selectively to lower the cost of capital and to secure long-term finance. Subsidies to poor households should be as direct and as transparent as possible. Social infrastructure that does not generate financial returns – such as schools or hospitals – should be financed from the budget.

The electricity crisis of 2008 and other recent developments have exposed institutional weaknesses related to state-owned companies responsible for network infrastructure. Averting such problems requires clear institutional arrangements, transparent shareholder compacts, clean lines of accountability and sound financial models to ensure sustainability. We make recommendations in each of these areas. Laws that govern regulation are often confusing, conflating policy with regulation. We propose ways to fix this.

For infrastructure that supports human settlements (housing, water, sanitation, roads, parks and so on) the picture is unnecessarily complicated. The planning function is located at local level, the housing function is at provincial level, and the responsibility for water and electricity provision is split between those responsible for bulk services and reticulation. In practice, these arrangements do not work. In general, human settlements are badly planned, with little coordination between those installing water reticulation infrastructure and those responsible for providing bulk infrastructure. Responsibility for housing should shift to the level at which planning is executed: the municipal level. The plan sets out recommendations for effective urban development.

Local government faces several related challenges, including poor capacity, weak administrative systems, undue political interference in technical and administrative decision-making, and uneven fiscal capacity. The Commission believes that within the framework of the Constitution, there is more room for the asymmetric allocation of powers and functions and for more diversity in how developmental priorities are implemented. To achieve



this, longer-term strategies are needed, including addressing capacity constraints, allowing more experimentation in institutional forms and working collaboratively with national and provincial government.

Compared with the best international standards, South Africa's ICT infrastructure is abysmal. Efficient information infrastructure that promotes economic growth and greater inclusion requires a stronger broadband and telecommunications network, and lower prices. The economic and employment benefits outweigh the costs.

The following infrastructure investments should be prioritised:

- Upgrading informal settlements on suitably located land.
- Public transport infrastructure and systems, including the renewal of the commuter rail fleet, supported by enhanced links with road-based services.
- Developing the Durban-Gauteng freight corridor, including a new dug-out port on the site of the old Durban airport.
- Building a new coal line to unlock coal deposits in the Waterberg, extending existing coal lines in the central basin and upgrading the coal line to Richards Bay and the iron ore line to Saldanha.
- Developing, in a timely manner, several new water schemes to supply urban and industrial centres, new irrigation systems in the Umzimvubu river basin and Makatini Flats, and a national water conservation programme to improve water use and efficiency.
- Constructing infrastructure to import liquefied natural gas and increasing exploration to find domestic gas feedstock (including investigating shale and coal bed methane reserves) to diversify the energy mix and reduce carbon emissions.
- Procuring at least 20 000MW of renewable electricity by 2030, importing electricity from the region, decommissioning 11 000MW of ageing coal-fired power stations and stepping up investments in energy-efficiency.
- Establishing national, regional and municipal fibre-optic networks to provide the backbone for broadband access. Private investment needs to lead the way in this area, complemented by public funds required to meet social objectives. Effective policies, regulation and institutional arrangements to achieve this are urgently required.

In implementing these infrastructure priorities, it is important to ensure that rural communities can benefit from both bulk and reticulation infrastructure and that the pricing of this infrastructure is sensitive the needs of rural communities.

Reversing the spatial effects of apartheid

Apartheid left a terrible spatial legacy. While about 3.2 million households have benefited from new housing, and services and infrastructure have been provided to many communities, limited progress has been made in reversing

entrenched spatial inequities. In some instances, post-1994 policies have reinforced the spatial divides by placing low-income housing on the periphery of cities.

Reshaping South Africa's cities, towns and rural settlements is a complex, long-term project, requiring major reforms and political will. It is, however, a necessary project given the enormous social, environmental and financial costs imposed by existing spatial divides.

The Commission proposes a national focus on spatial transformation across all geographic scales. Policies, plans and instruments are needed to reduce travel distances and costs, especially for poor households. By 2030, a larger proportion of the population should live closer to places of work, and the transport they use to commute should be safe, reliable and energy efficient. This requires:

- Strong measures to prevent further development of housing in marginal places
- Increased urban densities to support public transport and reduce sprawl
- More reliable and affordable public transport and better coordination between various modes of transport
- Incentives and programmes to shift jobs and investments towards the dense townships on the urban edge
- Focused partnerships with the private sector to bridge the housing gap market.[3]

Rural areas present particular challenges. Over one-third of South Africa's population live in the former "homelands", and a large proportion of this group is economically marginalised. Policies are required to bring households in these areas into the mainstream economy. There are rural areas, however, where transport links are good and where densification is taking place in the absence of effective land-use management and urban governance. These require urgent interventions.

Our proposals to create vibrant urban settlements and revive rural areas include:

- Establishing new norms and a national spatial framework.
- Integrating diffuse funding flows into a single fund for spatial restructuring.
- Reviewing the housing grant and subsidy regime to ensure that the instruments used are aligned with positive changes in human settlement policy.
- Reforming the planning system to resolve fragmented responsibility for planning in national government, poorly coordinated intergovernmental planning, disconnects across municipal boundaries and the limitations of integrated development plans.
- Strengthening government's planning capabilities.
- Developing neighbourhood spatial compacts to bring civil society, business and the state together to solve problems.
- Enabling citizens to participate in spatial visioning and planning processes.

Building environmental sustainability and resilience

Since the late 19th century, South Africa has exploited its mineral wealth with little or no regard for the environment. Changes are needed to protect the natural environment while allowing the country to benefit from its mineral deposits. In addition to significant non-renewable mineral wealth, the country's natural resources include its adjacent oceans, soil, water, biodiversity, sunshine and a long coastline.

From an environmental perspective South Africa faces several related challenges, some of which are in conflict. The country needs to:

- Protect the natural environment in all

respects, leaving subsequent generations with at least an endowment of at least equal value.

- Enhance the resilience of people and the economy to climate change.
- Extract mineral wealth to generate the resources to raise living standards, skills and infrastructure in a sustainable manner.
- Reduce greenhouse gas emissions and improve energy efficiency.

We propose three measures to protect the country's natural resources:

- An environmental management framework. Developments that have serious environmental or social effects need to be offset by support for improvements in related areas.
- A target for the amount of land and oceans under protection (presently about 7.9 million hectares of land, 848km of coastline and 4 172km2 of ocean are protected).
- A set of indicators for natural resources, accompanied by publication of annual reports on the health of identified resources to inform policy.[4]

Climate change is already having an impact on South Africa, with marked temperature and rainfall variations and rising sea levels.

Research suggests that it is possible to both reduce greenhouse gas emissions from electricity production and still grow the minerals and mineral processing sectors. The general approach is based on the following key proposals:

- Implement the 2010 Integrated Resource Plan (procuring at least 20 000MW of electricity from renewables) to reduce carbon emissions from the electricity industry from 0.9kg per kilowatt-hour to 0.6kg per kilowatt-hour.
- Improve the energy efficiency of mining and mineral processing by 15 percent by 2030. This might include closing down the most energy-inefficient plants.

The Integrated Resource Plan imposes an effective shadow price on carbon. Complementary fiscal reforms are needed to broaden the price on carbon to encourage economy-wide efficiency and investment in greener technologies.

Over the short term, policy needs to respond quickly and effectively to protect the natural environment and mitigate the effects of climate change. Over the long term, with realistic, bold strategies and global partnerships, South Africa can manage the transition to a low-carbon economy at a pace consistent with government's public pledges, without harming jobs or competitiveness.

Improving the quality of education

The quality of education for most black children is poor. This denies many learners access to employment. It also reduces the earnings potential and career mobility of those who do get jobs – and limits the potential dynamism of South African businesses.

By 2030, South Africa needs an education system with the following attributes:

- High-quality, universal early childhood education
- Quality school education, with globally competitive literacy and numeracy standards
- Further and higher education and training that enables people to fulfil their potential
- An expanding higher-education sector that can contribute to rising incomes, higher productivity and the shift to a more knowledge-intensive economy
- A wider system of innovation that links universities, science councils and other research and development role players with priority areas of the economy.

SPORT AND HEALTHY LIVING

Sport plays an important role in promoting wellness and social cohesion. The plan treats sport as a cross-cutting issue, with related proposals in the chapters on education, health and nation building.

Sport and physical education are an integral part of a child's development. The Department of Basic Education and the Department of Sports and Recreation have taken important steps to reintroduce sport in schools. This should be expanded so that all schools develop and maintain infrastructure for at least two sports.

All communities should have access to sports facilities and encourage the formation of amateur leagues. The outdoor gym in Soweto is an innovative initiative that could be replicated in many communities. Local authorities can also promote exercise by ensuring that urban roads have proper pavements, developing cycle lanes and installing traffic-calming measures.

The plan proposes an initiative to encourage South Africans to walk, run, cycle or play team games on the second Saturday of every month. The extensive network of formal and informal sporting clubs can be mobilised to organise these events.

Expanding opportunities for participation in sports will help to ensure sports teams represent all sectors of society. It will also ensure that South Africa produces results that match its passion for sport.

Improving the quality of education requires careful management, support from all interested parties and time. According to a 2010 study of reform in 20 education systems around the world, sound approaches begin to produce results about six years after reforms are initiated, with sustained dividends emerging over the long term.

There has been significant progress in education since 1994. Before 1990, less than a quarter of black learners completed matric. In 2012, this figure is close to two thirds. South Africa has made rapid progress in broadening preschool education and almost 8 million children receive a meal at school. School funding is pro-poor, with falling class sizes in each province. Yet despite reforms introduced since 2009, especially those relating to testing learners and supporting teacher development, challenges still remain. Urgent action is required on several fronts:

- **Households and communities.** Proper nutrition and diet, especially for children under three, are essential for sound physical and mental development. The Commission makes recommendations on child nutrition, helping parents and families to break the cycle of poverty, and providing the best preparation for young children – including a proposal that every child should have at least two years of preschool education.

- **Management of the education system.** Reducing layers of bureaucracy would make more resources available to support schools and teachers. The general rule of thumb is that interventions, both supportive and corrective, need to be inversely proportional to school performance. In this way, better-performing schools can be given the freedom to get on with the job, as long as there is measurable improvement. We make specific recommendations focused on better support to schools, delivering the basic necessities for a good education and measuring the right things. We propose a campaign to improve infrastructure in poor schools, especially in rural areas.

- **Competence and capacity of school principals.** The common feature of all well-run schools is leadership. The Department of Basic Education has recently launched a programme to measure the competencies of principals and deputy principals. This survey will also help identify weak performers, based on learner scores, and allow for appropriate support for principals and teachers. Principals should be selected purely on merit, be given greater powers over school management and be held accountable for performance.

- **Teacher performance.** Our proposals cover training, remuneration, incentives, time on task, performance measurement, and content and pedagogical support. Professionalism and the conditions that enhance professional conduct must be rebuilt, and accountability for performance needs to be enhanced. This means that professional development, peer review, school infrastructure, the provision of learner support materials and teacher support systems need to be strengthened. Teachers, both individually and at school level, should be held accountable for learner performance, with due recognition of the learning environment.

- **Further education and training (FET).** The FET system is not effective. It is too small and the output quality is poor. Continuous quality improvement is needed as the system expands. The quality and relevance of courses needs urgent attention. When quality starts to improve and the employability of graduates begins to increase, demand for FET services will rise automatically. Simply growing the sector without focusing on quality is likely to be expensive and demoralising for young people, further stigmatising the system. By 2030, the FET sector should cover about 25 percent of the age-relevant cohort, implying an increase from about 300 000 today to 1.25 million by 2030.

- **Higher education.** The performance of existing institutions ranges from world-class to mediocre. Continuous quality improvement is needed as the system expands at a moderate pace. A major challenge is that poor school education increases the cost of producing graduates, and a relatively small number of black students graduate from universities. Increasing participation and graduation rates, with the option of a four-year university degree, combined with bridging courses and more support for universities to help black students from disadvantaged backgrounds, is likely to yield higher returns.

- **Research and development (R&D).** A simultaneous focus on R&D and on the calibre of teaching would improve the quality of higher education, but without attention, inadequate human capacity will constrain knowledge production and innovation. Universities need to become centres of excellence at the cutting edge of technology. By attracting students from abroad, universities can generate revenue and increase the skills pool. Students from abroad who graduate from South African universities should qualify for a seven-year work permit to encourage them to stay and work here. While South Africa needs to spend

more on R&D in general, the institutional setup also needs to improve the link between innovation and business requirements. Government should partner with the private sector to raise the level of R&D, with resources targeted towards building the research infrastructure required by a modern economy.

Quality health care for all

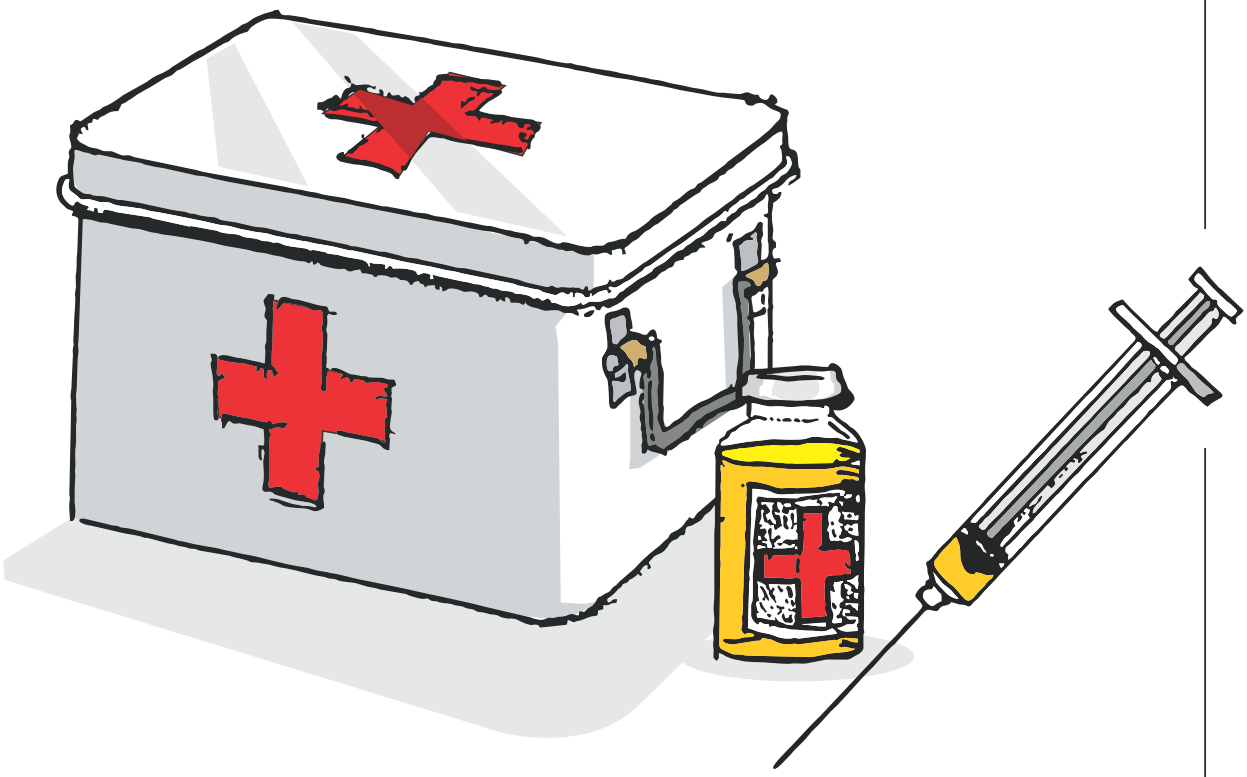
Long-term health outcomes are shaped by factors largely outside the health system: lifestyle, diet and nutritional levels, education, sexual behaviour, exercise, road accidents and the level of violence. The Commission makes recommendations in each of these areas. Priority areas include sex education, nutrition, exercise, and combating smoking and alcohol abuse. These are social responsibilities that deserve to be taken seriously by every citizen, and promoted by families and institutions.

Good health is essential for a productive and fulfilling life. *The Diagnostic Report* demonstrates the starkly interrelated challenges posed by a crumbling health system and a rising disease burden. South Africa's broken public health system must be fixed. While greater use of private care, paid for either by users or health insurance, is part of the solution, it is no substitute for improving public health care. A root-and-branch effort to improve the quality of care is needed, especially at primary level.

By 2030, the health system should provide quality care to all, free at the point of service, or paid for by publicly provided or privately funded insurance. The primary and district health system should provide universal access, with a focus on prevention, education, disease management and treatment. Hospitals should be effective and efficient, providing quality secondary and tertiary care for those who need it. More health professionals should be on hand, especially in poorer communities.

Reform of the public health system should focus on:

- Improved management, especially at institutional level
- More and better-trained health professionals
- Greater discretion over clinical and administrative matters at facility level, combined with



effective accountability

- Better patient information systems supporting more decentralised and home-based care models
- A focus on maternal and infant health care.

At institutional level, health-care management is in crisis. The Department of Health has recently launched a programme to evaluate management competence. Complementary reforms should include greater delegation of authority over staffing, shift structures and routine procurement.

A district-based approach to primary health care is part of the pilot phase of national health insurance. For this approach to be successful, the health system needs more personnel (including professionals and paramedics), new forms of management authority, and strengthened statutory structures for community representation.

The HIV/AIDS epidemic has illustrated South Africa's ability to make monumental social and political mistakes – as well as its ability to correct them and implement a complex programme effectively. The health system's success in managing the epidemic over the past five years is commendable. Yet there is no room for complacency. There is a continuing need for education, prevention, testing and treatment. Lowering the rate of new infections will reduce the demand on the public health system. Yet even if there are no new infections, there will still be a sizeable number of HIV-positive people requiring treatment, posing continuing challenges for the tuberculosis infection rate and the risk of drug-resistant HIV strains developing. The epidemic and its implications for public policy are likely to persist for at least another generation – possibly two.

Building a national health insurance system is an important objective. There are four prerequisites to its success: improving the quality of public health care, lowering the relative cost of private care, recruiting more professionals in both the public and private sectors, and developing a health information system that spans public and private health providers. These reforms will take time, require cooperation between the public and private sectors, and demand significant resources.

PEOPLE WITH DISABILITIES

Disability and poverty operate in a vicious circle. Disability often leads to poverty and poverty, in turn, often results in disability. People with disabilities face multiple discriminatory barriers.

Disability must be integrated into all facets of planning, recognising that there is no one-size-fits-all approach.

In line with the priorities of the plan, people with disabilities must have enhanced access to quality education and employment. Efforts to ensure relevant and accessible skills development programmes for people with disabilities, coupled with equal opportunities for their productive and gainful employment, must be prioritised.

Social protection

Social protection brings social solidarity to life and ensures a basic standard of living. It also plays an important role in helping households and families manage life's risks, and eases labour market transitions, contributing to a more flexible economy.

By 2030, South Africa should have a comprehensive system of social protection that includes social security grants, mandatory retirement savings, risk benefits (such as unemployment, death and disability benefits) and voluntary retirement savings.

Part of our approach to social protection is through a social wage, which includes no-fee schools, free basic services and subsidised public transport. In addition to creating more jobs in the private sector, a significant broadening of public employment programmes will also help to ensure that fewer households live below a determined income level.

To achieve the objectives of broader social security coverage, we propose the following:

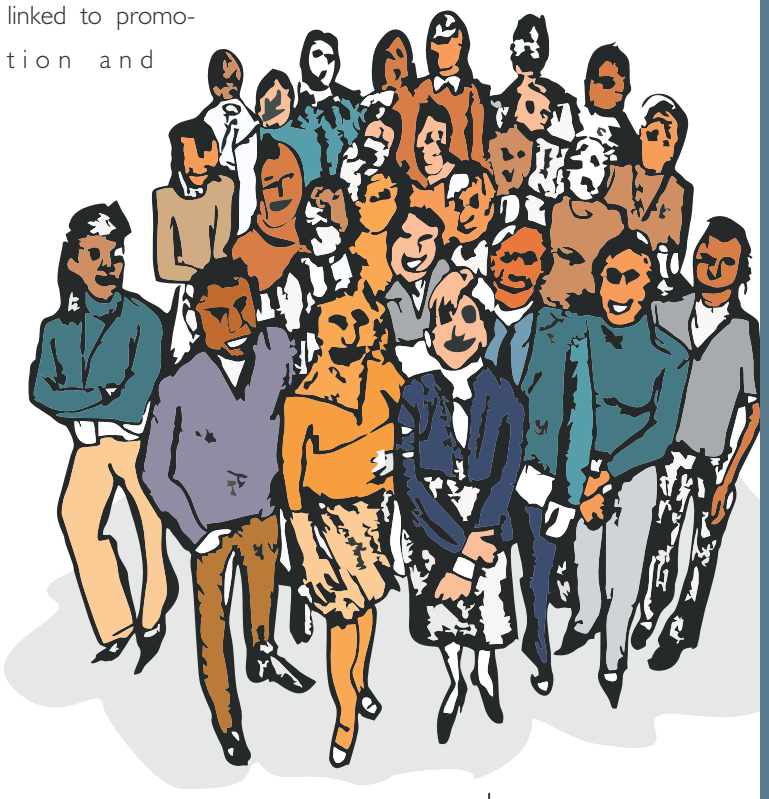
- An acceptable minimum standard of living must be defined, including what is needed to enable people to develop their capabilities.
- The retirement savings and risk benefit gap should be closed through reforms, including mandatory contributions, with consideration given to subsidising these contributions for low-income or periodic workers.
- Social welfare services should be expanded, with more education and training for social work practitioners and a review of funding for non-profit organisations.
- Public employment should expand, with a focus on youth and women. It is expected that public employment will provide the equivalent of 2 million full-time jobs by 2020.
- A commitment to household food and nutrition security involving public- and private-sector action.

Building safer communities

By 2030, people living in South Africa should feel safe and have no fear of crime. Women, children and vulnerable groups should feel protected. They should have confidence in the criminal justice system to effectively apprehend and prosecute criminals who violate individual and community safety. The South African Police Service and metro police should be professional institutions staffed by skilled, disciplined, ethical individuals who value their work and serve the community.

Achieving this vision requires targeted action in five key areas:

- **Strengthening the criminal justice system.** This requires cooperation between all departments in the government's justice, crime prevention and security cluster. The recommendations in the Review of the South African Criminal Justice System will go a long way in addressing the system's current weaknesses.
- **Making the police service professional.** The police code of conduct and code of professionalism should be linked to promotion and



discipline in the service. Recruitment should attract competent, skilled professionals through a two-track system; one for commissioned officers and one for non-commissioned officers.

- **Demilitarising the police service.** The decision to demilitarise the police force, moving away from its history of brutality, was a key goal of transformation after 1994. The remilitarisation of the police in recent years has not garnered greater respect for the police or higher conviction rates. If anything, it has contributed to violence. The police should be demilitarised and managed towards a professional civilian service.

- Adopting an integrated approach. Achieving a safe society means tackling the fundamental causes of criminality, which requires a wide range of state and community resources.
- Building community participation. Civil society organisations and civic participation are needed to establish safe communities. Community safety centres should be considered.

The Commission endorses the seven-point plan put forward by the criminal justice system, which is discussed in detail in chapter 12.

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A capable and Developmental state

Towards better governance

A plan is only as credible as its delivery mechanism is viable. There is a real risk that South Africa's developmental agenda could fail because the state is incapable of implementing it. The Commission makes far-reaching institutional reform proposals to remedy the uneven and often poor performance of the public service and local government.

A developmental state tackles the root causes of poverty and inequality. A South African developmental state will intervene to support and guide development so that benefits accrue across society (especially to the poor), and build consensus so that long-term national interest trumps short-term, sectional concerns.

A developmental state needs to be capable, but a capable state does not materialise by decree, nor can it be legislated or waved into existence by declarations. It has to be built, brick by brick, institution by institution, and sustained and rejuvenated over time. It requires leadership, sound policies, skilled managers and workers, clear lines of accountability, appropriate systems, and consistent and fair application of rules.

Policy instability is a concern. While there are cases where policy must change, government often underestimates the disruptive effect of major policy adjustments on service delivery. A balance has to be struck and at present that balance is missing.

To achieve the aspiration of a capable and developmental state, the country needs to enhance Parliament's oversight role, stabilise the political-administrative interface, professionalise the public service, upgrade skills and improve coordination. It also needs a more pragmatic and proactive approach to managing the intergovernmental

system to ensure a better fit between responsibility and capacity. Equally, the state needs to be prepared to experiment, to learn from experience and to adopt diverse approaches to reach common objectives.

To professionalise the public service, we propose that:

- An administrative head of the public service should be created, with responsibility for managing the career progression of heads of department, including convening panels for recruitment, performance assessment and disciplinary procedures.
- A hybrid system for appointing heads of departments should be introduced, incorporating both political and administrative elements.
- A graduate recruitment programme and a local government skills development strategy should be introduced to attract high-quality candidates.
- The role of the Public Service Commission in championing norms and standards, and monitoring recruitment processes should be strengthened.
- A purely administrative approach should be adopted for lower-level appointments, with senior officials given full authority to appoint staff in their departments.

The skills profile of the public service mirrors the national skills profile. There are critical shortages of good-quality doctors, engineers, information technology professionals, forensic specialists, detectives, planners, accountants, prosecutors, curriculum advisors and so on. In addition, the management ability of senior staff operating in a complex organisational, political and social context requires greater attention. To solve both the technical and managerial skills shortages, government has to take a long-term perspective on developing the skills it needs through career-pathing, mentoring, and closer partnerships with universities and schools of management.

Accountability is essential to democracy. There are several weaknesses in the accountability chain, with a general culture of blame-shifting. The accountability chain has to be strengthened from top to bottom. To begin with, parliamentary accountability is weak, with Parliament failing to fulfil its most basic oversight role. Education outcomes cannot improve unless accountability is reinforced throughout the system, from learner results to the delivery of text books. The rising number of service delivery protests indicates that the state also needs to make it easier for citizens to raise concerns. When entering a public building, citizens should be able to see what service they can expect, and where to go and who to talk to if they are not satisfied.

Accountability in state-owned enterprises has been blurred through a complex, unclear appointment process and, at times, undue political interference. We recommend clarifying lines of accountability by developing public-interest mandates that set out how each state-owned enterprise serves the public interest, ensuring appointment processes are meritocratic and transparent, and improving coordination between the policy and shareholder departments.

Improvements have been achieved in the efficiency of service delivery in pockets of government, notably the South African Revenue Service and pilot projects in the Departments of Home Affairs, Health and Justice. Operations management and system improvements have been at the heart of these reforms, and these successes need to be replicated in more areas of government. These experiences show what can be achieved when leaders and staff are committed to working together to improve performance.

The efficacy of the intergovernmental system is a hotly debated subject. The different spheres of government are interdependent and we need to find ways of ensuring they work together more effectively. The plan proposes a change of approach away from trying to find new structural arrangements, which is destabilising, towards identifying and resolving specific weaknesses in coordination and capacity. The state needs to improve its management of the system, including mediating agreements between district and local municipalities where there is duplication or conflict over the allocation of responsibilities and resources. Provinces should focus on their core functions and develop their capacity to support and oversee local government.

The constitutional framework allows for more differentiation in the allocation of powers and functions, and this should be used to ensure a better fit between the capacity and responsibilities of provinces and municipalities. The existing system can be improved, with clarification of responsibilities in the areas of housing, water, sanitation, electricity and public transport. Large cities should be given greater fiscal and political powers to coordinate human settlement upgrading, transport and spatial planning. In other areas, regional utilities could provide services on behalf of less well resourced municipalities, but this must be led by municipalities to avoid undermining democratic accountability for service delivery.

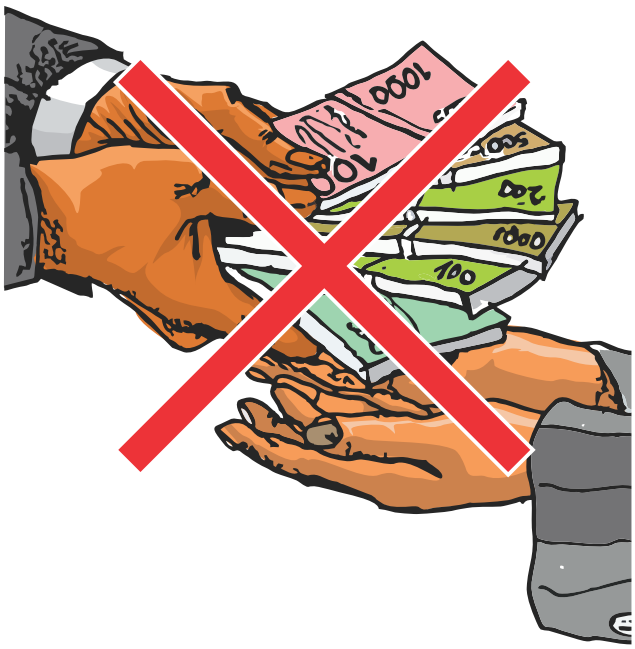
Fighting corruption

High corruption levels frustrate society's ability to operate fairly and efficiently, and the state's ability to deliver on its development mandate. According to Transparency International's global corruption survey, between 2001 and 2010, the level of corruption increased. Corruption often involves both public- and private-sector participants. The perception of high levels of malfeasance at senior levels of government makes the fight against corruption that much harder.

Strong social factors play a contributing role. Perceptions that the structure of the economy is unjust, historical inequities and new forms of empowerment that have benefited politically connected individuals fuel a culture in which corruption thrives, both in government and in business. These underlying social phenomena must be addressed as part of the fight against corruption.

Political will is essential to combat this scourge. Political will is measured by assessing the amount of money spent fighting corruption, the legal arsenal that corruption-busting institutions have at their disposal, the independence of anti-corruption authorities from political interference and the consistency with which the law is applied. Being soft on smaller cases, or unusually tough on corruption involving political opponents, implies inconsistency.

In addition to political will, corruption has to be fought on three fronts: deterrence, prevention and education. Deterrence helps people understand that they are likely to get caught and punished. Prevention is about systems (information, audit and so on) that make it hard to engage in corrupt acts. The social dimensions of corruption need to be tackled by focusing on values, through education.



We propose several measures to strengthen South Africa's anti-corruption arsenal:

- Competent, skilled institutions like the Public Protector and Special Investigating Unit need to be adequately funded and staffed and free from external interference.
- While thousands of cases are investigated, few get to court. Specialised teams of prosecutors and special courts should be established.
- Government's procurement policies blur the line in matters of corruption, and the state procurement system has become overly bureaucratised. The emphasis on compliance by box-ticking makes the system costly, burdensome, ineffective and prone to fraud. We propose greater central oversight over large and long-term tenders, making it illegal for public servants to operate certain types of businesses and making individuals liable for losses in proven cases of corruption.
- The country has barely begun to tackle societal factors that contribute to corruption. South Africa's history of state-sponsored patronage further blurs ethical standards. International experience shows that with political will and sustained application of the right strategies, corruption can be significantly reduced and public trust restored.

Leadership and responsibility throughout society

The successful implementation of this plan requires strong leadership from government, business, labour and civil society.

South Africa needs leaders throughout society to work together. Just as the transition from apartheid was a win-win solution rather than a short-sighted power struggle, the fight against poverty and inequality will have benefits for all – black and white, rich and poor. Given the country's divided past, leaders sometimes advocate positions that serve narrow, short-term interests at the expense of a broader, long-term agenda. It is essential to break out of this cycle, with leaders that are willing and able to take on greater responsibility to address South Africa's challenges.

To successfully implement this plan, the country needs partnerships across society working together towards a common purpose. At present, South Africa has high levels of mistrust between major social partners. A virtuous cycle of building trust and engaging in discussion to confront the most pressing challenges is needed – one that takes a long term view.

The government will be responsible for a large share of the recommendations in the plan. To implement these recommendations, it will need to strengthen its accountability chain, improve its capacity, be prepared to make difficult decisions and work with others in society to solve challenges. This means communicating honestly and sincerely with the public, while holding citizens accountable for their actions. Leaders, especially in government, must also face up to difficult decisions and trade-offs. Strong leadership is about making such decisions and effectively persuading society that the best path is being pursued.

The state sets the ethical bar for society as a whole. If corruption is seen as acceptable in government, it will affect the way society conducts itself. This makes it even more important that government acts to address the high levels of corruption in its ranks.

The private sector employs about three-quarters of South Africa's workers and accounts for over two-thirds of investment and R&D expenditure. South Africa needs a thriving private sector that is investing in productive capacity. While the profit motive drives business, companies cannot grow unless

they operate in an environment where employment and income levels are rising. Legislation requires business to consider employment equity, black economic empowerment, the environment, skills development, local content, small-business development, community social responsibility and several location-specific imperatives, such as mining area development strategies. In this complex context, it is in the long-term interests of all businesses for the country to grow faster and for more people to be employed.

It is also in the interests of business that the level of inequality be reduced. Inequality raises the cost of doing business, skews market structure and ultimately limits growth opportunities. It also breeds mistrust and tension. Excessive executive remuneration does little to build a more inclusive society where everyone feels that they share in the fruits of development. While legislating salaries is impractical, leadership is required to ensure that businesses act more responsibly.

Despite healthy balance sheets, many South African corporations are not investing because the global economy remains weak. Businesses are also concerned about changes in the policy and regulatory environment that may raise costs. To some extent, low investment is also the result of inadequate infrastructure provided by state-owned enterprises. South Africa needs to break this cycle of low growth and low investment. Government has an important role to play in building trust and confidence to encourage long-term investment. Business also has a role to play – if everyone invests more, the economic gains will accrue to the private sector.

South Africa has a well-developed and vibrant trade-union movement. Historically, trade unions have played a role in politics, understanding that the issues pertinent to its members do not stop at the factory gate. Unions advance the interests of their members and give voice to vulnerable workers, such as farm workers, domestic workers or casual workers. The rights and benefits afforded to workers and increases in living standards that most workers have seen since 1994 constitute a significant gain for the country.

To continue to make progress in raising incomes and living standards, productivity must also increase. South Africa's labour market is often characterised by contestation between profitable firms and reasonably well-paid employees. Outcomes determined in bargaining processes leave little room for new entrants to enter the workplace. To address high levels of unemployment, particularly among youth, extraordinary measures will be required. Union leadership is critical to ensuring that gains by members are sustainable in the long term. To achieve this, productivity and employment have to rise continuously.

In a developmental state, unions share responsibility for the quality of services delivered, for improving the performance of government, and for fighting corruption and inefficiency.

Civil society leaders represent citizens on issues closest to their hearts and must be taken seriously. These leaders are responsible for ensuring that that criticism and protest are conducted with dignity and maturity. Although civil society leaders sometimes only represent narrow interests in a broad and diverse society, they form an integral part of a vibrant democracy that involves people in their own development.

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CRITICAL SUCCESS FACTORS FOR THE PLAN

The role of the National Planning Commission is to advise government and the country on issues affecting the country's long-term development. This is a plan for the entire country, and all sections of society need to take responsibility for making it a reality. To successfully implement the plan, the Commission identifies a series of critical success factors.

Focused leadership

Because the plan is designed to bring about fundamental change over a period of nearly two decades, it requires a degree of policy consistency that straddles changes in leadership in government, business and labour. Many aspects of the plan will require years of effort to deliver results. For example, the transition to a low-carbon economy will need long-term policies and spatial planning regulations will take decades to overcome the geographic divisions of apartheid. Policy changes should be approached cautiously based on experience and evidence so that the country does not lose sight of its long-term objectives.

A plan for all

Broad support across society is needed for the successful implementation of the plan. In a vibrant democracy this support will not be uncritical. Vigorous debate is essential for building consensus and broad-based ownership of the plan. Constructive debate also contributes to nation building by enabling South Africans to develop a better understanding and to take ownership of priorities. Different parts of the plan require buy-in and sacrifice from different sectors. When differences occur, it is important that the reasons for disagreement are debated and clearly explained, so that there can be broad consensus on the way forward. The National Planning Commission can use its convening power to bring stakeholders together to facilitate dialogue and develop solutions.

Institutional capability

Much of the plan deals with the institutional reforms required to overcome weaknesses in the public sector, particularly where public agencies are unable to meet their responsibilities to poor communities. These proposals are about developing the attributes necessary to support the plan. Building institutional capability takes time and effort. The chapter on building a capable and developmental state provides pointers on the approach to be pursued. Institutions improve through continuous learning and incremental steps; tackling the most serious problem, resolving it and moving to the next priority. This requires good management, a commitment to high performance, an uncompromising focus on ethics and a willingness to learn from experience.

Several challenges require attention, including a critical shortage of skills, a complex intergovernmental system, high levels of corruption, weak lines of accountability, inadequate legislative oversight and a long history of blurring the lines between party and state. These are difficult issues, requiring honest reflection, careful planning and decisive leadership.

Resource mobilisation and agreement on trade-offs

The National Development Plan will shape resource allocations over the next two decades, but it will not determine annual budgets. The best way to generate resources to implement the plan is to grow the economy faster. If the economy grows by more than 5 percent a year, government revenue and the profits of private firms will more than double over the next 20 years.

The plan supports government's intention to gradually shift state resources towards investments that reshape the economy, broaden opportunities and enhance capabilities. As a result, other parts of the national budget will need to grow more slowly.

Spending more on investment is only the first step. South Africa also has to improve the quality of this spending through better planning, sound procurement systems and greater competition in the economy. There is a need for greater efficiency in all areas of government expenditure, because the overall envelope is likely to grow relatively slowly over the medium term. Particular attention needs to be given to managing the government wage bill, making resources available for other priorities. This will involve balancing competing pressures such as increasing staff numbers, adequately remunerating skilled professionals and improving benefit coverage.

The plan proposes a three-pronged human-resources strategy involving a long-term training strategy, better outputs from the higher-education sector and strategic allocation of scarce resources.

Sequencing and willingness to prioritise

Government has to be willing to prioritise. Cabinet and senior public officials should focus most of their attention on a few strategic priorities. This plan provides such a strategic framework. It identifies high-level priorities and, in some areas, a specific sequencing. For example, it highlights the need to raise the quality of FET colleges before rapidly expanding capacity. Implementing this plan will require some tough, potentially unpopular decisions.

Clarity on responsibility

A recurring theme in the plan is that the accountability chain needs to be tightened. The public needs a clearer sense of who is accountable for what. There need to be systems to hold all leaders in society accountable for their conduct.

Weak, poorly performing systems make it hard to attribute responsibility, with the frequent result that no one is accountable. The plan cites the example of what happens when the water in a town is found to be undrinkable. The media blame the Minister of Water Affairs. The community blames the mayor. The mayor blames the head of the water utility. The head of the water utility blames the technical engineer. The engineer says that the maintenance budget has been cut for the past three years and now the water is undrinkable. The head of finance in the municipality says that the budget was cut because personnel costs have crowded out maintenance expendi-

ture. The mayor argues that the salary structure is negotiated at a national level by the South African Local Government Association. The association says that municipalities can opt out of these agreements if they are unaffordable. And so on.

South Africa's intergovernmental system is complex, but this challenge is not an excuse for blurring lines of responsibility. The establishment of the Department of Performance Monitoring and Evaluation is a positive step to tighten the accountability chain. The Commission also calls for shareholder compacts with state-owned enterprises and performance agreements with Cabinet ministers to be made public.

It needs to be clear when parties outside government are responsible for implementing parts of the plan. Business, labour and civil society are diverse groupings and rarely speak with a common voice. Nevertheless, clear responsibilities and accountability chains, including with social partners, are essential for the success of the plan. In many areas, business, labour and civil society can identify how they can contribute to the plan's priorities. However, in some cases this role will need to be formalised. Working together to realise particular objectives in the plan will help to build trust both within and between sectors.

CONCLUSION

To make meaningful, rapid and sustained progress in reducing poverty and inequality over the next two decades, South Africa needs to fix the future, starting today. This plan outlines a new development approach that seeks to involve communities, youth, workers, the unemployed and business in partnership with a capable state. The aim is to develop the capabilities of individuals and of the country, creating opportunities for all. Critically, the plan emphasises the urgent need to make faster progress on several fronts to sustainably reduce poverty and inequality.

The National Development Plan is based on extensive research, consultation and engagement. While it is neither perfect nor complete, it sets out firm proposals to solve the country's problems, and to deepen the engagement of South Africans from all walks of life in building our future.

The country we seek to build by 2030 is just, fair, prosperous and equitable. Most of all, it is a country that each and every South African can proudly call home. It is up to all South Africans to play a role in fixing the future.

NOTES

1. Social wage refers to amenities provided to society through public funds. These include social grants, free basic electricity and water, and no-fee schooling.

2. The Presidency (2011). Development Indicators.

3. The "gap market" refers to people earning above the level required to receive a state-subsidised house, but below the level required to obtain a bond from a commercial bank.

4. For example, the Department of Environmental Affairs is defining a standard for soil quality and plans to report annually on the state of this resource.

5. McKinsey (2010). How the world's most improved schooling systems keep getting better.

Summary of objectives and actions

Chapter 3
Economy and Employment
Chapter 4
Economic infrastructure
Chapter 5
Environmental sustainability and resilience
Chapter 6
Inclusive rural economy
Chapter 7
South Africa in the region and the world
Chapter 8
Transforming Human Settlements
Chapter 9
Improving education, training and innovation
Chapter 10
Health care for all
Chapter 11
Social protection
Chapter 12
Building Safer Communities
Chapter 13
Building a capable and developmental state
Chapter 14
Fighting corruption
Chapter 15
Nation building and social cohesion

CHAPTER 3:
ECONOMY AND EMPLOYMENT

Objectives

- The unemployment rate should fall from 24.9 percent in June 2012 to 14 percent by 2020 and to 6 percent by 2030. This requires an additional 11 million jobs. Total employment should rise from 13 million to 24 million.

- The proportion of adults working should increase from 41 percent to 61 percent.

- The proportion of adults in rural areas working should rise from 29 percent to 40 percent.

- The labour force participation rate should rise from 54 percent to 65 percent.

- Gross Domestic Product (GDP) should increase by 2.7 times in real terms, requiring average annual GDP growth of 5.4 percent over the period. GDP per capita should increase from about from about R50 000 per person in 2010 to R110 000 per person in 2030 in constant prices.

- The proportion of national income earned by the bottom 40 percent should rise from about 6 percent today to 10 percent in 2030.

- Broaden ownership of assets to historically disadvantaged groups.

- Exports (as measured in volume terms) should grow by 6 percent a year to 2030 with non-traditional exports growing by 10 percent a year.
- Increase national savings from 16 percent of GDP to 25 percent.
- The level of gross fixed capital formation should rise from 17 percent to 30 percent, with public sector fixed investment rising to 10 percent of GDP by 2030.

- Public employment programmes should reach 1 million by 2015 and 2 million people by 2030.

Actions

1. Reduce the cost of living for poor households and costs of doing business through microeconomic reforms.

2. Develop proposals for an acceptable minimum standard of living and proposals on how to achieve this over time.

3. Remove the most pressing constraints on growth, investment and job creation, including energy generation and distribution, urban planning etc.

4. Position South Africa to attract offshore business services, and build on the advantage provided by its telecommunications, banking and retail firms operating in other countries.

5. Increase the benefit to the country of our mineral resources by:
   - Giving clear certainty over property rights (the right to mine)
   - Increasing rail, water and energy infrastructure
   - Structure a taxation regime that is fair, equitable and predictable and that recognises the non-renewable nature of mineral resources.

6. Broaden the expanded public works programme to cover 2 million fulltime equivalent jobs by 2020.

7. Offer a tax incentive to employers to reduce the initial cost of hiring young labour market entrants. Facilitate agreement between employers and unions on entry-level wages.

8. Give a subsidy to the placement sector to identify, prepare and place matric graduates into jobs.

9. Business and labour to develop their own proposals to reduce youth unemployment.

10. Adopt a more open immigration approach to expand supply of high-level skills.

11. Adopt an approach to handling probationary periods that reflects the intention of probation.

12. Simplifies dismissal procedures for non-performance or misconduct, especially for smaller firms.

13. Strengthen dispute resolutions mechanisms in the labour market with a view to reducing tension and violence.

CHAPTER 4: ECONOMIC INFRASTRUCTURE

Objectives

- The proportion of people with access to the electricity grid should rise to at least 90 percent by 2030, with non-grid options available for the rest.

- The country would need an additional 29 000MW of electricity by 2030. About 10 900MW of existing capacity is to be retired, implying new build of more than 40 000MW.

- At least 20 000MW of this capacity should come from renewable sources.

- Ensure that all people have access to clean, potable water and that there is enough water for agriculture and industry, recognising the trade-offs in the use of water.

- Reduce water demand in urban areas to 15 percent below the business-as-usual scenario by 2030.

- The proportion of people who use public transport for regular commutes will expand significantly. By 2030, public transport will be user-friendly, less environmentally damaging, cheaper and integrated or seamless.

- Durban port capacity should increase from 3 million containers a year to 20 million by 2040.

- Competitively priced and widely available broadband.

Actions

Coal

14. Ensure domestic security of coal supply for existing power stations through industry compact, more comprehensive coal field planning and opening up the Waterberg for coal mining.

15. Invest in a new heavy-haul rail corridor to the Waterberg coal field, upgrade the central basin coal network and expand export capacity in the line to Richards Bay.

Gas

16. Enable exploratory drilling to identify economically recoverable coal seam and shale gas reserves, while environmental investigations will continue to ascertain whether sustainable exploitation of these resources is possible. If gas reserves are proven and environmental concerns alleviated, then development of these resources

and gas-to-power projects should be fast-tracked.

17. Incorporate a greater share of gas in the energy mix, both through importing liquefied natural gas and if reserves prove commercial, using shale gas. Develop infrastructure for the import of liquefied natural gas, mainly for power production, over the short to medium term.

Electricity

18. Move to less carbon-intensive electricity production through procuring at least 20 000MW of renewable energy, increased hydro-imports from the region and increased demand-side measures, including solar water heating.

19. Move Eskom's system operator, planning, power procurement, power purchasing and power contracting functions to the independent system and market operator and accelerated procurement of independent power producers.

20. Ring-fence the electricity distribution businesses of the 12 largest municipalities (which account for 80 percent of supply), resolve maintenance and refurbishment backlogs and develop a financing plan, alongside investment in human capital.

21. Revise national electrification plan and ensure 90 percent grid access by 2030 (with balance met through off-grid technologies).

Liquid fuels

22. Upgrade fuel refineries to ensure they meet new fuel quality standards and insist on larger strategic fuel stocks to ensure security of supply.

23. Continue to import refined fuels, ensuring that the growing deficit in petroleum products is met, and defer decision on a new refinery to 2017.

Water resources

24. A comprehensive management strategy including an investment programme for water resource development, bulk water supply and wastewater management for major centres by 2012, with reviews every five years.

25. Complete phase 2 of the Lesotho Highlands water project by 2020.

26. Timely development of several new water schemes to supply urban and industrial centres, new irrigation systems in the Umzimvubu river basin and Makhathini Flats, and a national water conservation programme to improve water use and efficiency

27. Create regional water and wastewater utilities, and expand mandates of the existing water boards (between 2012 and 2017).

Transport

28. Consolidate and selectively expand transport and logistics infrastructure, with key focus areas being:

- Upgrading the Durban-Gauteng freight corridor, including a new port at the old Durban airport site.
- Expanding capacity of the coal, iron ore and manganese lines, with consideration given to concessioning parts of this network.
- Building the N2 road through the Eastern Cape.
- Public transport infrastructure and systems, including the renewal of the commuter rail fleet, supported by enhanced links with road-based services.

Information and communications infrastructure

29. Establishing a national, regional and municipal fibre-optic network to provide the backbone

for broadband access; driven by private investment, complemented by public funds required to meet social objectives.

30. Change the regulatory framework to ensure that Internet broadband capacity improves, prices fall significantly and access improves.

CHAPTER 5: ENVIRONMENTAL SUSTAINABILITY AND RESILIENCE

Objectives

- A set of indicators for natural resources, accompanied by publication of annual reports on the health of identified resources to inform policy.

- A target for the amount of land and oceans under protection (presently about 7.9 million hectares of land, 848kms of coastline and 4 172 square kilometres of ocean are protected).

- Achieve the peak, plateau and decline trajectory for greenhouse gas emissions, with the peak being reached around 2025.

- By 2030, an economy-wide carbon price should be entrenched.

- Zero emission building standards by 2030.

- Absolute reductions in the total volume of waste disposed to landfill each year.

- At least 20 000MW of renewable energy should be contracted by 2030.

- Improved disaster preparedness for extreme climate events.

- Increased investment in new agricultural technologies, research and the development of adaptation strategies for the protection of rural livelihoods and expansion of commercial agriculture.

Actions

31. An independent Climate Change Centre, in partnership with academic and other appropriate institutions, is established by government to support the actions of government, business and civil society.

32. Put in place a regulatory framework for land use, to ensure the conservation and restoration of protected areas

33. Carbon price, building standards, vehicle emission standards and municipal regulations to achieve scale in stimulating renewable energy, waste recycling and in retrofitting buildings.

34. Carbon-pricing mechanisms, supported by a wider suite of mitigation policy instruments to drive energy efficiency.

35. All new buildings to meet the energy-efficiency criteria set out in South African National Standard 204.

36. Channel public investment into research, new agricultural technologies for commercial farming, as well as for the development of adaptation strategies and support services for small-scale and rural farmers.

CHAPTER 6: INCLUSIVE RURAL ECONOMY

Objectives

- An additional 643 000 direct jobs and 326 000 indirect jobs in the agriculture, agro-processing and related sectors by 2030.

- Maintain a positive trade balance for primary and processed agricultural products.

Actions

37. Rural economies will be activated through improved infrastructure and service delivery, a review of land tenure, service to small and micro farmers, a review of mining industry commitments to social investment, and tourism investments

38. Substantially increase investment in irrigation infrastructure in Makhathini Flats and Umzimvubu River Basin.

39. Create tenure security for communal farmers, especially women, investigate different forms of financing and vesting of private property rights to land reform beneficiaries that does not hamper beneficiaries with a high debt burden.

CHAPTER 7: SOUTH AFRICA IN THE REGION AND THE WORLD

Objectives

- Intra-regional trade in Southern Africa should increase from 7 percent of trade to 25 percent of trade by 2030.

- South Africa's trade with regional neighbours should increase from 15 percent of our trade to 30 percent.

Actions

40. Focus trade penetration and diplomatic presence in fast-growing markets (Asia, Brazil and Africa).

41. Implement a focused regional integration strategy with emphasis on:

- Road, rail and port infrastructure in the region
- Reducing red tape, corruption and delays at border posts
- Using financial institutions to partner with businesses wanting to expand on the continent
- Strengthening regional cooperation in food and energy markets and water management.
- Identifying and promoting practical opportunities for cooperation based on complementary national endowments.

CHAPTER 8: TRANSFORMING HUMAN SETTLEMENTS

Objectives

- Strong and efficient spatial planning system, well integrated across the spheres of government.

- Upgrade all informal settlements on suitable, well located land by 2030.

- More people living closer to their places of work.

- Better quality public transport.

- More jobs in or close to dense, urban townships.

Actions

42. Reforms to the current planning system for improved coordination.

43. Develop a strategy for densification of cities and resource allocation to promote better located housing and settlements.

44. Substantial investment to ensure safe, reliable and affordable public transport.

45. Introduce spatial development framework and norms, including improving the balance between location of jobs and people.

46. Conduct a comprehensive review of the grant and subsidy regime for housing with a view to ensure diversity in product and finance options that would allow for more household choice and greater spatial mix and flexibility. This should include a focused strategy on the housing gap market, involving banks, subsidies and employer housing schemes.

47. National spatial restructuring fund, integrating currently defused funding.

48. Establish a national observatory for spatial data and analysis.

49. Provide incentives for citizen activity for local planning and development of spatial compacts.

50. Introduce mechanisms that would make land markets work more effectively for the poor and support rural and urban livelihoods.

CHAPTER 9: IMPROVING EDUCATION, TRAINING AND INNOVATION

Objectives

- Make early childhood development a top priority among the measures to improve the quality of education and long-term prospects of future generations. Dedicated resources should be channelled towards ensuring that all children are well cared for from an early age and receive appropriate emotional, cognitive and physical development stimulation.

- All children should have at least 2 years of pre-school education.

- About 90 percent of learners in grades 3, 6 and 9 must achieve 50 percent or more in the annual national assessments in literacy, maths and science.

- Between 80 – 90 percent of learners should complete 12 years of schooling and or vocational education with at least 80 percent successfully passing the exit exams

- Eradicate infrastructure backlogs and ensure that all schools meet the minimum standards by 2016.

- Expand the college system with a focus on improving quality. Better quality will build confidence in the college sector and attract more learners. The recommended participation rate of 25 percent would accommodate about 1.25 million enrolments.

- Provide 1 million learning opportunities through Community Education and Training Centres

- Improve the throughput rate to 80 percent by 2030.

- Produce 30 000 artisans per year.

- Increase enrolment at universities by at least 70 percent by 2030 so that enrolments increase to about 1.62 million from 950 000 in 2010.

- Increase the number of students eligible to study towards maths and science based degrees to 450 000 by 2030.

- Increase the percentage of PhD qualified staff in the higher education sector from the current 34 percent to over 75 percent by 2030.

- Produce more than 100 doctoral graduates

per million per year by 2030. That implies an increase from 1420 in 2010 to well over 5 000 a year.

- Expand science, technology and innovation outputs by increasing research and development spending by government and through encouraging industry to do so.

Actions

Early childhood development

51. Design and implement a nutrition programme for pregnant women and young children, followed by a childhood development and care programme for all children under the age of 3

52. Increase state funding and support to ensure universal access to two years of early childhood development exposure before grade 1.

53. Strengthen coordination between departments, as well as the private and non-profit sectors. Focus should be on routine day-to-day coordination between units of departments that do similar work.

Schooling

54. The interests of all stakeholders should be aligned to support the common goal of achieving good educational outcomes that are responsive to community needs and economic development.

- Educational institutions should be provided with the capacity to implement policy. Where capacity is lacking, this should be addressed as an urgent priority.
- Teachers should be recognised for their efforts and professionalism. Teaching should be a highly valued profession.

55. Introduce incentive schemes linked to the annual national assessments to reward schools for consistent improvements.

56. Top performing schools in the public and private sectors must be recognised as national assets. They should be supported and not saddled with unnecessary burdens.

57. Strengthen and expand Funza Lushaka and ensure that graduates of the programme are immediately absorbed into schools. It should not be left to graduates to find placements in schools.

58. Investigate introducing professional certification. Newly qualified teachers would need to demonstrate certain competencies before they are employed in schools, and after that they would be offered preliminary or probationary certification, to be finalised based on demonstrated competence. The professional certification of all teachers would need to be renewed periodically.

59. Change the appointment process to ensure that competent individuals are attracted to become school principals.

- Candidates should undergo a competency assessment to determine their suitability and identify the areas in which they would need development and support.
- Eliminate union influence in promoting or appointing principals. The Department of Basic Education and provincial departments of education must ensure that human resources management capacity is improved and recruitment undertaken correctly.
- Implement an entry level qualification for principals.

Further education and training

60. Support the development of specialised programmes in universities focusing on training college lecturers and provide funding for universities to conduct research on the vocational

education sector.

61. Build the capacity of FET institutions to become the preferred institutions for vocational education and training. Learners should be able to choose the vocational pathway before completing Grade 12. Expand the geographical spread of FET institutions.

62. Build a strong relationship between the college sector and industry. SETAs have a crucial role in building relationships between education institutions and the employers.

Higher education

63. Implement a National Programme to develop the Next Generation of Academics for South African Higher Education.

64. Complete the construction of two new universities in Mpumalanga and the Northern Cape; new medical schools in Limpopo and a number of academic hospitals; expand the infrastructure of existing institutions and allow all universities to use of distance education to reach more learners.

65. Provide an option of a four-year university degree, combined with bridging courses and more support for universities to help students from disadvantaged backgrounds.

66. Provide all students who qualify for the National Student Financial Aid Scheme with access to full funding through loans and bursaries to cover the costs of tuition, books, accommodation and other living expenses. Students who do not qualify should have access to bank loans, backed by state sureties. Both the National Student Financial Aid Scheme and bank loans should be recovered through arrangements with the South African Revenue Service. Service-linked scholarships should be available in areas such as nursing, teaching and social work.

67. Relax immigration requirements for highly skilled science and mathematics teachers, technicians and researchers. All graduates from foreign countries should be granted 7-year work permits.

CHAPTER 10
HEALTH CARE FOR ALL

Objectives

- Increase average male and female life expectancy at birth to 70 years.
- Progressively improve TB prevention and cure.
- Reduce maternal, infant and child mortality.
- Significantly reduce prevalence of non-communicable chronic diseases.
- Reduce injury, accidents and violence by 50 percent from 2010 levels.
- Deploy primary healthcare teams provide care to families and communities.
- Everyone must have access to an equal standard of care, regardless of their income.
- Fill posts with skilled, committed and competent individuals.

Actions

Address the social determinants that affect health and disease

68. Promote healthy diets and physical activity.

Strengthen the health system

69. Bring in additional capacity and expertise to strengthen health system at the district level; implement a national health information system to ensure that all parts of the system have the required information to effectively achieve their responsibilities; put in place a human resource strategy with national norms and standards for staffing, linked to a package of care; determine minimum qualifications for hospital managers.

Prevent and reduce the disease burden and promote health

70. Prevent and control epidemic burdens through deterring and treating HIV/AIDS, new epidemics and alcohol abuse; improve the allocation of resources and the availability of health personnel in the public sector; and improve the quality of care, operational efficiency, health worker morale and leadership and innovation.

Implement National Health Insurance

71. Implement the scheme in a phased manner, focusing on:

- Improving quality of care in public facilities
- Reducing the relative cost of private medical care
- Increasing the number of medical professionals
- Introducing a patient record system and supporting information technology systems.

Build human resources in the health sector

72. Accelerate the production of community health specialist in the five main specialist areas (medicine, surgery, including anaesthetics, obstetrics, paediatrics, and psychiatry) and train more nurses.

73. Recruit, train and deploy 700 000 community health workers to implement community-based primary health care.

CHAPTER 11: SOCIAL PROTECTION

Objectives

- Ensure progressively and through multiple avenues that no one lives below a defined minimum social floor.

- All children should enjoy services and benefits aimed at facilitating access to nutrition, health care, education, social care and safety.

- Address problems such as hunger, malnutrition and micronutrient deficiencies that affect physical growth and cognitive development, especially among children.

- Address the skills deficit in the social welfare sector.

- Provide income support to the unemployed through various active labour market initiatives such as public works programmes, training and skills development, and other labour market related incentives.

- All working individuals should make adequate provision for retirement through mandated savings. The state should provide measures to make pensions safe and sustainable.

- Social protection systems must respond to the growth of temporary and part-time contracts, and the increasing importance of self-employment and establish mechanisms to cover the risks associated with such.

- Create an effective social welfare system that delivers better results for vulnerable groups, with

the state playing a larger role compared to now. Civil society should complement government initiatives.

Actions

74. Together with social partners, determine a social floor that can be progressively realised through rising employment, higher earnings and social grants and other aspects of the social wage.

75. Increase the supply of four categories of social service professionals to 55 000, to respond to the demand for appropriate basic social welfare services, i.e. social workers, auxiliary or assistant social workers, community development workers, and child and youth care workers.

76. Identify the main elements of a comprehensive food security and nutrition strategy and launch a campaign.

77. Create incentives that encourage a culture of individual saving for risks and loss of income due to old age, illness, injury or loss of work for workers in both the formal and informal sectors.

78. Explore designs of a mixture of financing and institutional frameworks that enables those in the informal economy to participate in contributory social insurance schemes.

79. Pilot mechanisms and incentives to assist the unemployed to access the labour market.

80. Expand existing public employment initiatives to create opportunities for the unemployed.

81. Develop a consolidated institutional framework that supports coherent policy implementation, integrated social security administration, and effective regulation and oversight of the system.

CHAPTER 12: BUILDING SAFER COMMUNITIES

Objectives

In 2030 people living in South Africa feel safe and have no fear of crime. They feel safe at home, at school and at work, and they enjoy an active community life free of fear. Women can walk freely in the street and the children can play safely outside. The police service is a well-resourced professional institution staffed by highly skilled officers who value their works, serve the community, safeguard lives and property without discrimination, protect the peaceful against violence, and respect the rights of all to equality and justice.

Actions

82. Safety audits done in all communities focussing on crime and safety conditions of the most vulnerable in the community.

83. All schools should have learner safety plans.

84. Demilitarise the police force and train all police personnel in professional police ethics and practice.

85. Increase community participation in crime prevention and safety initiatives.

86. The National Rural Safety Strategy Plan must be implemented in high risk areas involving all role-players and stakeholders.

87. Mobilise youth for inner city safety to secure safe places and spaces for young people.

88. A judiciary-led independent court administration must be developed.

89. Clear criteria for appointment of judges must

be put in place. (With emphasis on the candidates' progressive credentials and transformative judicial philosophy and expertise).

90. Compulsory community service must be extended to all law graduates to enhance access to justice and provide work opportunities for graduate lawyers.

CHAPTER 13: BUILDING A CAPABLE AND DEVELOPMENTAL STATE

Objectives

- A state that is capable of playing a developmental and transformative role.
- A public service immersed in the development agenda but insulated from undue political interference.
- Staff at all levels have the authority, experience, competence and support they need to do their jobs.
- Relations between national, provincial and local government are improved through a more proactive approach to managing the intergovernmental system.
- Clear governance structures and stable leadership enable state-owned enterprises (SOEs) to achieve their developmental potential.

Actions

Stabilise the political-administrative interface

91. Create an administrative head of the public service with responsibility for managing the career progression of heads of department. Put in place a hybrid approach to top appointments that allows for the reconciliation of administrative and political priorities.

92. Enhance the role of the Public Service Commission to champion and monitor norms and standards to ensure that only competent and suitably experienced people are appointed to senior positions

93. Amend the Public Service Act to locate responsibility for human-resources management with the head of department.

Make the public service and local government careers of choice

94. Establish a formal graduate recruitment scheme for the public service with provision for mentoring, training and reflection. Formulate long-term skills development strategies for senior managers, technical professionals and local government staff.

95. Use assessment mechanisms such as exams, group exercises and competency tests to build confidence in recruitment systems.

96. Use placements and secondments to enable staff to develop experience of working in other spheres of government.

Improve relations between national, provincial and local government

97. Use differentiation to ensure a better fit between the capacity and responsibilities of provinces and municipalities. Take a more proactive approach to resolving coordination problems and a more long-term approach to building capacity.

98. Develop regional utilities to deliver some local government services on an agency basis, where municipalities or districts lack capacity.

99. Adopt a less hierarchical approach to coordination so that routine issues can be dealt with on a day-to-day basis between mid-level officials. Use the cluster system to focus on strategic cross-cutting issues and the Presidency to bring different parties together when coordination breaks down.

Achieve the developmental potential of state-owned enterprises

100. Develop public interest mandates for SOEs. Improve coordination between policy and shareholder ministries by making them jointly responsible for appointing the board. Ensure appointment processes are credible and that there is greater stability in appointments.

CHAPTER 14: FIGHTING CORRUPTION

Objective

A corruption-free society, a high adherence to ethics throughout society and a government that is accountable to its people.

Actions

101. The capacity of corruption fighting agencies should be enhanced and public education should be part of the mandate of the anti-corruption agencies.

102. The National Anti-Corruption Forum should be strengthened and resourced.

103. Expand the scope of whistle-blower protection to include disclosure to bodies other than the Public Protector and the Auditor-General. Strengthen measures to ensure the security of whistle-blowers.

104. Centralise oversight of tenders of long duration or above a certain amount.

105. An accountability framework should be developed linking the liability of individual public servants to their responsibilities in proportion to their seniority.

106. Clear rules restricting business interests of public servants should be developed.

107. Corruption in the private sector is reported on and monitored by an agency similar to the Public Protector.

108. Restraint-of-trade agreements for senior civil servants and politicians at all levels of government.

109. All corrupt officials should be made individually liable for all losses incurred as a result of their corrupt actions.

CHAPTER 15: NATION BUILDING AND SOCIAL COHESION

Target

Our vision is a society where opportunity is not determined by race or birthright; where citizens accept that they have both rights and responsibilities. Most critically, we seek a united, prosperous, non-racial, non-sexist and democratic South Africa.

Actions

110. At school assembly the Preamble of the Constitution to be read in language of choice.

111. Bill of responsibilities to be used at schools and prominently displayed in each work place.

112. Sustained campaigns against racism, sexism, homophobia and xenophobia.

113. The Commission of Gender Equality and

the ministry should audit and deal with gaps in legislation and develop joint targets, indicators and timelines for monitoring and evaluating progress towards gender equality.

114. Employment Equity to continue and new models of BEE to de explored to improve the efficacy of the programme. Clear targets should be set for broadening economic participation, enhancing predictability for economic actors.

115. Improving public services and spaces as well as building integrated housing and sport facilities in communities to ensure sharing of common spaces across race and class.

116. Incentivising the production and distribution of all art forms that facilitate healing, nation building and dialogue.

117. All South Africans to learn at least one indigenous language, business to encourage and reward employees who do so.

118. Promote citizen participation in forums such as Integrated Development Plans, Ward Committees, School Governing Boards and Community Policing Forums.

119. Work towards a social compact for growth, employment and equity.

Notes

1. These priorities draw heavily on the World Health Organisation's seminal 2008 report. (World Health Organisation Commission on Social Determinants of Health (2008) Closing the Gap in a Generation: Health Equity through Action on the Social Determinants of Health.Geneva: World Health Organisation.)

CHAPTER ONE

Policy making in a complex environment

KEY POINTS

- The current financial crisis has highlighted the increase in economic inequality globally and given rise to a call for efficient market policies that also embrace principles of social justice.
- Over the next two decades, emerging markets and developing countries will power global growth as they shed their role as suppliers of low-cost goods and services, and become providers of capital, talent and innovation.
- Africa's changing demographic structure, increasing urbanisation, untapped agricultural potential and need for better infrastructure present significant opportunities for growth.
- While climate change is a major threat, developments in science and technology will enable countries to mitigate the effects, without undermining growth.

INTRODUCTION

In the next few decades, the world is expected to experience unprecedented changes. A confluence of diverse and numerous developments – an explosion of urbanisation, revolutionary innovations in science and technology and a rebalancing of economic power from developed to developing countries – offer new opportunities. However, the cumulative effect of these developments is highly uncertain. Managed correctly, the interconnectedness that has enabled globalisation can bring enormous benefits, not least a reduction in poverty and greater social integration. However, failure to curb the financial, technological and social threats associated with globalisation pose substantial risks. The global effects of the financial crisis that began in 2008 are a case in point.

To take advantage of the opportunities while preparing prudently for the risks will require policies and actions that regulate and incentivise innovation, capitalise on recent trends, such as increasing urbanisation, and enhance the capacity to resolve conflicts and address challenges at a global level, necessitating a better understanding of the main drivers shaping trends.

INCREASED INTEGRATION, INCREASED COMPLEXITY, INCREASED RISK

Economic integration has accelerated over the past three decades. Between 1980 and 2005, world merchandise imports and exports increased more than seven times, while global foreign investment flows grew 18-fold.[1] This was on the back of a 32 percent rise in real world gross domestic product (GDP).

Technology has both deepened and accelerated the world's interconnectedness, enabling higher growth, a leap in trade and a great surge in cross-border investment. The pace is likely to quicken further over the next two decades as information flows and capital movements, trade and migration speed up.

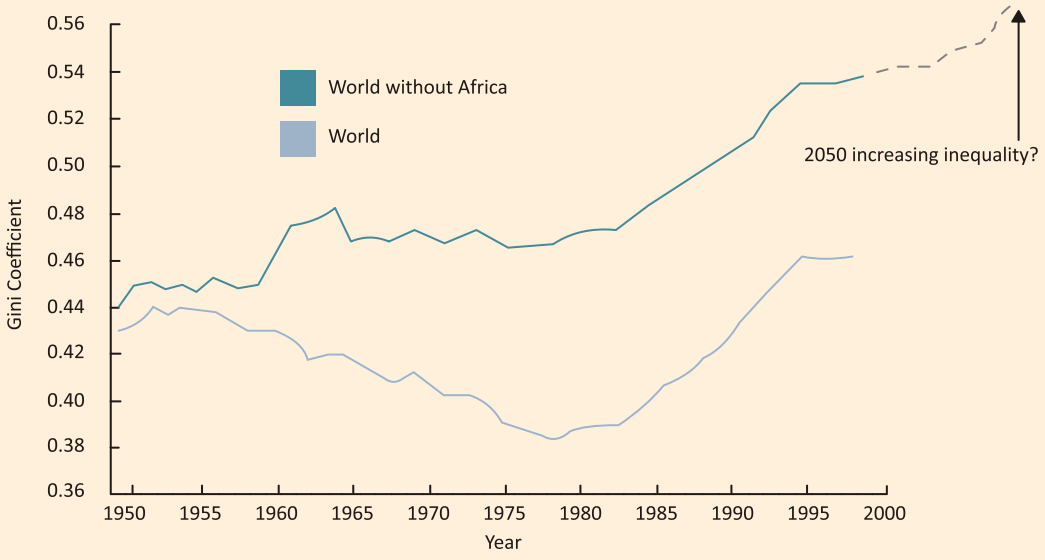
Air transport, container traffic and logistical chains have negated the effects of distance. Better infrastructure has hastened the flow of people into towns and cities. The world's population has nearly doubled since 1950; the urban share of the total has increased from 29 percent in 1950 to over 50 percent in 2009. The internet, mobile telephony and growth in computing power have made virtual proximity almost universal.

Global integration has brought benefits, spurring growth for a generation. Until the 2008/09 crisis, many developing countries were making good progress in reducing poverty. Between 1981 and 2005, the share of the population in the developing world living below US$1.25 a day more than halved, from 52 percent to 25 percent. China cut the percentage of its citizens living in poverty to about a quarter of its 1990 level in just two decades. Between 1997 and 2007, the percentage of Africans living on US$1.25 a day fell from 59 percent to 50 percent. Economic growth, spurred in large part by exports, has been key to reducing poverty in developing countries. Over the past three decades, global trade grew almost twice as fast as GDP, due to revolutions in transport and communications, and a sharp decline in import tariffs.

Globalisation has also been marked by negative trends. Inequality has risen. The gap between the rich and the poor has grown in almost three-quarters of Organisation for Economic Cooperation and Development (OECD) member countries over the past two decades.[2] The Gini coefficient, which measures inequality of distribution (0 being total equality and 1 being the widest disparity), worsened globally from 0.44 in 1950 to 0.54 in 2000.[3] A quarter of the population in developing countries still lives on less than US$1.25 a day, 1 billion people lack clean drinking water, 1.6 billion have no access to electricity, and 3 billion do not have adequate sanitation.[4] HIV/AIDS has been devastating in sub-Saharan Africa.

Deeper levels of integration have been accompanied by uncertainty and volatility, as shown by the widespread financial – and then broader economic – contagion after the collapse of Lehman Brothers in September 2008. This was followed in late 2009 by the start of a sovereign debt crisis in the eurozone. The crisis began when a new government in Greece revealed that its predecessors had concealed enormous deficits. The crisis spread across the Eurozone, with first Greece, then Ireland and Portugal, requiring financial support, leaving Italian and French banks particularly exposed. Within two years, the volume of world trade fell by a third as the crisis spread from country to country at staggering speed.

FIG 1.1 GLOBAL EQUALITY



Source: Branko Milanovic (2007) in Goldin and Reinert [5]

The recession has been most sharply felt in developed countries, but developing economies have also felt the effects of depressed growth. Unresolved global imbalances and austerity measures are affecting confidence and consumption worldwide. Central banks have used up their arsenals, while money pumped into the system has caused inflationary effects in emerging markets.

The challenge is identifying a path of recovery given the unknowns. No one knows for certain whether the European Union will evolve or finally break up, what China's growth trajectory will be and what the implications for Africa are. Economics helps us understand how recovery might happen when the problem lies in one country, not when all countries are affected.

Clearly though, the crisis seems to have affected those who can least afford it, threatening the achievement of the United Nations' Millennium Development Goals and weakening the middle classes. Global unemployment rose 6.6 percent in 2009, while youth unemployment saw the largest rise in decades. High youth unemployment and food-price increases tipped several countries in North Africa – and Syria in the Levant – into revolt against corrupt, authoritarian leaders, raising questions about stability in the neighbouring oil-rich Gulf states.

The fallout from the financial crisis was a sobering reminder of the weakness of governments and global institutions. As economic conditions worsened in the United States in 2010, and the European Union began to face its own crisis, the initial success of a synchronised approach faded. The inadequate response is partly due to the complex, systemic nature of the challenges. Neither governments nor the relevant international institutions are set up to monitor or assess the risk of systemic contagion, or to deal with systemic failure.

The widespread negative effects of the recession have increased doubts about the viability of the global economic order built over the past three decades, leading to growing pressure for more inclusive, secure and sustainable globalisation. Wealth and income disparities, both national and international, threaten economic development as well as social and political stability. Despite robust growth in some emerging economies, many are trapped in a cycle of poverty. About 1 billion people, mostly in sub-Saharan Africa and South and Central Asia, survive on less than 2 percent of the world's wealth.

Business and government leaders canvassed by the Harvard Business Review (2011) cited increasing economic inequality and the opaque and fragile global financial systems as possible sources of a serious breakdown in the system itself. Many agree, such as the demonstrators who occupied Wall Street, those who forced the closure of St Paul's Cathedral in London, those camping in the main squares and thoroughfares of Madrid and Barcelona, and those clashing violently with police in Athens. Around the world, people are indignant at the inequity of a system that passes the cost of failure on to taxpayers and those dependent on jobs, while the benefits of its success are disproportionately enjoyed by traders and senior financial executives.

The widespread effects of the financial crisis are only one example of a wider problem of global challenges whose workings are not fully understood. Many scientists believe that population pressures, urbanisation and rising consumption and waste are pushing planetary boundaries to breaking point with uncertain, but potentially catastrophic, consequences. The most familiar example is climate change, which poses huge environmental, social and economic risks to communities in different parts of the world, and potentially to humankind.

Other systemic crises are entirely possible. These include cyber-attacks that could cripple financial markets, electricity supplies, transportation networks, and supply chains; and the outbreak of a pandemic that could disrupt travel, tourism, trade, financial markets, and domestic and regional order.

The scales are tipping

Economic policies under review

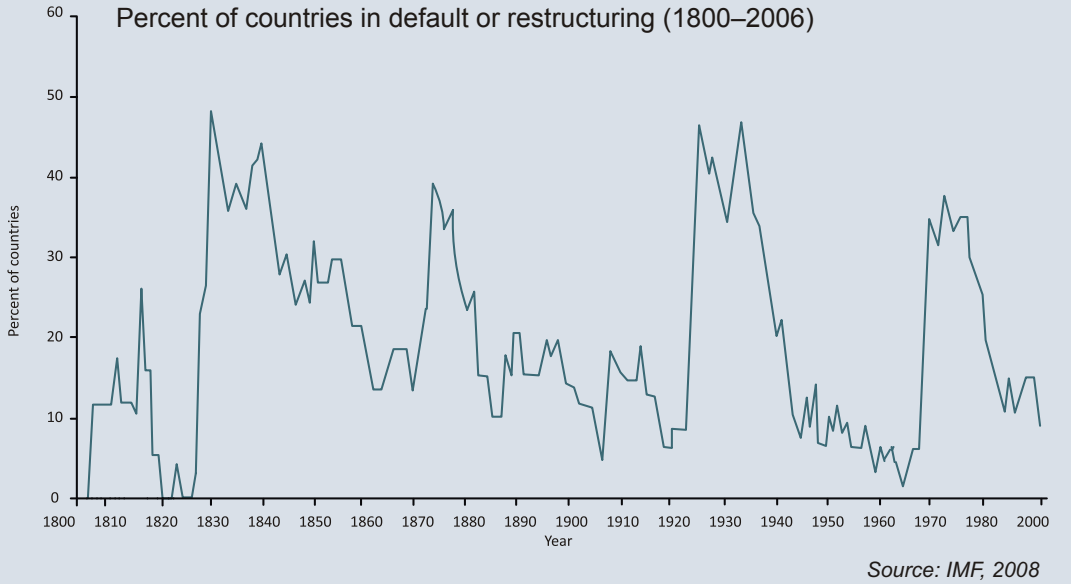
Laissez faire free-market doctrines have dominated global economic policy-making for 25 years. The era of rapid economic globalisation, against the backdrop of the collapse of the Berlin Wall in 1989, led many to believe in the triumph of a particular perspective or model, particularly in the relationship between the state, the market and the citizen. A "unipolar" view characterised by western (and particularly Anglo-Saxon) economic and political norms became dominant. But the global economic crisis has prompted a rethink.

The crisis has increased the focus on the role of government, and in particular on government failure to regulate and prevent systemic collapse. The "markets are efficient" mindset, which arose in the United States and Britain in the early 1980s and spread rapidly worldwide over the next 25 years, asserted that freer markets are always better. Both traditional economic theory and experience show this is not correct.

Specific conditions make it possible for markets to work efficiently and market failure is common when these conditions are not satisfied. In a 2008 review of eight centuries of financial crises, former International Monetary Fund (IMF) chief economist Ken Rogoff and Carmen Reinhart showed that "serial default is a nearly universal phenomenon as countries struggle to transform themselves from emerging markets to advanced economies … [and that] crises frequently emanate from the financial centres with transmission through interest rate shocks and commodity price collapses. Thus, the recent US financial crisis is hardly unique". The graph below highlights the experience of the past 200 years.

The crisis has encouraged the search for sound perspectives on economic policy. The most influential critics are not seeking to replace mainstream economics or eliminate the benefits of globalisation. They focus on the failure in the past

FIG 1.2 SOVEREIGN EXTERNAL DEBT



Source: IMF, 2008

few decades of economists and governments to apply much of what used to be standard knowledge and practice about market failures. Rather than a policy lurch to another polar position, the call is for efficient market policies that also embrace principles of social justice, empowerment, and a balance between rights and responsibilities.

A common theme emerging in the debate is the need for a more nuanced balance among the roles of governments, the private sector and the market to achieve dynamic economic growth. Successful countries such as China and South Korea illustrate this.[6]

Credible and sustainable national policies should be based on the specific situation of each country, taking the global context into account. Economic policy-makers must recognise that institutional failures are endemic in the working of markets, and that it is not feasible to eliminate them.[7] Policy-makers should anticipate the risk of failure, and both encourage transparent markets that offer an appropriate balance between risk and return, and be alert to distortions that are likely to lead to market failure.

Their refusal to abdicate government's responsibilities to the working of the financial markets protected countries such as Germany, Canada, Australia, India, Brazil, Turkey and South Africa from the worst effects of the financial crisis of 2007/08. China's unique blend of market economics and state direction steered it through the turbulent waters, albeit with high inflation and rising social discontent.

Balance of economic activity

The composition of global growth and wealth has changed dramatically since the 1990s. The recent economic and financial crisis in the United States and Europe and the increasing economic prominence of emerging market and developing countries has contributed significantly to the changing balance of world economic power. China has become an especially dominant force in the global economy. In 2010, it outstripped Japan to become the world's second largest economy as measured in nominal GDP (about 40 percent as big as the United States economy), and was by far the biggest contributor to global GDP growth; its economy added US$638 billion to growth in global nominal GDP, versus US$497 billion added by the United States economy. By some forecasts, China will overtake the United States as the largest economy by 2025; others put the date at 2035, or even 2050.

Vibrant growth is also expected in India and South East Asia, as well as Eastern Europe, Latin America, parts of the Middle East, North Africa and sub-Saharan Africa. While the euro area, Japan, Britain and the United States will still play a major role in supporting growth in the decades ahead, global growth, demand and aggregate wealth are shifting toward the emerging economies. The World Bank suggests that by 2025, six major emerging economies – Brazil, China, India, Indonesia, South Korea and Russia – will account for more than half of all global growth, growing, on average, by 4.7 percent a year to 2025, by which time their share of global GDP will have grown from 36 percent to 45 percent. The advanced economies are predicted to grow by 2.3 percent over the same period.

As economic power shifts, emerging market economies are helping to drive growth in lower-income countries through cross-border investment and trade.[8] Trading patterns are starting to reflect this. From 1990 to 2008, Asia's share of Africa's trade doubled to 28 percent, while Western Europe's portion shrank from 51 percent to 28 percent. Europe accounts for 30 percent of Africa's exports and China 17 percent – although

FIG 1.3 THE WORLD IN 2050

The top 30 in 2050

	Order in 2050 by size	Size of economy in 2050 (Bn, Constant 2000 US D)	Rank change between now and 2050	Income per capita (Constant 2000 USD) 2050	2010	Population (Mn)
1	China	24617	2	17372	2396	1417
2	US	22270	-1	55134	36354	404
3	India	8165	5	5060	790	1614
4	Japan	6429	-2	63244	39435	102
5	Germany	3714	-1	52683	25083	71
6	UK	3576	-1	49412	27646	72
7	Brazil	2960	2	13547	4711	219
8	Mexico	2810	5	21793	6217	129
9	France	2750	-3	40643	23881	68
10	Canada	2287	0	51485	26335	44
11	Italy	2194	-4	38445	18703	57
12	Turkey	2149	6	22063	5088	97
13	S. Korea	2056	-2	46657	16463	44
14	Spain	1954	-2	38111	15699	51
15	Russia	1878	2	16174	2934	116
16	Indonesia	1502	5	5215	1178	288
17	Australia	1480	-3	51523	26244	29
18	Argentina	1477	-2	29001	10517	51
19	Egypt	1165	16	8996	3002	116
20	Malaysia	1160	17	29247	5224	40
21	Saudi Arabia	1128	2	25845	9833	44
22	Thailand	856	7	11674	2744	73
23	Netherlands	798	-8	45839	26376	17
24	Poland	786	0	24547	6563	32
25	Iran	732	9	7547	2138	97
26	Colombia	725	13	11530	3052	63
27	Switzerland	711	-7	83559	38739	9
28	Hong Kong	657	-3	76153	35203	9
29	Venezuela	558	7	13268	5438	42
30	**South Africa**	**529**	**-2**	**9308**	**3710**	**57**

Source: HSBC, 2011

Europe will continue to be South Africa's biggest trading partner for some years to come, the gap with China is expected to narrow significantly.[9]

A number of drivers are behind the growth in emerging markets, including technological progress, better education and economic management, greater openness to international trade, changes in the use of land, and domestic migration from low-productivity to high-productivity sectors. However, demographic shifts and urbanisation (see chapter 2) stand out as key to improved economic performance.

Declining birth rates over the past decade are changing the demographic profile of most emerging market economies, leading to lower dependency ratios – on average, a working person will have fewer very old or very young dependants. Partly as a result of this, 70 million people (mostly in emerging economies) are expected to cross the threshold to middle-class status with annual earnings of between US$6 000 and US$30 000 each year.

The second driver is the largest urban migration in history. Agricultural workers are leaving the land, where they were often engaged only in subsistence farming, for urban jobs. This is leading to the development of new mega- and mid-sized cities. This year, for the first time, more than half of China's 1.34 billion people were classified as urban residents.

Planning for these mass migrations will bring enormous pressures. Large slums are already a feature of the world's largest developing world cities. Traditional ideas of slum clearance have been challenged by radical new thinking, driven by the sheer scale of urbanisation and its economic

consequences. Architecture for Humanity, which has upgraded slums in Brazil, Kenya and South Africa, argues that modern city design should tolerate slums by learning from them.

The effects of urbanisation include growth in the wage-earning class (where jobs are available); higher demand for education, consumer goods, health care and transport; a new business class of entrepreneurs and managers; and gains in output per worker. As China and India become manufacturing and service powerhouses, labour productivity is growing at more than five times the rate of most western countries.

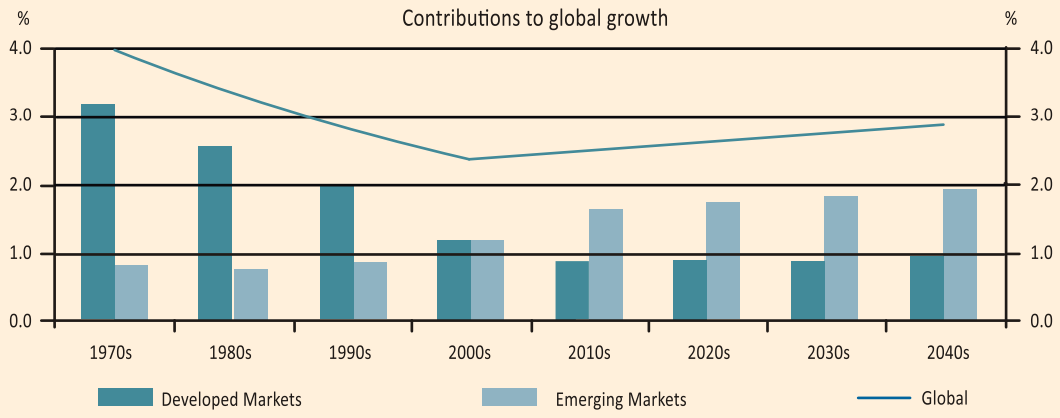
Emerging markets are becoming key areas of growth in consumption, production and, in some cases, innovation. The policies and strategies of all countries and companies will need to address the challenge of a global economy driven by low-cost, high-growth companies or innovation in many parts of the world. Governments will need to create enabling environments for their business sectors and develop strategic policy frameworks that exploit this reality.

Companies will have to develop new business models and products that match the needs and wallets of the growing emerging market urban populations. Levels of income per capita will still be relatively low – these consumers will wield, on average, just 15 percent of the spending power, in real dollars, of their developed-world counterparts. China's income per capita today is just 6 percent of that in the United States. Even a predicted sevenfold increase by 2050 will bring it to only 32 percent of the United States figure. In India, income per capita is just 2 percent of that in the United States. To serve these customers, companies will need to focus on innovation and develop new business models.

The expected global economic rebalancing depends on the ability of emerging market countries to maintain their current growth trends. This is not inevitable. Continued economic dynamism will depend largely on policy, steering economies away from low-productivity activities, such as subsistence agriculture and informal trading, to sectors that lift the country up the sophistication ladder.

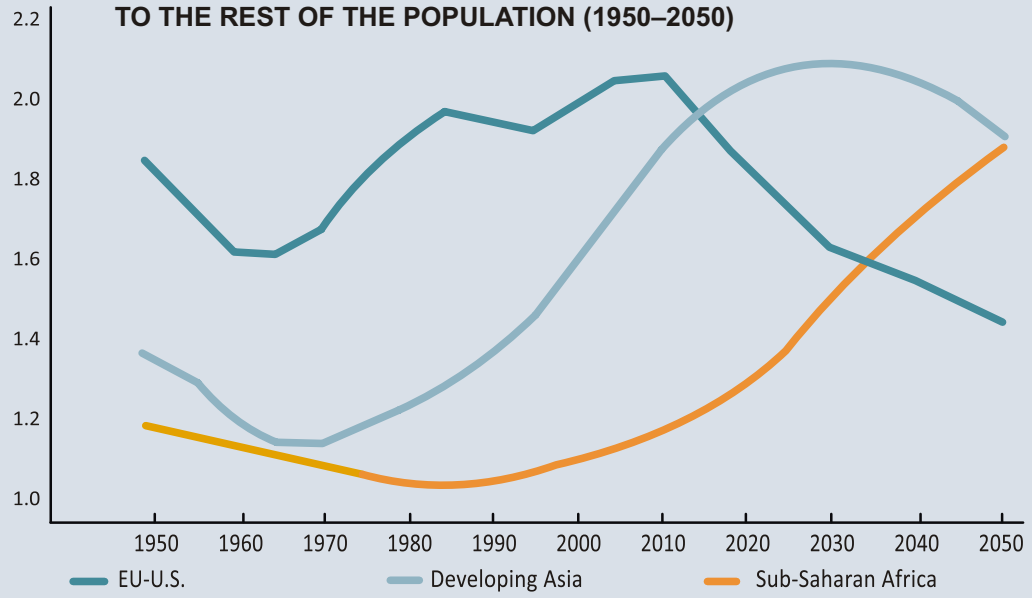
This means wider and deeper investment in education and skills training, and enabling employment in high-value jobs. This is essential if developing economies are to reap the benefits of their favourable demographic make-up.

FIG 1.4 EMERGING MARKETS AND GLOBAL GROWTH



Source: HSBC, 2011

FIG 1.5 RATIO OF WORKING-AGE POPULATION (16–64) TO THE REST OF THE POPULATION (1950–2050)



Source: World Bank, 2011

Balance of global political power

Economic globalisation has outpaced political globalisation. The pillars of the international political order suffer from democratic deficiencies – their structure, which dates from the decade after World War II, primarily serves the interests of the advanced industrial countries. In the IMF, for example, quotas, which are the main determinant of the voting power of members, are allocated on an economic power basis that no longer reflects economic realities. A failure to shift quotas to dynamic emerging markets and developing countries undermines the Fund's relevance and legitimacy in promoting global growth and economic and financial stability.[10]

The inequitable distribution of power in global organisations such as the United Nations, the World Bank, the IMF and the World Trade Organisation has made them hostage to power blocs and particular economic policies, limiting their ability to take central roles in global problem-solving. Bodies such as the Group of Eight (G8), Group of 20 (G20) and Group of 77 (G77), have similar limitations. Big intergovernmental conferences tend to be too ritualistic, long on declarations and short on implementation. The original model of the Group of Seven (G7) was exclusive and did not represent the new world economic order, but extending it has resulted in unwieldy gatherings where form trumps substance. The new institutions have been set up without an overarching structure, resulting in competition and an unbalanced distribution of responsibilities and power.

A review of the governance structures of many of these bodies and organizations is long overdue. The past four years have underscored the need for fundamental redesign. Developing countries, including South Africa, are in a strong position to advance a reform agenda that had impetus even before the financial crisis. These countries need to push for more balanced representation in global forums and for institutions that are attuned to the challenges of social and economic justice. Commenting on United States President Barack Obama's nomination of Jim Yong Kim as the next president of the World Bank, the Financial Times said: "Washington needs to reboot the World

Bank's legitimacy and relevance in the eyes of the poorest countries, which are increasingly turning to China and the private markets for investment and capital. If it continued to appear to be a preserve of the old rich club, the emerging world will continue to look elsewhere."[11]

National institutions also need to be overhauled. While leading companies are forced to adopt management policies and styles that reflect their global reach, in most countries, the public sector is locked into outdated national models that do not allow governments to deal with global challenges. Most domestic regulators have only a national remit. Treaties and conventions take too long to negotiate, are often not ratified, and when they are, are rarely enforced.[12]

Over the next two decades, both governments and companies will need to adapt continuously as they address the risks and opportunities of the evolving global environment. National governments, especially those whose societies are characterised by high levels of inequality, such as South Africa, will need to introduce more equitable economic policies to hold on to domestic legitimacy and adjust to a changing and increasingly complex world.

Rise of Africa

Africa is the second most populous continent after Asia. Its current population of nearly 1 billion is expected to rise to 2.2 billion over the next 40 years. Between 2000 and 2010, GDP grew at 5.6 percent a year, topping 7 percent in 2002, 2004 and 2007.[13]

Africa's poor economic performance began to improve in the mid-1990s. Macroeconomic reforms brought down inflation and opened economies to international trade. Led by the two largest economies, South Africa and Nigeria, many countries built prudent fiscal positions after 1995. Political and macroeconomic stability and microeconomic reforms consolidated the growth path.

Foreign debt as a percentage of GDP and debt-service obligations as a percentage of export revenues have both declined dramatically to levels comparable to those of other regions, and sovereign credit ratings in some countries have a positive outlook. More countries are now seen as "frontier emerging economies", with relatively developed financial markets, including Botswana, Cape Verde, Ghana, Kenya, Mauritius, Mozambique, Namibia, Nigeria, Seychelles, South Africa, Tanzania, Uganda and Zambia.

Foreign direct investment has increased dramatically, from US$9 billion in 2000 to US$62 billion in 2008. Total foreign capital flows into Africa rose from US$15 billion in 2000 to a peak of US$87 billion in 2007. Relative to GDP, that is almost as large as the flows into China. The rate of return on foreign investment in Africa is higher than in any other developing region.

In part, this is due to an improved business regulatory environment. A study of publicly traded companies operating in Africa between 2002 and 2007, mostly in manufacturing and services, found that average return on capital was about two-thirds higher than that of comparable companies in China, India, Indonesia and Vietnam. Similar trends were found in foreign direct investment, with American companies achieving a higher return on African investments than on those in other regions.

Interest in Africa's rich mineral resources accounts for much inward investment, but higher investment in infrastructure and better education have laid the foundation for other sectors as well. McKinsey's analysis indicates that all sectors contributed to the growth surge, including resources, finance, retail, agriculture, transportation and telecommunications. Natural resources contributed only 24 percent of GDP growth between 2000 and 2008.[14]

Average years of schooling are catching up with those of the rest of the world, after having increased more than fivefold since 1960. Nevertheless, education and preparation for employment are both poor in quality. Although primary school enrolment rates across sub-Saharan Africa have doubled in the last generation, completion rates are still under 70 percent, compared to over 90 percent for North Africa and East Asia.

Advances have not been uniform across the continent. Africa is highly diverse. The GDP of the 10 largest countries makes up more than 70 percent of the continent's total, and 34 of the world's 48 poorest countries are African. The average annual income south of the Sahara, excluding South Africa, is only US$342, and more than 40 percent of the people in sub-Saharan Africa live on less than US$1 a day.[15]

Opportunities

Minerals underpin the economic strength of many countries. Africa holds 95 percent of the world's reserves of platinum group metals, 90 percent of chromite ore reserves, 85 percent of phosphate rock reserves and more than half of the world's cobalt.

In addition, there may be a gap between the actual endowments and what has been identified and exploited. Substantial reserves could yet be found.[16] So the future might bring a considerable increase in Africa's commodity exports, changing the economic map as new resource-rich countries emerge, and prolonging and deepening growth.

Most African countries have not used their commodity wealth to reduce poverty. The proceeds of oil or minerals extraction have largely been consumed, rather than invested in people and infrastructure. Ugly and costly political contest for control of revenues is still a serious problem in parts of the continent.

Over the next 20 years, other endowments will come to the fore, including a demographic profile that will potentially boost both productivity and consumption; infrastructure deficits that present investment opportunities; and suitable conditions for large-scale agricultural and agri-processing development, both for domestic consumption and for export.

Africa has the world's youngest population, and in less than 15 years it will be home to one quarter of the world's population under 25 years of age. Africa will benefit from a large, mostly youthful, working-age population that will have progressively fewer dependants to support as fertility rates fall further. The current generation of young people can greatly expand the continent's productive workforce, but without education, skills and programmes to

promote job creation and entrepreneurship, it also poses a major risk. About 54 percent of Africa's youth are unemployed today, and nearly three quarters live on less than US$2 a day. Unless this changes, the potential for political instability is great. Recent developments in North Africa have shown the consequences when young people do not find work and feel deprived of dignity.[17]

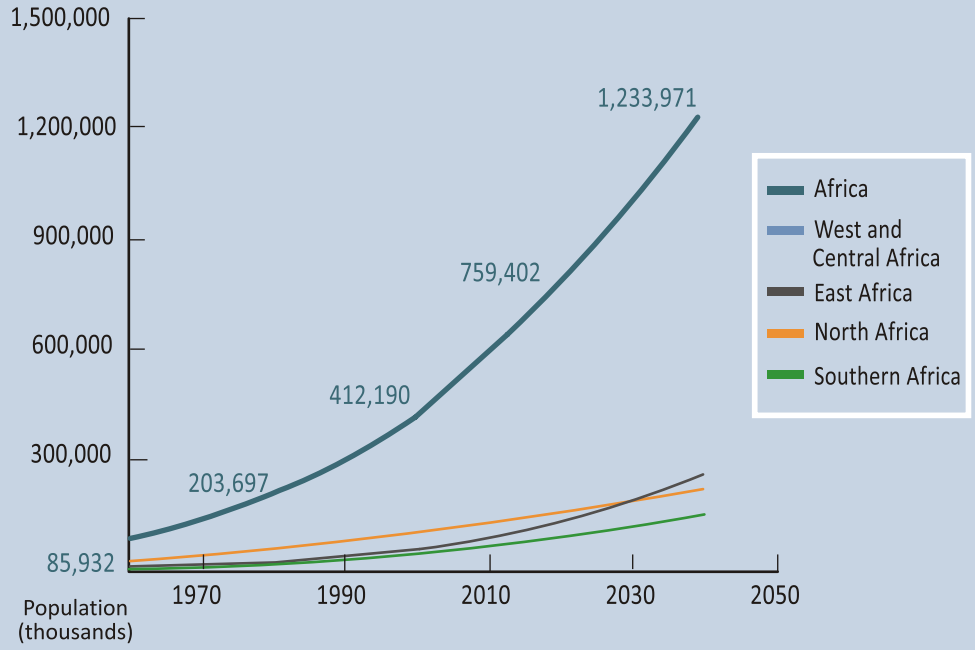
The rapid growth in the working-age population will be matched by a dramatic rise in the number of people living in cities. Analysts project that by 2030, over 50 percent of Africa's population will live in cities, many of which will be megacities.

Massive urbanisation will lead to a fundamental shift in the economic profiles of many African countries. Although 40 percent of Africa is urbanised today, agriculture accounts for 70 percent of employment and 15 percent of GDP. This balance will change, bringing the continent more in line with other developing economies. Agricultural output makes up 7 percent of GDP in Brazil and 12 percent in China. In the G7 countries, agricultural production is now less than 3 percent of all goods produced. Urbanisation not only reduces the number of people engaged in small-scale agriculture; it also facilitates economic diversification. The combined effects of lower dependency ratios and greater urbanisation ought to have a further significant impact on the productivity of the labour force. Productivity levels have been growing since 2000 at an average of 2.7 percent a year.

Africa will soon be the last remaining major low-wage region in the world. Per capita GDP in China is already above the global average. China is moving up the industrial ladder, shedding enough manufacturing jobs to double manufacturing employment in other low-income countries, particularly in Africa.

In addition, Africa's extensive coastline and proximity to European and North American markets puts Africa-based firms in a strong position to displace Asian competitors in labour-intensive manufacturing.

FIG 1.6 AFRICAN URBAN POPULATION



Source: United Nations Habitat, 2008

Employment and urbanisation will drive a huge increase in consumer spending. Over 80 million households in Africa now earn at least the equivalent of US$5 000 annually – an increase of 80 percent in eight years. Between 2005 and 2008, consumer spending in Africa increased at a compound annual rate of 16 percent, well over twice the GDP growth rate. In all but two countries, GDP per capita increased. Many consumers have moved from the destitute level of income (less than US$1 000 a year) to the basic-needs (US$1 000 to US$5 000) or middle-income (up to US$25 000) levels.

Mirroring the pattern of urbanisation elsewhere in the developing world, the number of households with discretionary income is likely to rise by 50 percent over the next decade, to 128 million. McKinsey suggests that sub-Saharan Africa's top [18] cities could have a combined spending power of US$1.3 trillion by 2030.[19]

This has particular implications for banks, telecommunications companies and manufacturers of fast-moving goods. McKinsey projects that four groups of industries – consumer-facing industries, agriculture, resources, and infrastructure – could collectively generate US$2.6 trillion in revenue each year by 2020, US$1 trillion more than in 2010.[20]

The explosion in consumer demand is particularly evident in mobile telephony. In the past 10 years, the number of mobile subscriptions rose from 15 million to 500 million, and it is expected to increase to close to 800 million by 2015. Over the next five years, east and central Africa will have the highest mobile subscription growth rates in the world. Nigeria is already the world's tenth largest mobile market.

Internet use has also risen in Africa, to about 120 million users. The World Bank estimates that the industry attracted US$56 billion in investment in the decade to 2008, despite challenging market conditions, including high connectivity costs, high usage charges and poor electricity supply. According to the International Telecommunications Union, the top five most expensive places in the world for fixed-line broadband in 2010 were all in sub-Saharan Africa.

New fibre-optic cables can reduce costs and extend connectivity. A range of mostly privately funded cables on Africa's east and west coasts will allow dramatically better connectivity and will lower costs for users if intra-regional networks are built. Already, Africa's international bandwidth capacity has increased 120 times to over 10 terabytes per second since 2008.

The continent's massive infrastructure deficit, though debilitating, also presents great opportunities. Africa has the weakest infrastructure in the world – average electricity costs of US$0.18 per kilowatt-hour are about double those of other developing countries. The largest infrastructure gaps are in energy, with citizens in 30 of the 47 countries in sub-Saharan Africa facing regular power shortages and power interruptions. Power outages are responsible for a loss of between 1 percent and 6 percent of potential GDP every year. Road density is lower in Africa than in any other developing region, with 152 kilometres of road per 1 000 square kilometres of land area. Bridging the infrastructure gap will cost about US$93 billion a year, with about 40 percent in the power sector.[21] Poor infrastructure and tough market conditions force companies to develop business models and products for price-sensitive consumers. Innovation driven by necessity delivers solutions that may provide useful springboards into other markets. The pioneering work in mobile money transfers is one of the notable innovations in response to poor

infrastructure. Safaricom's M-Pesa system has led this sector with a model that combines using small traders and mobile technology. By 2010, 14 million Kenyans had transferred US$7 billion through M-Pesa.

The breakthroughs in cell phone banking have not yet extended to easing money flows in and out of Africa, or between countries. The cost of sending remittances to sub-Saharan Africa averages almost 12 percent of a US$200 transaction, compared with less than 8 percent for most other developing regions. The cost of cross-border remittances within Africa, if permitted at all, tends to be even higher.[22]

Remittance flows into Africa, the largest source of net foreign inflows after foreign direct investment, have quadrupled in the past 20 years, reaching US$21.5 billion in 2010 in sub-Saharan Africa.[23] These flows underscore the size and importance of migration both from and within Africa. About 30 million Africans, or 3 percent of the population, have migrated internationally, including within Africa.[24]

Today, 500 million people in sub-Saharan Africa do not have access to electricity, which is a prerequisite for social development, and the ability to harness technological opportunity and enable environmental sustainability. Renewable energy sources will become increasingly important. Sub-Saharan Africa is particularly well positioned to develop solar and hydro-energy, and to produce bio-fuels. The Grand Inga project could provide sufficient electricity for Africa and allow it to export energy through interconnecting links to southern Europe. This would require three major African interconnection projects: the northern highway (between Inga and Egypt), the southern highway (between Inga and South Africa) and the western highway (between Inga and Nigeria).

Angola, Mozambique and Tanzania, among other countries, have the potential to produce ethanol profitably from sugar cane on land that is not used for food crops. Africa also has the potential to reduce emissions by protecting its forests. The United Nations' programme to reduce emissions from deforestation and forest degradation is an attempt to create financial value for the carbon stored in forests by offering incentives for the sustainable management of woodlands.

Agriculture is another area of potential growth. Current output does not match Africa's agricultural potential. From being a net food exporter in the early 1960s, the continent is now a net importer.

The Greater Inga hydroelectric project has been under discussion for over four decades, with the first studies undertaken in the 1960s. The first phase involved the construction of three power stations in the Nkokolo valley in the Democratic Republic of Congo. The project includes Inga I (351 megawatts [MW]), which was commissioned in 1972, Inga II (1 424MW), which was commissioned in 1982, and Inga III (about 3 500MW). High-voltage lines transmit the power from Inga I and II to Zambia, Zimbabwe, South Africa and the Democratic Republic of Congo (Brazzaville). The Inga III project was to be developed by the western power corridor, a joint venture of the national power firms of the Democratic Republic of Congo, Angola, Namibia, Botswana and South Africa, but progress has stalled. The second phase addressed the development of the Grand Inga power station, with a total capacity of 39 000MW, to be equipped progressively with 52 power generators of 750MW.

While more than one-quarter of the world's arable land is in Africa, it generates only 10 percent of global agricultural output and is highly concentrated – Egypt and Nigeria alone account for one-third of total agricultural output on the continent. Over 60 percent of the world's unexploited cropland is in sub-Saharan Africa, compared with 31 percent in Latin America.

The barriers to raising production in Africa are well documented: inadequate infrastructure to bring crops to market – an annual additional investment of US$50 billion is required in sub-Saharan Africa alone for transport and other kinds of infrastructure; perverse trade barriers and tax incentives; poorly regulated access to agricultural land by foreign private and state entities; highly fragmented production – 85 percent of Africa's farms occupy less than two hectares (in Brazil, Germany and the United States, only 11 percent or less work on this scale); and lack of technical assistance and finance for farmers, including access to high-quality seeds, fertiliser and other inputs suited to the continent's ecological conditions. If the continent is able to overcome these barriers, agricultural output could increase to US$880 billion per year by 2030.[25]

Given its vast untapped agricultural potential, Africa is well positioned to address some of the world's food challenges, especially in the well-watered area between the Tropics of Cancer and Capricorn. Demand for food is expected to grow by between 30 percent and 50 percent over the next two decades as the world population grows from 7 billion to 8 billion by 2030.[26] Apart from growth in numbers, hundreds of millions will be wealthier, and demanding a more varied, high-quality diet. Competition for land, water and energy will intensify as the effects of climate change become apparent, potentially increasing the scarcity and pollution of water, and accelerating soil erosion and degradation. Current climate models indicate that more water will be available for agriculture in Asia and North America, but progressively less in sub-Saharan Africa, Latin America and the Caribbean, compounding present challenges and demanding innovative responses.

The Alliance for a Green Revolution in Africa, for example, is working to achieve food security for Africa by promoting sustainable agricultural growth through smallholder farmers. Recognising that smallholders – mostly women – produce most of Africa's food today with minimal resources and little government support, the alliance supports smallholders with good seeds and better soils, as well as access to markets, storage, transport and finance, while seeking to improve agricultural policies.

This focus is necessary. Hunger remains widespread. More than 900 million people lack access to sufficient carbohydrates, fats and protein, while 1 billion are thought to suffer from "hidden hunger", because vitamins and minerals are missing from their diet. In contrast, 1 billion people are eating substantially too much, spawning a new public health epidemic of chronic conditions such as type 2 diabetes and cardiovascular disease. The World Economic Forum's Global Risk Network estimates that non-communicable – or chronic – disease (heart disease, stroke, diabetes, some chronic lung conditions and preventable cancers) will increase by 27 percent in Africa, 25 percent in the Middle East, and 21 percent in Asia and the Pacific in the next decade, if not addressed effectively.[27]

Other risks include the loss of the continent's best and brightest minds. Skilled migration rates are particularly high. In a survey of the top five students graduating from the top 13 high schools in Ghana between 1976 and 2004, three quarters had emigrated at some point between secondary

school and age 35.[28] The United Nations Economic Commission for Africa and the International Organisation for Migration estimate that 27 000 Africans left the continent for industrialised countries between 1960 and 1975. During the following decade, the number rose to 40 000. Since 1990, they estimate at least 20 000 have left the continent each year. In 2000, one out of every eight Africans with a university education lived in a country in the OECD, a rate exceeded among developing regions only by the Caribbean, Central America and Mexico.[29]

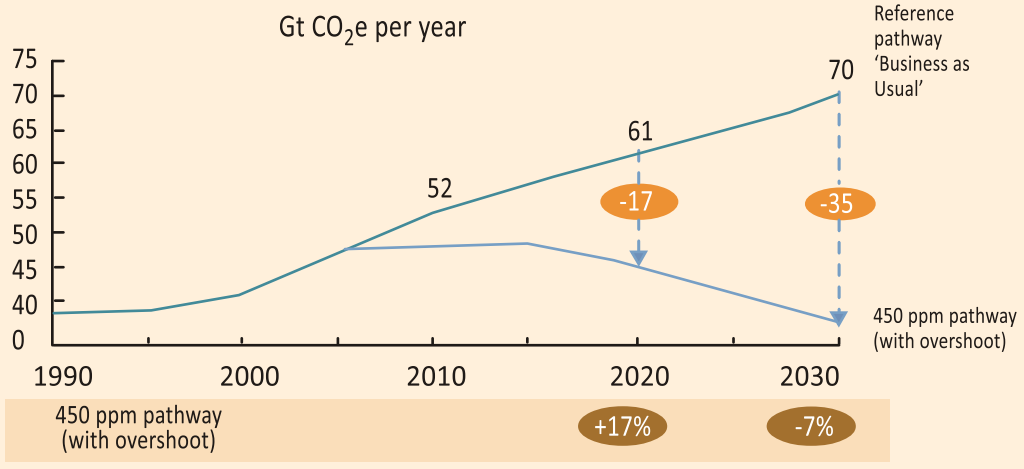
The continuing recession in the United States and Europe has reversed the trend. According to a recent survey, Working in Africa, a third of professionals of African origin currently living abroad see better opportunities today in Africa to progress their careers than within developed economies. Africa's fortunes will depend largely on how the educated and skilled diaspora view personal opportunities, and domestic and foreign investors regard returns on investments. Both decisions – whether or not to stay and whether or not to invest – are strongly influenced by government policies. Reduced conflict, more transparent regulatory and legal systems, greater openness in trade, and higher investment in infrastructure enabled the stronger economic growth of African economies in the first decade of this century. Future success depends on these trends being strengthened and accelerated. All successful countries are raising their game continuously and the recession is forcing companies to operate more efficiently, cost effectively and creatively.

The environment

Market and policy failures have resulted in the global economy entering a period of "ecological deficit", as natural capital (ground water, marine life, terrestrial biodiversity, crop land and grazing) is being degraded, destroyed, or depleted faster than it can be replenished. Waste and carbon-equivalent emissions per capita are climbing faster every year in an ecosystem with finite limits.

Human activity is warming the planet. For the past millennium, the earth's average temperature varied within a range of less than 0.7 degrees Celsius (°C). For the past 150 years, there has been an increase of nearly 1 °C. By the end of this century, the earth could be 5 °C warmer than in the 19th century. To put this into perspective: the planet has not been 3 °C warmer than 19th century levels for 3 million

FIG 1.7 CARBON EMISSIONS PER YEAR: 1990–2030



Source: McKinsey [31]

years, or 5°C warmer in the last 30 million years. The business-as-usual scenario in Fig 1.7, suggests a probability of about 50 percent of warming of 5°C, or more, in the first part of the 22nd century. Even 4°C would transform the relationships between humans and the planet. Hundreds of millions would have to move, increasing the possibility of severe

Climate change is inequitable. High-income countries, with one sixth of the world's population, are responsible for nearly two thirds of the greenhouse gases in the atmosphere, but it is developing countries that will suffer most from the effects of extreme weather.[33]

global conflict sustained over a long period. To have a 50 percent chance of containing the increase to 2°C, the world needs to reduce greenhouse gas emissions to no more than 44 billion tons per year of carbon equivalents by 2020 and 35 billion tons by 2030.[30]

The effects of the planet's warming are felt mostly through water – storms, floods and inundations, droughts and desertification, and rising sea levels. Experts on the Intergovernmental Panel on Climate Change warn of radical disruption and instability in a very short space of time. Unless emissions are checked soon, development will be reversed in many parts of the world, bringing major economic decline. The risks of delay are also not well understood. Because carbon and other greenhouse gas emissions accumulate in the atmosphere and persist for very long periods, it is quite likely that within five or 10 years, any realistic chance of containing warming to 2°C will have been missed.[32]

Since the threat to the world's environment and the challenge of poverty alleviation are closely intertwined, the debate should focus on ensuring that environmental policies are not framed as a choice between growth and mitigating climate change. A low-carbon future is the only realistic option, as the world needs to cut emissions per unit of output by a factor of about eight in the next 40 years. In fact, the energy-industrial revolution now under way offers exciting opportunities. As shown by the agricultural and industrial revolutions, as well as the current information and communication revolution, innovation, creativity and growth can shape quite different futures, with huge rewards for pioneers of new models. The new energy architecture and its relationship to the built environment will spur innovation, and potentially attain energy security and a cleaner and safer environment, while retaining greater biodiversity.

The political challenge in the next two decades will

be to develop policies and regulatory initiatives that prompt improved resource management and deliver substantial clean-technology industries. This will include policies that help people cope with new risks during the transition, adapting land and water management to protect livelihoods and threatened natural environments, while transforming energy systems.

Although climate change is the chief ecological challenge, others closely linked also pose serious risks, such as water scarcity, pollution, food production and safety, and depleted fishing stocks. The earth and its atmosphere are an integrated ecosystem. Interaction among its different components is not well understood. As Johan Rockström of the Stockholm Resilience Centre has warned, humankind risks triggering dangerous inflection points if it transgresses planetary boundaries. Such points involve interactions among climate; fresh water; biogeochemical loading, affecting the nitrogen and phosphorus cycles; the destruction of biodiversity, and ocean acidification.[34]

The amount of water being taken from the earth's underground reservoirs, or aquifers, which are essential for agriculture, is over 400 million tons a day more than is being replaced by rain. To quantify that another way: it would take 25 million water trucks to carry that amount of water – a convoy 30 times the earth's diameter. In addition, 90 percent of edible fish stocks have already been fished out, while bigger fishing fleets are being built.[35]

Industrialised food production contributes to climate change and the destruction of biodiversity. Damage to the environment includes soil loss due to erosion, loss of soil fertility, salination and other forms of degradation. In many places, water extraction for irrigation is exceeding rates of replenishment.

The threat of climate change has led scientists, academics and policy-makers to explore geoengineering, deliberate, large-scale intervention in natural systems to counteract global warming. Some vehemently oppose geoengineering research, fearing it will be an excuse to delay reducing emissions. Even supporters agree that new technology breakthroughs that can counter the effects, particularly of global warming, are no panacea. Instead, they carry potentially great risks, and should not be seen as an alternative to emission reductions.

Debates continue about managing ecological challenges. For most, the pace of change is dangerously slow and deeply worrying. A common understanding among countries is emerging that low-carbon growth is the desired end state. But this

involves investment, change and collaboration. There is still little evidence that the international will is there to overcome differences and conclude an effective global agreement. Change is more likely to be bottom-up, triggered by perceptions at a national or local level, and aggregated progressively in regional and global agreements.

Science and technology

Developments in science and technology are fundamentally altering the way people live, connect, communicate and transact, with profound effects on economic growth and development. Science and technology are key to equitable economic growth, because technological and scientific revolutions underpin economic advances, improvements in health systems, education and infrastructure.

The technology revolutions of the 21st century are emerging from entirely new sectors, based on microprocessors, telecommunications, biotechnology and nanotechnology. Products are transforming business practices across the economy, and the lives of all who have access to their effects.[36] The most remarkable breakthroughs may be expected to come from the interaction of insights and applications arising when these technologies meet.

Through breakthroughs in health services and education, these technologies have the power to better the lives of poor people in developing countries. Eradicating malaria, a scourge of Africa for centuries, is possible. Cures for other diseases endemic in developing countries are also possible, allowing people with debilitating conditions to live healthy and productive lives.

Access and application are critical. Science and technology are the differentiators between countries that are able to tackle poverty effectively by growing and developing their economies, and those that are not. The extent to which developing economies emerge as economic powerhouses[37] depends on their ability to grasp and apply insights from science and technology and use them creatively. Innovation is the primary driver of technological growth and drives higher living standards.

As an engine of growth, the potential of technology is huge, and still largely untapped in most developing economies. Less-developed countries not only lack skilled labour and capital, but also use these less efficiently. Inputs account for less than half of the differences in per capita income across nations. The rest is due to the inability to adopt and adapt technologies to raise productivity.[38]

Computing, for example, through unlocking infrastructure backlogs and managing integrated supply chains, can transform economic performance by enabling affordable and accessible services in education and health. The combination of computers and the internet, and mobile devices and "cloud" technology, has transformed human experience, empowering individuals through access to knowledge and markets, changing the relationship between citizens and those in authority, and allowing new communities to emerge in virtual worlds that span the globe.

According to the International Telecommunications Union, by the end of 2010 there were an estimated 5.3 billion mobile cellular subscriptions worldwide, including 940 million subscriptions to 3G services. About 90 percent of the world's population can access mobile networks; three quarters of mobile subscribers live in developing economies. Cellular technology has allowed Africa to leapfrog the age of fixed-line telephony, bringing affordable access to millions of people.

However, the continued and equitable expansion of information and communication technology

depends on electricity. The real divide over the next 20 years will be between those who have access to reliable electricity to power these devices and those who do not.

Other technologies under development are interventions for cognitive enhancement, proton cancer therapy and genetic engineering. Revolutionary inventions include small underground nuclear power units called nuclear batteries that will be ultra-safe and maintenance-free; new types of photovoltaics that will make electricity from sunlight cheaper than that from coal; and myriad nanotechnologies, some of which lower the cost and increase the reliability of many products – even in the poorest areas of the developing world.

Managing technological revolutions poses challenges. Certain innovations and discoveries are likely to raise fraught bio-ethical issues, as genetic modification of food crops and cloning of human embryos have already done. There is a risk that their cost, particularly in the early stages of development, will worsen the present inequality by limiting access to wealthy individuals. This already happens in health care in certain G7 countries, where the demand for high-cost diagnostic equipment and surgical interventions enabling longevity and better quality of life for older wealthy people overstretches public health-care budgets, and lowers service quality in poor neighbourhoods. Finally, resource-intensive technologies focused on satisfying high-consumption demand – such as the demand for holidays abroad in coastal resorts, wilderness areas or iconic cities – increase carbon emissions and environmental damage.

Whatever the challenges, however, refusing to participate in the technological revolution is not an option. To promote technological advances, developing countries should invest in quality education for youth, and continuous skills training for workers and managers, and should ensure that knowledge is shared as widely as possible across society.

In a world in which the internet makes information ubiquitous, what counts is the ability to use knowledge intelligently. Knowledge is the systemically integrated information that allows a citizen, a worker, a manager, or a finance minister to act purposefully and intelligently in a complex and demanding world. The only form of investment that allows for increasing returns is in building the stocks and flows of knowledge that a country (or company) needs, and in encouraging new insights and techniques.

Adopting appropriate technologies leads directly to higher productivity, which is the key to growth. In societies that have large stocks and flows of knowledge, virtuous circles that encourage widespread creativity and technological innovation emerge naturally, and allow sustained growth over long periods. In societies with limited stocks of knowledge, bright and creative people feel stifled and emigrate as soon as they can, creating a vicious circle that traps those who remain in a more impoverished space. Such societies stay mired in poverty and dependency.

The investment climate is crucial, as are the right incentive structures, to guide the allocation of resources, and to encourage research and development.

Successful countries have grown their ability to innovate and learn by doing, by investing public funding to help finance research and development in critical areas. There are many examples – the space programme, defence and aerospace in the United States; integrated value chains, just-in-time manufacturing and total quality management in Japan; high-tech manufacturing in Singapore; and

almost everything in China today. Everyone is involved – big and small, public and private, rich and poor. And these countries, and their leading companies, constantly benchmark, monitor, evaluate and adjust.

CONCLUSION

The 21st century presents humankind with exceptional opportunities and unprecedented risks. The systemic linkages between risks can either amplify the impact of harmful events or modulate and disperse their effects. Interconnected risks are shown by the links among food, fuel and water in the context of climate change; among illicit trade, organised crime, corruption and terrorism in the context of fragile states and cybercrime; and among global macroeconomic imbalances, wide disparities in the growth paths of developed and emerging economies, and weak systems of global governance. It would be a mistake to believe that South Africa is a captive of irrational and irresistible extraneous forces. The decisions and actions it takes to create or modify linkages, regulate and incentivise behaviour and adopt policies on global issues are greatly important.

The ability of governments to navigate these challenges will be determined by their insight into current circumstances, the foresight they develop about trends and possible futures, and the policies they adopt to fit their countries and economies to purpose.

The unintended consequences of globalisation increase the pressure on government leaders to adjust global institutions to new realities, and to promote a more equitable global order. It is far from clear, however, that the structural tension between the accountability of all governments to their electorates will easily be reconciled with the need to address the challenges of the global commons in a responsible way. Times of austerity tend to narrow the vision of most people, and make them less inclined to accommodate the needs of others. There are signs of this across the developed world.

The next few decades will see a rebalancing of the world order, with the power of developed economies shrinking and that of developing economies rising. Africa will be able to play an important role in this transformation if its government, business communities and civil-society groupings cooperate to ensure that the successes of the last decade, in particular in reducing poverty, are maintained and widened.

Threats to the environment are real and growing, driving the world closer to a tipping point. Failure by world leaders to take urgent action to remedy current trends in carbon emissions will lead to dire consequences for future generations.

The benefits that are certain to flow from technological revolution in an increasingly connected and knowledge-intensive world will be seized by those countries and companies that are alive to the rapidly changing environment, and nimble enough to take advantage of the opportunities. Those that succeed will make substantial advances in reducing poverty and inequality. In mapping its path for the next 20 years, China draws the conclusion that countries that maintain an outward orientation – developing and high-income alike – will be among the successful ones during the coming decades, while an inward-looking policy will increasingly prove self-defeating.

South Africa needs to adjust its focus in light of the changing global economic landscape. This is particularly urgent in trade and industrial policy. South Africa should redirect its attention to pursuing niche export opportunities in the economic power-houses of the future, many of them emerging economies. These opportunities can only be exploited if industrial policy supports sectors and industries that can best produce the goods and services required of the new markets South Africa wishes to serve.

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CHAPTER TWO

Demographic trends

KEY POINTS

- For the next decade South Africa has a highly favourable age distribution profile. Fertility rates in South Africa are much lower than elsewhere in Africa, and life expectancy is increasing, though off a lower base because of HIV/AIDS. Consequently, there is a large youth and working-age population and proportionally fewer very old and very young.

- The extent to which South Africa can take advantage of its demographic profile will depend on whether it is able to prioritise policies that improve the capabilities and life chances of its large youthful population. Given the high HIV/AIDS prevalence, particular attention needs to be given to health care provision to ensure that people of working age can participate gainfully in the economy.

- South Africa will need to adopt a much more progressive migration policy in relation to skilled as well as unskilled migrants, and should better plan for rapid urbanisation. This can only be done if there is sufficient data on the movement of people within the country and on those entering the country.

INTRODUCTION

Good demographics can go a long way in helping countries achieve strong economic growth. Over the short to medium term demographic changes tend to be gradual. This gives policy-makers the opportunity to make optimal decisions: if policy interventions are informed by current and projected demographic profiles then programmes to improve health, education and skills can be properly targeted, and the appropriate services and infrastructure provided.

However, ignorance of demographic trends can result in a serious misallocation of resources and inappropriate interventions. This makes planning for demographic changes important, especially in the face of growing pressure on food, energy and water supplies; greater population mobility; additional demands for jobs and social support; and the uncertain effects of climate change.

To take full advantage of South Africa's demographic profile, and to manage attendant risks, it is necessary to understand what the country's population looks like today – and what it will look like in the decades to come. A deep understanding of South Africa's demography over the next 20 years can ensure that correct policies are designed and adopted, potential windfalls exploited and threats avoided.

DEMOGRAPHIC DIVIDEND

Developed and developing countries are at very different stages in their demographic transitions. The share of the population in the 15 to 29 age bracket is about 7 percentage points higher for the less developed world than the more developed regions. In Africa, about 40 percent of the population is under 15, and nearly 70 percent is under 30. In a decade, Africa's share of the population between 15 and 29 years of age may reach 28 percent of its population.[1]

Having a relatively young population can be advantageous, provided the majority of working-age-individuals are gainfully employed. A large workforce with fewer children to support creates a window of opportunity to increase economic output and invest in technology, education and skills to create the wealth needed to cope with the future aging of the population. Some economists call this window of opportunity the "demographic dividend" (or "bonus"). The window eventually closes when the workforce ages and there are relatively fewer workers to support increasing numbers of older people, but the dividend can last for several decades.

South Africa's population growth rate is slowing, the birth rate is declining and life expectancy is increasing, though off a lower base because of HIV/AIDS. Consequently, there is a large youth and working-age population and proportionally fewer very old and very young. This demographic profile proved to be a boon for economic growth in Asian countries and is similar to other middle-income countries such as Brazil, Mexico, India and the Maghreb states (see chapter 1).

The challenge is to convert this into a demographic dividend. This will only be possible if the number of working-age-individuals can be employed in productive activities, with a consequent rise in the level of average income per capita. If South Africa fails to do this, its large youth cohort could pose a serious threat to social, political and economic stability.[2]

Dominant trends

There are significant differences in the profiles of South Africa's population groups across the three main demographic drivers: fertility, mortality and migration. Due to historical inequalities Black South Africans generally live shorter lives and have a higher

fertility rate than white South Africans, although the fertility rate among the black population is dropping sharply, particularly in urban areas.

Migration, both within the country and across its borders, will feature in the country's profile over the next 18 years. The movement of people from rural areas to towns and cities will increase while migration, predominantly from other African countries, is likely to continue.

If the economy continues to expand at current rates and fertility rates continue to decline, the population will grow from 50.6 million to 58.5 million by 2030. If the economy contracts, the current fertility rate is likely to stay the same, resulting in the population reaching 59.8 million. A migration shock scenario, under which a country north of South Africa collapses leading to larger numbers of migrants, would push the total population number up to 61.5 million.[3]

The table below sets out population trends based on five scenarios of the most important factors affecting the population, loosely structured under potential economic conditions.

South Africa has arrived at the "sweet spot" of demographic transition. The population has a proportionately high number of working-age people and a proportionately low number of young and old. This means that the dependency ratio – the percentage of those over 64 and under 15 relative to the working-age population – is at a level where there are enough people of working age to support the non-working population. The caveat in South Africa's case is that unemployment and HIV/AIDS have produced many more dependants than would normally be the case. Although statistically South Africa is in a position to cash in on a demographic dividend, the challenges of joblessness and HIV/AIDS are a burden on those who are working.

If not managed, the perfect window could become the perfect storm. South Africans between the ages of 15 and 29 will make up more than a quarter of the total population until 2030. This could be potentially dangerous if this cohort is alienated from

FIG 2.1 GLOBAL EQUALITY

Scenarios	Fertility	Migration	HIV/AIDS	Total Population
1. Rapid economic development	Decreasing faster than current rate	Increased immigration	Faster roll-out of antiretrovirals (ARVs) and increased life HIV+ expectancy	58.2 million
2. Current economic development	Current level of decreases in fertility rates	Constant proportional immigration based on 2005 levels	2010 ARVs protocols and increased HIV+ life expectancy	58.5 million
3. Slowing economic development	Slower decrease in fertility rates	Constant proportional immigration based on 2005 levels	2010 levels of roll-out of ARVs and lower increase in HIV+ life expectancy	58.4 million
4. Negative economic development	Stable fertility rates	Decreasing immigration over time	Slower roll-out of ARVs and 2008 HIV+ life expectancy	59.8 million
5. Current economic development with migration shock	Current level of decreases in fertility rates	Increased immigration	2010 ARV protocols and increased HIV+ life expectancy	61.5 million

Source: ASSA, 2011

mainstream society and without decent prospects. The challenge is putting this working-age population to work. There is a real opportunity to build a stronger economy, eliminate poverty and reduce inequality.

This window of opportunity will close before 2030, as the over 64s as a share of the population rise from 5 percent today to 6.5percent by 2023, and to over 7percent by 2027. According to the United Nations (UN), this is when a country's population in demographic terms is regarded as "old". The number of South Africans over the age of 64 will rise from about 2.5 million now to 4.4 million by 2030.

This ageing population will put pressure on the economy, especially as a significant percentage of the older population will be living with HIV/AIDS as treatments become more effective. This age group is also more vulnerable to non-communicable diseases with some predictions that the number of cardiovascular deaths in South Africa could double by 2040.The increased demand on health spending and social security will have significant budgetary implications, which taxpayers will have to fund.

SOUTH AFRICA'S DEMOGRAPHIC PROFILE

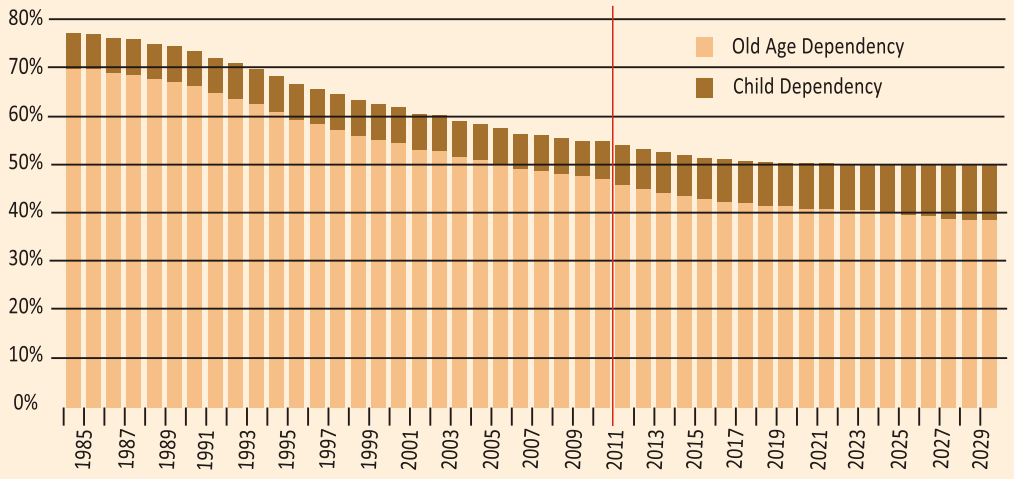
Fertility rates

Internationally, fertility levels vary widely, ranging from an average of 1.1 children born to a woman in Singapore to 7.2 in Niger. High fertility rates are generally found in contexts of poverty and powerlessness, where the infant mortality rate is high, and opportunity and education for women is low. Health care, education, old-age security, women's empowerment, economic aspirations and urbanisation generally bring down fertility rates, which can change rapidly. In Thailand, the fertility rate dropped in a decade from about 6 to 2 as secondary school education expanded.

In South Africa, the fertility rate has also dropped, although over a longer period. In the late 1960s, the rate was about 6.7, falling to 2.9 in 2001 and to 2.3 in 2011. It is projected to fall to 2.1 by 2030, which is close to the replacement rate at which a population remains relatively constant in size. As a result, the population is expected to increase by a little over 8 million by 2030.

South Africa's fertility levels differ according to location and socioeconomic characteristics. They are highest in the mainly rural provinces and

FIG 2.2 DEPENDENCY RATIOS – BASE SCENARIO



Source: ASSA, 2011

Budgetary implications

South Africa's projected demographic profile will affect government spending.

Health care and pension provision will have to be adjusted to accommodate the fact that:

- People will live longer as life expectancy improves
- Older people will form a growing percentage of the population
- A greater number of people will be living with HIV/AIDs as treatments become more effective
- The number of people requiring ARV treatment will triple.

Several factors will affect the costs associated with these shifts. These include the extent to which pensions are raised to keep up with cost of living, the efficiency of the health care system, the cost of drugs, particularly ARVs, and increases in grant payments. These costs could be absorbed if the majority of the working-age population are employed, but would be difficult to manage if high levels of unemployment persist.

municipalities, and lowest in the most urbanised. According to the 2007 Community Survey, the highest fertility rate by municipality was in the OR Tambo district in the Eastern Cape with a level of 4.1, while the lowest was 2.2 in the City of Cape Town, the uMgungundlovu district in KwaZulu-Natal and the Sedibeng district in Gauteng. The consequence is that rural populations continue to grow despite significant urban-rural migration.

Mortality

South Africa is in the midst of a health transition characterised by epidemic infectious diseases and a rise in non-communicable diseases. The country is simultaneously affected by a quadruple burden of diseases consisting of:[4]

- Maturing and generalised HIV/AIDS epidemic and high levels of tuberculosis
- High maternal and child mortality
- Non-communicable diseases such as cardiovascular disease, type 2 Diabetes, cancer, chronic lung disease and depression
- Violence and injuries.

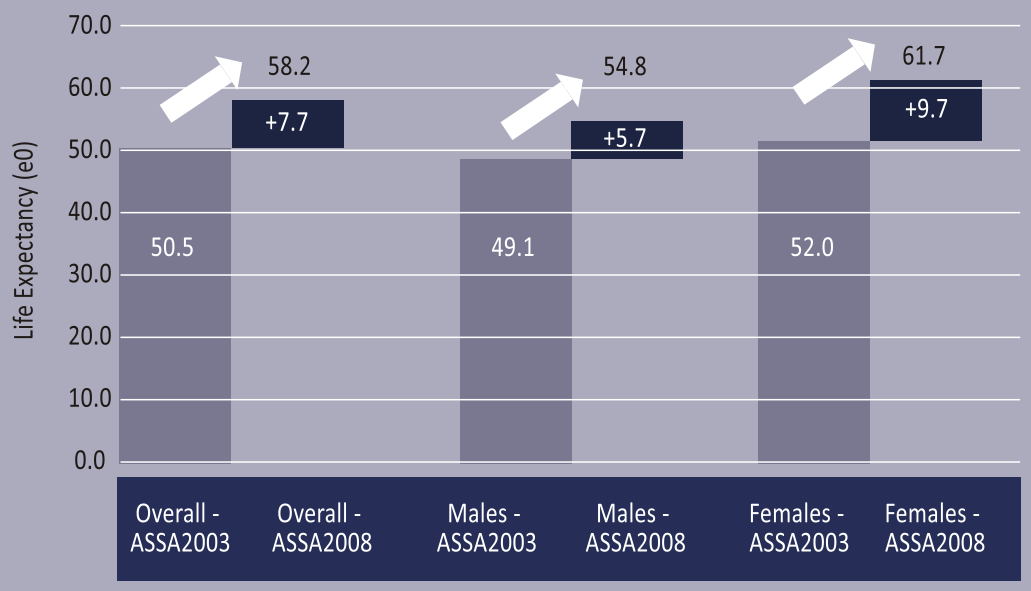
These burdens are reflected in morbidity statistics. Total deaths in the country have increased sharply, with the numbers doubling in the decade to 2008. This increase is accounted for by two groups: the rate doubled for young children under the age of five and trebled for young adults between 30 and 34. Overall, increased mortality sharply reduced the median age of death to less than 45, and to a lower age for females than males.

The Health Data Advisory and Coordination Committee Report set a target of a 10 percent reduction in the under-five mortality rate by 2014, from 56 per 1 000 live births (2009) to 50 per 1 000 live births. A 10 percent reduction is also set for the infant mortality rate from 40 per 1 000 live births (2009) to 36 per 1 000 live births in 2014.[5]

HIV/AIDS has been a powerful factor in South Africa's demographics over the past two decades. The current estimated HIV prevalence rate is about 10.6 percent, with the total number of people living with HIV/AIDS having risen from 4.21 million in 2001 to an estimated 5.4 million in 2011. This number is projected to rise to 7.3 million by 2030.[6]

The highest levels are among youth: an estimated 16.6 percent of those aged between 15 and 49 are HIV positive.[7]

FIG C. LIFE EXPECTANCY



Source: ASSA, 2011

The impact of HIV/AIDS is most evident in life expectancy figures. In the second half of the 20th century, South Africans started to live longer, from 45 in the early 1950s to about 65 in the early 1990s. HIV/AIDS reversed this dramatically. Life expectancy for African men fell most dramatically (49 years by 2003), and for African women to 52 years. This rapid decline was followed by some recovery, with 5.7 years being added to male life expectancy and 9.7 years for women by 2008.

The future demographic effect of this pandemic is an area of some debate. Life expectancy will continue to be affected by HIV/AIDS, but the extent to which this will happen will depend on the efficacy and impact of treatment and prevention. The number of new infections is likely to decrease gradually, or at least to remain stable, but the number of people with HIV/AIDS is expected to continue to rise, reaching 7.3 million in 2030, while the number of those sick with AIDS is also expected to rise from 800 000 to about 1.3 million. The increase will happen as ARVs and other treatments extend the lives of those infected with HIV.

In 20 years, HIV/AIDS will account for a smaller percentage of overall deaths, although it will remain an important factor. The decline in life expectancy has already reversed, and average life-spans will continue to increase, but average life expectancy is still expected to only reach 60 by 2030,[8] significantly lower than other middle-income countries such as Brazil (71.4 years in 2009). Health experts consulted by the Commission take a more optimistic view, arguing that if the correct policies are put in place, average life expectancy of 70 can be achieved by 2030.

HIV/AIDS has also exaggerated existing discrepancies between population and socioeconomic groups. Although life expectancy for African women is expected to average just over 60 years by 2030, the average for white women is expected to stay at 76 for the next two decades. For African men, life expectancy will average just under 56 by 2030, while the average for white men will increase from over 72 to over 73.[9]

Even though South Africa is not a country at war, it faces an unprecedented burden of morbidity and

mortality from violence and injury, with an overall injury death rate that is nearly twice the global average and the rate of homicide of women by intimate partners six times the global average.[10]

The highest rates for victims of homicide are seen in men aged between 15 and 29 years (184 per 100 000). In some areas, such as Cape Town's townships, this rate more than doubles. Deaths of men from homicide outnumber those of women by more than seven to one.

POPULATION MOVEMENT

Migration

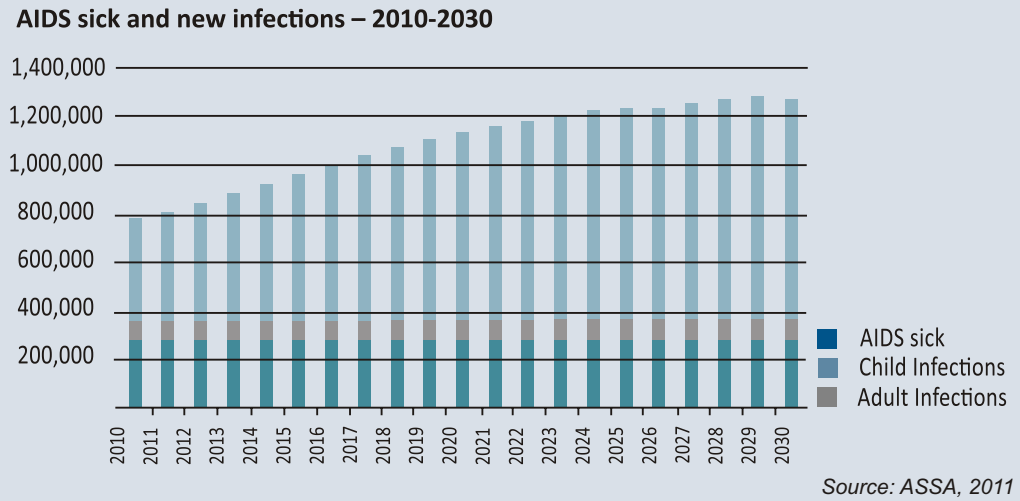
Data provided by the Global Commission on International Migration suggests that international migrants (changing country of residence over the past five years) make up about 3 percent of the world population, with levels ranging from about 0.1 percent in China to 65 percent in Kuwait. South Africa's figure has been estimated to be about 2.7 percent, which is modest in global terms, although Gauteng, the international migrant gateway to South Africa, has a figure of about 13 percent.

Data on migration into and within South Africa is poorly collected, weakly analysed and often misleading. Data collection is difficult because many migrants live below the radar and move regularly between South Africa and their country of origin. At best, there are indicators for growth in international migration. For example, annual total border crossings have risen by over 2 million since 1996, from 5.1 million to 7.5 million.[12] This reflects growth in tourism, but may also indicate increased transnational movement.

Extrapolating from census data, the Forced Migration Studies Programme has estimated that the overall foreign population is likely to be between 1.6 million and 2 million or 3 percent to 4 percent of the total national population. Forced Migration Studies Program estimates that there are between 1 million and 1.5 million Zimbabweans in South Africa, making up the largest group of migrants.

If international trends are reflected in South Africa, migration patterns will become increasingly complex, involving diverse social groups and a combination of permanent and temporary migrants. There will be more youthful and women migrants, and a growing number of migrants moving from regions severely affected by climate change.

FIG D. AIDS SICK AND NEW INFECTIONS: 2010–2030



Source: ASSA, 2011

While international migration is more politically sensitive, movements between and within provinces and municipalities represent the most numerically significant form of movement in the country. The migration of foreigners into the country is often less important to population patterns than other dynamics such as fertility rates and internal migration. For example, between 2001 and 2007, 74 percent of Gauteng's population growth was due to natural growth, 26 percent due to migration and only 3 percent was due to cross-border migration.[13]

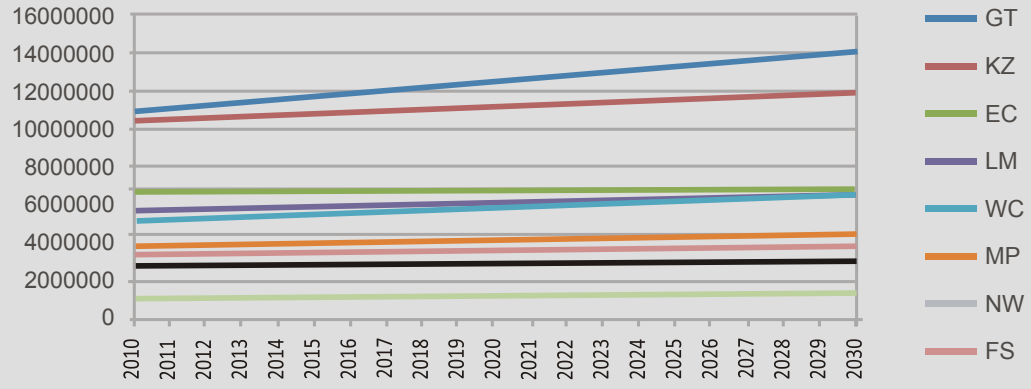
Movements into and within municipalities have significant implications for planning, budgeting and the provision of services. Municipalities are often unable to respond effectively because they do not have sufficient data, or the necessary skills to make sense of the data they have.[14] Research by the African Centre for Migration and Society found that most municipalities lacked an understanding of their indigent communities, most lacked financial and human capacity to plan for population dynamics and that there was ineffective inter-government coordination on planning and service delivery.[15]

The National Planning Commission's Diagnostic Report showed that differential migration patterns largely reflect national patterns of job creation and job loss. Between 2001 and 2007, for example, Gauteng had a net gain of about 3 million people and the Western Cape just over 1 million. The Eastern Cape had a net loss of about 1.4 million and Limpopo 1.2 million.

Unless the growth trajectories of particular provinces dramatically change these patterns are likely to continue. Over the next 18 years Gauteng, the Western Cape and KwaZulu-Natal will/are likely to see the biggest net gains in population: in Gauteng the population is expected to increase from 10.8 million to 14.1 million, in the Western Cape it could increase from the current 5.3 million to 6.4million, and in KwaZulu-Natal from 10.4 million to 11.9 million. Other provinces can expect marginal increases in their population sizes (see charts). However, the Eastern Cape's population is expected to shrink. Between 2020 and 2030 it could see a decline of 125000 from 6.8 million to 6.7 million.[16]

Future migration flows are difficult to predict because they are driven by constantly changing social and economic factors. South Africa's economic position in Africa will affect migration flows, as will the political circumstances of neighbouring states. The scale and nature of the impact of international migration should be addressed with flexibility as sources of data collection and analysis are strengthened.

FIG D. PROVINCIAL POPULATION PROJECTIONS: 2010–2030



Source: ASSA, 2011

If properly managed, migration can fill gaps in the labour market and contribute positively to South Africa's development. Energetic and resourceful migrant communities can contribute to local and national development, and diverse, cosmopolitan populations are often the focus of cultural, economic and intellectual innovation. If poorly managed, however, the skills and potentials of migrants will be neglected. Migration will remain a source of conflict and tension, and migrants will be increasingly vulnerable, subject to continued abuse, exploitation and discrimination.

Urbanisation

Consistent with most of the world, South Africa has experienced rapid urbanisation. In 2008, half the world's population was urbanised and by 2030 nearly three out of every five people will live in urban areas.[17] South Africa is slightly more urban than the global average: about 60 percent of the population is urbanised (according to the official definition), and this is projected to be about 70 percent by 2030.

The patterns of urbanisation in South Africa are complex because circular labour migration under apartheid has led to an intricate relationship between rural and urban areas. It is likely that urban populations will become more permanently settled over time. The rate of urbanisation may slow, as it has done in Latin America and parts of Asia, but it is likely that almost all of South Africa's net population growth until 2030 (an estimated 8 million) will take place in urban areas, especially in major cities.

Increased migration to towns and urban centres reflect similar trends in all developing countries. This trend is not necessarily a reflection of poor rural policies but rather a reflection of the fact that urban living offers individuals a wider range of opportunities. Although there is a tendency to view these migrations as bad, they can in fact have very positive effects. These include the ability of the state to deliver better services because urban settings are more easily within reach, rising living standards if internal migrants are able to access jobs and a fall in fertility rates, which inevitably occur as people adapt to urban life.

Informal settlements present a particular challenge. Most job-seeking migrants moving to cities first live in informal settlements, which are an affordable entry to the city. Many migrants cannot break into the urban labour market and find it difficult to move out of shacks into more formal accommodation. The average residence period within urban informal settlements has increased from about two to four years in the early 1990s to 10 years currently.

Although rural-urban migration is significant, about 78 percent of migration from rural areas and small towns was to other rural areas and small towns. Consequently, while the growth of large urban centres needs to be properly managed, planning must also respond to changing patterns of population distribution in rural areas.

POLICY IMPLICATIONS

Opportunities

Changes in population structure can significantly affect national performance, because individual economic behaviour varies with age. The young and the old tend to consume more than they produce, and nations with a high ratio of dependants to workers devote a relatively high proportion of resources to these groups, often limiting economic growth. In contrast, nations with a relatively large share of the population of prime working age can experience a boost in income and savings, because the working-age population tends to produce more than it consumes. However, demographic dividends can only stimulate substantial economic growth where there are appropriate economic and labour policies that

allow the young to enter the workplace, investments in health and education, and a stable and effective government. The key is to identify economic policies that can harness the benefits of a larger working-age population.

East Asian countries have made the most effective use of the demographic dividend. The working-age population of East Asia soared from 47 percent in 1975 to 64 percent in 2010.[18] Some evidence attributes more than 40 percent of the higher growth in East Asia compared with Latin America from 1965 to 1990 to the faster increase in its working-age population – accompanied by a focus on export-orientated economic policies and investment in education and skills development. For the next 20 years, South Africa will have over 14 million young people between the ages of 15 and 29. The number will peak in 2021, reaching 15.1 million.

This presents a tremendous opportunity – but it also constitutes a serious risk, given that joblessness mirrors age and race fault lines.

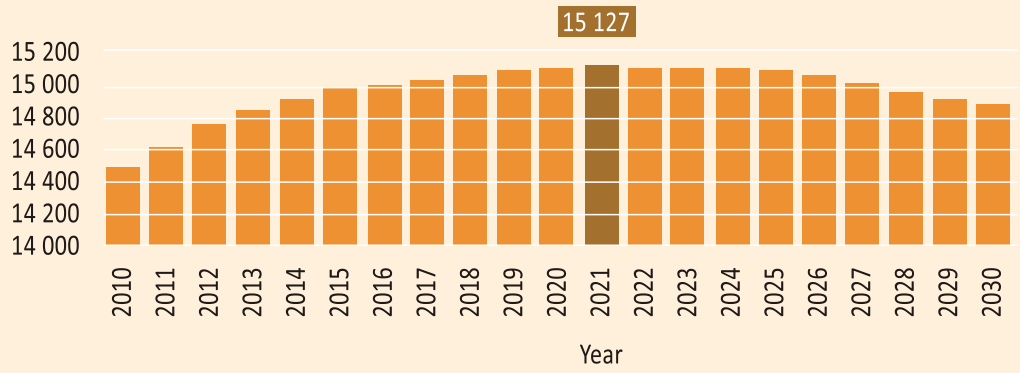
Young black people account for two-thirds of the unemployed below the age of 35. Unemployment rates are highest in the 15- to 24-year-old group (46.6 percent in 2008) and second highest among 25 to 34-year-olds (26.2 percent). For black youth, the unemployment rate is 65 percent. If youths fail to get a job by 24, they are unlikely to ever get formal employment.[19]

Unresolved, this trend poses the single greatest risk to social stability. Young people are more likely to rebel if left with no alternative but unemployment and poverty. Generally, homicides are committed by males between the ages of 16 and 30.[20] In South Africa, this could translate into social disorder, widespread political unrest and increased crime.

- The degree to which the demographic dividend can be banked, and the risks avoided, depends on policy choices and how effectively they are implemented. Government needs to apply a "youth lens" to policies to expand opportunities, enhance capabilities and provide second chances. Areas most commonly identified as unlocking the potential of a demographic dividend are:
- Better health, including food security
- Better health care
- Better education to meet the demands for higher skill levels
- Easy labour market entry
- Labour mobility.

Access to proper health care for children is critical, as this can have lasting effects on physical and mental development, which can affect children's future productivity, earnings and economic well-being.

FIG 2.5 DEPENDENCY RATIOS – BASE SCENARIO



Source: ASSA, 2011

Although health and education are necessary to take advantage of a youthful population, they are not sufficient. Expanding opportunities for higher education without a concomitant increase in employment opportunities can be hazardous. High unemployment among educated youth can potentially lead to political upheaval and violence. Economic opportunities and jobs are therefore crucial. The demographic dividend can be realised only if gainful employment is created for the growing proportion of people of working age.

Migration solutions

South Africa, like most other African countries, has done little to increase the benefits of migration or reduce the risks migrants face. The potential economic benefits of migration are constrained by the lack of support for migrants in key markets.

South Africa's immigration policy has sought to respond to the need for skilled immigrants through amendments to the Immigration Act, which facilitate the arrival of scarce skills. There is little regional legislation, however, beyond the Southern African Development Community Protocol on the Facilitating of Movement of Persons.[21]

Required steps to better facilitate migration include:

- Improving data collection, coordination and analysis as a matter of urgency.
- Easing the entry of skilled migrants.
- Countering xenophobia by conducting sustained campaigns.
- Effectively addressing the rights and vulnerabilities of migrants.
- Introducing support programmes to regularise migrant residence.
- Ensuring better and more consistent law enforcement (by protecting victims and prosecuting perpetrators).
- Strengthening transnational infrastructure (transport, electronic communications, banking services).
- Addressing the specific need of migrants in South Africa.

Interventions are also required at a municipal level. The most pressing need is for reliable data. Statistics South Africa must work with municipalities to better disaggregate data at local level while imposing standardisation at national level; build the capacity of municipalities to collect data, do research and analyse the results; and develop institutional frameworks that entrench collaboration between municipalities and specialised research institutions.

South Africa's internal migration patterns demand two policy responses:

- A strong rural policy to ensure that those who remain on the land are not locked in poverty and that their life chances are improved.
- A strong urban development policy that caters for increasing numbers by ensuring that the necessary infrastructure is in place for a growing population.

CONCLUSION

South Africa's demographic profile could help to tackle poverty and inequality. Reaping the benefits, however, will only be possible if sound education and skills training are provided. Jobs must follow. If South Africa fails to do this, its large youth cohort could pose a serious threat to social, political and economic stability.

Given the high HIV/AIDS prevalence, particular attention needs to be given to health care provision to ensure that the large number of people of working age are not debilitated by disease and can participate gainfully in the economy.

South Africa also needs to adopt a much more progressive migration policy in relation to skilled and unskilled migrants. Immigrant workers can

make a substantial contribution to economic growth and job creation. However, the threat of xenophobia could destabalise communities. In this regard, effective planning for migration and rapid urbanisation is important.

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CHAPTER THREE

Economy and employment

KEY POINTS

- To eliminate poverty and reduce inequality, South Africa has to raise levels of employment and, through productivity growth, the earnings of working people.
- South Africa needs faster growth and more inclusive growth. Key elements of this strategy include raising exports, improving skills development, lowering the costs of living for the poor, investing in a competitive infrastructure, reducing the regulatory burden on small businesses, facilitating private investment and improving the performance of the labour market to reduce tension and ease access to young, unskilled work seekers.
- Only through effective partnerships across society can a virtuous cycle of rising confidence, rising investment, higher employment, rising productivity and incomes be generated.
- South Africa requires both a capable and developmental state, able to act to redress historical inequities and a vibrant and thriving private sector able to investment, employ people and penetrate global markets.

INTRODUCTION

Building on South Africa's progress in forging a democracy over the past 18 years, the country now enters a new 20-year phase of development, focused principally on the economic advancement of the poorest South Africans. This plan provides a detailed and holistic approach to the task; covering education, infrastructure, rural development, health care and social protection, among other issues. But most critically, to eliminate poverty, South Africa has to raise employment. This can happen only if the economy grows faster and in ways that draw in the historically disadvantaged.

This chapter principally deals with proposals to raise employment and economic growth. The key measures of economic success identified in the plan are that South Africa achieves average Gross Domestic Product (GDP) growth of over 5 percent, and that by 2030 GDP per capita is more than twice the present level, export growth has accelerated, income levels have risen above the poverty line for all, inequality has been substantially reduced, and unemployment has been reduced from 25 percent to 6 percent.

The first half of the 21st century offers South Africa enormous economic opportunities. It also promises unprecedented challenges and risks, which will be driven by both external developments and internal dynamics. While South Africa is too small an economy on the global stage to affect the direction of the changes to come, understanding and anticipating the drivers of change internationally could make the difference between economic success and failure. Similarly, pre-empting domestic and regional developments and dangers will affect outcomes. Choices made now on the basis of these insights will largely determine whether or not South Africa emerges in 2030 with a stronger economy and a more socially equitable society.

These goals will be achieved only if the country confronts current structural and policy weaknesses, minimises risks, and exploits its economic strengths in ways that benefit the most marginalised in society.

STRUCTURAL FEATURES OF THE SOUTH AFRICAN ECONOMY

The economic challenge

The fragility of South Africa's economy lies in the distorted pattern of ownership and economic exclusion created by apartheid policies. The effects of decades of racial exclusion are still evident in both employment levels and income differentials. The fault lines of these differentials are principally racially defined but also include skill levels, gender and location.

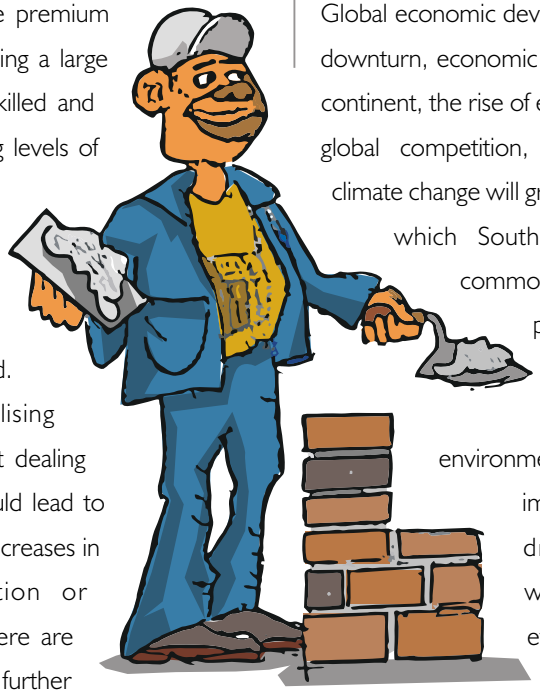
Consequently, South Africa has developed into one of the most unequal societies in the world, with very high levels of poverty, carrying all the attendant risks. In addition, the country has failed to reap a demographic dividend by harnessing the potential of a proportionately large cohort of working-age youth.

Our analysis of the problem indicates that South Africa is in a low growth, middle income trap. There are four key features of this trap that serve to reinforce each other. These are:

- Low levels of competition for goods and services
- Large numbers of work seekers who cannot enter the labour market
- Low savings
- A poor skills profile.

Uncompetitive goods and services markets are a result of the pattern of economic growth under apartheid and sanctions-induced isolation. This has led to relatively high profit margins but little new investment or innovation. Profits are shared and then consumed by both existing owners of capital and existing workers. Uncompetitive markets for

goods and services and low levels of investment mean that new firms are not entering the market and employment is low. Uncompetitive labour markets keep new entrants out and skew the economy towards high skills and high productivity sectors. Low savings mean that the country is reliant on foreign capital inflows, which reinforce the oligopolistic nature of the economy since foreign investors invest in existing high-profit firms. Skills constraints push up the premium for skilled labour, inducing a large gulf in the salaries of skilled and unskilled people, raising levels of inequality.



Overcoming these challenges is neither easy nor straightforward. For example, liberalising labour markets without dealing with other features could lead to higher profits without increases in investment, innovation or employment. While there are several sectors where further steps to increase competitiveness is required; distance from markets, the size of the market and its high cost structure make it difficult to break oligopolies. Even if it were possible to break the oligopolies leading to lower profits, this would not necessarily lead to higher investment and employment.

Other weaknesses in the South African economy include extreme pressure on natural resources, energy constraints, spatial misalignments, and limited access to large markets because of geographical distance.

South Africa is in the fortunate position of having areas of comparative advantage. These include its natural endowments (including minerals), a strong fiscal position, its location on the continent, a strong and deep financial services sector, quality universities and a small but sophisticated services industry.

In transforming the economy, South Africa faces several challenges, some of them external, some of them as a result of history or geography, and some because of limited capacity. Even where they are external, South Africa can and must plan for them. Global economic development and the economic downturn, economic performance on the African continent, the rise of emerging markets, intensified global competition, technological change and climate change will greatly influence the context in which South Africa operates. Global commodity prices will affect different parts of the economy differently. A global drive for compliance on environmental standards will have cost implications; but it will in turn drive innovation, reduce waste, improve energy efficiency and promote new investment. These external drivers are discussed in detail in chapter 1.

There are other structural factors that should heavily influence policy-making in the pursuit of full employment. In the first category are those that are common to economies similar to South Africa's. In the second are challenges and opportunities specific to this country.

Structural challenges in similar countries

Some of the structural challenges South Africa faces are not unique. Awareness is key to overcoming them.

Resource curse: Mineral-exporting economies tend to have difficulty diversifying their industrial base, and also experience slower than average

growth and high inequality. An exchange rate linked to commodity prices, rather than the sophistication of a nation's exports, is a major challenge. In addition to volatility, the exchange rate can become overvalued in periods where commodity prices rise, putting a brake on non-commodity exports. Activities that are not traded benefit, such as retail, banking, telephony and housing construction. Difficulties arise when the boom is over and goods producers are left weakened. Some firms have adapted to this cycle by producing for local or export markets depending on domestic market conditions and the exchange rate. This enables survival, but is not conducive to long-term planning and expansion.

Higher commodity prices buffer the economy and create the appearance of growth, leading governments and companies to become complacent and under-invest in people and productivity growth.

If these pitfalls are consciously avoided, and if the mineral endowments are used to facilitate long-term capabilities, these resources can serve as a springboard for a new wave of industrialisation and services for domestic use and exports.

Middle-income trap: Many economies that have achieved middle-income status struggle to shift further upwards. However, many have experienced substantial, albeit relatively slow, growth over the past decade. The differentiator is how much the country invests in human capital, product development and technology.

Global economic downturn: The global recession and its aftermath of slow growth have persisted since late 2007. Global growth is unlikely to recover rapidly. Slow growth could persist, because the unwinding of imbalances – such as excessive current-account surpluses and deficits, high levels of government debt, and the deleveraging process of businesses and households – is incomplete.

The worst-case scenario is a decade of slow growth, low demand for imports, low levels of employment growth and low interest rates, which fuel currency swings in emerging markets. At worst, slow growth in the United States, the European Union (EU) and Japan will negatively affect growth in Brazil, China and India because these richer countries remain major markets for the goods produced in developing countries.

The youth bulge: Many developing economies are experiencing a "youth bulge". A large economically-active population can contribute to falling poverty rates, though much depends on whether this population is activated. The changes in demography, particularly the increase in the numbers of people in the working-age cohort, can be a dividend or a burden.

The future of work: Manufacturing is becoming a proportionately smaller employer in upper-middle-income and high-income countries, with at least three quarters of new employment found in services. South Africa is no exception. Most jobs are found in domestically oriented services such as retail, personal services, security, domestic work and office cleaning, where productivity and wage growth is lower. Secondly, the nature of work is changing from most people having a single employer, a standard 40-hour working week and a standard set of benefits. Today many people work for several employers, work less than 40 hours a week and do not enjoy a standard package of benefits. This is a reality that we must grapple with, seeking to expand such employment while also improving the conditions of both existing workers and casual workers.

Resource-intensive economy: South Africa is the 27th largest economy in the world, but the 12th largest carbon dioxide emitter. This is mainly because the energy intensive economy is largely dependent on carbon-based fuels. As the world takes steps to cost the negative effects of carbon, South Africa is likely to face challenges (and opportunities) in reducing emissions. South Africa is also a dry country with limited fresh water resources. It will have to find ways of using water more sensibly and improving both the water and energy efficiency of industry.

SOUTH AFRICA AND THE CURRENT GLOBAL ECONOMIC CRISIS

This plan has a 20-year horizon. However, the immediate effects of the deepening global economic crisis cannot be ignored. While the United States economy is recovering, growth over the next decade is likely to be slow, largely because of high levels of public debt and European Union leaders' ability to find a credible solution to the sovereign debt crisis. While forecasts for developing economies are more upbeat; a recession in the EU, South Africa's largest trading partner, could further dampen growth.

What steps can South Africa take to mitigate the risks in the short term to medium term?

- **Counter-cyclical fiscal policy:** Government needs to build in macro-policy cushions to enable South Africa to counteract the effects of the financial crisis. Continued fiscal discipline is important, though a more expansionary stance might be necessary if the EU contracts.
- **Monetary policy:** A balancing act needs to be struck between curbing inflation — and keeping the embers of economic growth alive.
- **Preventing excessive overvaluation of the rand:** Low interest rates in developed countries contributed to the excessive strengthening of the rand exchange rate, weakening the ability of the economy to diversify. Prudent accumulation of foreign-exchange reserves is an appropriate response to such developments.
- **Stronger social security net:** A spike in unemployment must be met with interventions to protect the most vulnerable, particularly the young who cannot find jobs.
- **Protect sectors with long-term prospects:** Short-term support measures must be provided to industries hard hit by the cyclical downturn.
- **Re-orient trade to emerging markets:** Developing-country demand has been at the heart of the recovery in global trade. South Africa must shift its focus to opportunities on the rest of the continent, as well as in other developing countries.
- **Social dialogue:** A common front to forge joint solutions to the risks facing the economy must be found. South Africa cannot afford dysfunctional relationships among the public and private sectors, and civil society. They urgently need to find one another.
- **Work together:** Confidence has collapsed in high-income countries. Political systems are unable to come up with decisive actions. This is most evident in the inability of the United States senate to pass a jobs bill and the EU to come up with a solution to the debt crisis. The lesson is stark. Unless all sections of South African society work together across the political and class spectrum, it will be unable to weather the effects of the global crisis.

Structural challenges specific to South Africa

Some structural challenges are specific to South Africa, including:

- High levels of inequality and a relatively small market.
- Skewed ownership and control. The corporate landscape of South Africa has changed remarkably since 1994. However, it remains highly concentrated. This poses a barrier to business entry and expansion in key markets, which are essential for employment creation. Present forms of black economic empowerment (BEE) are not achieving all the desired objectives.
- Insufficient progress in advancing human development; whether in relation to education, health or safety.
- Extreme pressure on natural resources.
- An energy constraint that will act as a cap on growth and on options for industrialisation.
- Spatial misalignment whether in reference to the urban/rural divide or within urban areas, and binding constraints posed by poor physical planning and network infrastructure.
- Distance from main markets globally and limited market access.
- Implementation and coordination challenges.

There are also many favourable factors, such as growing middle strata, scientific capability and institutions, fiscal resources, capabilities in dynamic sectors that are growing globally, a strong minerals base in a context of a commodity boom, high education enrolments, being located in a high-growth region, and the fact that many challenges that would influence our success lie within our power to fix.

Some of the implications for South Africa are set out below:

- Recognise the importance of investing in the engine of growth (rising outputs from tradable sectors), the sources of jobs (often domestically oriented and services firms) and the linkages between the two.
- Develop flexible human settlements, responsive to changing locations of work (such as available rental stock, and good and affordable public transport systems).
- To raise the chances of achieving continuous work opportunities, South Africa will require labour-matching services, transition support and easy access to retraining.
- In the earlier years, as the country expands access to employment on a mass scale, a large proportion of working people will receive low pay. It is essential to reduce the cost of living in relation to food, transport, education, health and other basic services.
- The environment must be conducive to taking advantage of opportunities that arise. Create an enabling platform that allows people to respond to opportunities.
- The long-term solution to skewed ownership and control is to grow the economy rapidly and focus on spreading opportunities for black people as it grows. Improving standards of education; better support for entrepreneurs; and a focus on career mobility, workplace training and financial inclusion are ways to deal with these structural weaknesses. Government procurement, licensing and other forms of economic rents should help reduce racial patterns of ownership of wealth and income.

SUMMARY OF THE ECONOMIC PLAN

To pave the way for accelerated economic progress over the next 20 years, South Africa needs to make tough decisions that will involve compromise and trade-offs.

Any solution must tackle the problem holistically dealing with each of the features of the low growth

trap over time. Key proposals include:

- Raising exports while taking steps to prevent excessive overvaluation of the currency
- Improving skills development
- Breaking the disincentive to hire young, unskilled work seekers by incentivising the employment of young, unskilled work seekers
- Using fiscal policy to raise savings and investment and to reduce consumption
- Taking measures to increase competition in regulated sectors or broadening price regulation in sectors that are natural monopolies
- Lowering the costs of transport and logistics and investing in remedies to address spatial divides
- Strengthening the social wage to raise living standards of those out of work or in low paying jobs.

South Africa must develop a more competitive and diversified economy. The plan identifies three strategic interventions to underpin this process: raising levels of investment; improving skills and human-capital formation; and increasing net exports. Success on these three fronts will lead to rising employment, increased productivity, improved living standards and a decline in inequality.

Rising rates of investment will be achieved initially through state spending on infrastructure, largely aimed at "crowding in" private-sector investment. The focus needs to be on infrastructure that promotes efficiency in the economy and reduces costs for business and for individuals.

Private-sector investment can be stimulated by creating policy certainty and ensuring that all policies address the need for South African companies to be competitive. Businesses are also likely to invest more on the back of expanding consumer markets, including those on the rest of the continent.

South Africa must tackle the diversification of the economy from a range of angles. It needs to build on state capacity to identify sectors that will improve export opportunities. In addition, development finance can play a crucial role in promoting industrial policy. The government, in partnership with the private sector, must identify areas to nurture and support; develop sensible instruments to support those areas; and implement them competently. Support and protection should be focused on industries, not firms. At the same time the government must encourage vigorous competition and impose it through competition laws. Critically, industrial policy should allow for learnings and for timely exit strategies.

The proposals in the plan take cognisance of the fact that South Africa is a middle-income country. On the one hand, it cannot compete in low-skilled industries because cost structures are already too high. On the other hand, the country lacks the skills to compete with advanced manufacturing countries such as Germany. South Africa therefore needs to compete in the mid-skill manufacturing and service areas, and niche markets that do not require large economies of scale.

To stay competitive and to move up the value chain, three interventions are necessary: labour-market reforms aimed at promoting employment, particularly of young people; action to promote productivity gains and new entry by firms; and research and development (R&D) for innovation.

In the short to medium term, most jobs are likely to be created in small, often service-oriented businesses aimed at a market of larger firms and households with income. Rising export earnings and rising investment are prerequisites for these service-oriented jobs to be created. Public policy can be supportive through lowering barriers to entry, reducing regulatory red tape and providing an

entrepreneurial environment for business development. Significantly, these firms are often intensive in mid- and low-skilled employment.

A rise in exports is central to the plan. However, net exports will only rise if South African businesses become more competitive. This requires investment, but it also requires supportive macroeconomic policies.

This is especially true in a minerals-exporting economy where external prices can have a destabilising impact on the non-minerals sector. Counter-cyclical fiscal policy and low and stable inflation are key elements of this supportive macroeconomic approach.

LOWERING THE COST OF DOING BUSINESS

South Africa is a relatively small market, far from major trading partners. In addition, it has a history of economic development skewed by isolation and apartheid. These factors have resulted in major sectors of the economy developing in an uncompetitive manner, leading to a high cost structure. In a number of sectors, public and private monopolies have used their market dominance to charge high prices. This is especially damaging when these sectors provide critical inputs into the production process such as electricity or steel. Added to these factors, poor services by municipalities and utilities to businesses raise costs significantly.

The National Development Plan makes several proposals in the areas of regulatory reform, infrastructure investment, competition law and the quality of public services to address these structural features, thereby contributing to lower costs for businesses.

LOWERING THE COST OF LIVING FOR THE POOR

Reducing the cost of living for the poor is essential for achieving a social floor and enhancing peoples' lives and their opportunities to effectively participate in society and the economy. The main cost drivers for poor household are food and energy and, given the apartheid spatial legacy, the cost of transport.

Poor households feel the effects of food price increases much more severely than more affluent households. Furthermore, rural households pay more for a basic food basket than their urban counterparts because of the low volume of sales, limited competition, high transport costs and lack of adequate storage facilities in rural areas.

Reducing the cost of living for the poor requires a stable food inflation environment; provision of adequate, subsidised and reliable public transport; and a predictable energy price path.

The poor provision of public services, including education and health care, places additional cost burdens on poor households by forcing many to pay for private provision. Improving the provision of public services is important for lowering costs for poor households.

KEY ELEMENTS FOR EMPLOYMENT CREATION

Solving South Africa's most pressing problems involves implementing all aspects of the plan. In order to raise employment, South Africa needs better educational outcomes, a healthier population, better located and maintained infrastructure, a sound social safety net, a capable state and much lower levels of corruption.

This chapter focuses on efforts to grow the economy faster and to make it more labour-absorbing. With regard to current government policies and programmes, the New Growth Path is the government's key programme to take the country onto a higher growth trajectory. The New Growth Path is about creating the conditions for faster growth and employment through government investment, microeconomic reforms that lower the costs of business (and for poor households), competitive and equitable wage structures, and the effective unblocking of constraints to investment in specific sectors. The proposals in this chapter are largely consistent with these policies. They do, however, cover a longer time frame and the emphasis on catalysts and action steps may differ in some respects.

The New Growth Path and this plan are complementary in the effort to lower costs in the economy, especially as high costs contribute towards limiting employment growth and increase hardship for poor households.

In addition to lowering the cost of living for the poor, the vision and plan for the economy has five central elements, which are discussed in this section.

OBJECTIVES FOR EMPLOYMENT AND GROWTH TO 2030

The high-level numeric targets for sustainable and inclusive growth include:

- A fall in the strict unemployment rate from 25 percent to 14 percent in 2020 to 6 percent by 2030
- A rise in the labour force participation rate from 54 percent in 2010 to 65 percent
- About 11 million additional jobs by 2030.

EMPLOYMENT TARGETS (2010-2030)

Millions	2010	2015	2020	2030
Non-working age population	18	18.2	18.8	20.6
Working-age population (15-65)	32.4	35.1	36.5	38.8
Labour force participation rate, percentage	54%	57%	60%	65%
Labour force (million)	17.5	19.8	21.9	25.3
Age dependency, ratio	1.6	1.5	1.5	1.5
Employment target				
Unemployment rate, percentage	25%	20%	14%	6%
Employment (million)	13	15.8	18.9	23.8
Net new employment needed (million)	0	2.8	3	4.9
Dependency ratio	3.9	3.4	2.9	2.5

Under these conditions:

- About 41 percent of the working-age population between 15 and 64 would be employed. The aim is to increase this to 52 percent by 2020 and to 61 percent by 2030.
- Real GDP more than doubles (implying average GDP growth of 5.4 percent between 2011 and 2030. At this rate of growth, there will still be substantially more reliance on very low-income employment, survivalist activities and public employment schemes.
- The proportion of the population with income below the poverty measure of R418 per day (in 2009 rands) falls from 39 percent in 2009 to zero in 2030. The level of inequality will fall from 0.7 in 2010 to 0.6 by 2030. The share of income going to the bottom 40 percent of income earners rises from 6 percent to 10 percent.

On average, the dependency ratio (the number of people depending on one wage earner) will fall from 4 to 2.5. For low-income households, this ratio will fall from an average of 5 to 6 down to 4 to 5. A falling dependency ratio will be a central contributor to reducing poverty and inequality.

Creating an environment for sustainable employment and economic growth

The country has to develop the capabilities of the workforce on a broad scale. In that context, earnings will need to be realistic from the standpoint of long-term competitiveness, and sufficient to ensure a decent standard of living. South Africa will require a stable and constructive environment for bargaining and labour relations that supports investment but also secures human rights.

The rate of investment to GDP is expected to rise from 17 percent to 30 percent by 2030. This will happen incrementally, with substantial contributions from a gradually expanding pool of domestic savings as well as foreign capital. The direction of national resource allocation will be important, with a greater part of this investment supporting productive sectors with competitive advantage.

There are evident binding constraints on growth, investment and employment creation, identified in the Accelerated and Shared Growth Initiative for South Africa (AsgiSA) and the New Growth Path. These must be addressed much more rigorously and systematically than has been the case to date. The most urgent examples include: energy generation and distribution; urban planning approval processes; water supply and waste-water management; the logistics platform; telecommunications; and licensing for water, minerals and environmental permits. Regulatory certainty and institutional reforms will draw forth competitive outcomes in network industries.

Human development is an essential part of inclusive growth. Lower living costs (through targeted microeconomic reforms in transport, telecommunications, food and spatial planning), better-quality public services (especially in health and education) and a more comprehensive social security net will reduce pressure on households, particularly for low-income groups with limited earnings from work. This will improve individuals' ability to respond to labour-market opportunities and downturns, reducing the prevalence of crises that many households experience.

Macroeconomic policy helps minimise the impact of external shocks. Combined, these factors should enhance stability in low-income households, enable human capital development, and improve the chances of social and class mobility.

Promoting employment in labour-absorbing industries

A large percentage of the jobs will be created in domestic-oriented activities and in the services sector. Some 90 percent of jobs will be created in small and expanding firms. The economy will be more enabling of business entry and expansion, with an eye to credit and market access. By 2030, the share of small and medium-sized firms in output will grow substantially. Regulatory reform and support will boost mass entrepreneurship. Export growth, with appropriate linkages to the domestic economy, will play a major role in boosting growth and employment, with small- and medium-sized firms being the main employment creators.

Economic participation in rural areas will rise from 29 percent to 40 percent as a result of reformed land tenure, support to farmers, expanded social services, higher agricultural output, mining social investment and tourism.

Private and public-sector procurement will improve access to opportunities for small and medium enterprises. Human settlements and services will need to be conducive to small- and medium-enterprise expansion.

Public employment programmes are an essential element of any employment strategy. Taking on

board lessons from successes and failures in existing programmes, up to 1 million opportunities will be created annually by 2015, mostly through community-based services. As market-based employment expands, so these opportunities can be reduced. However, they will be needed in large numbers over the entire period.

Promoting exports and competitiveness

To expand production requires more active promotion of demand for South African products in domestic and foreign markets.

Policy will focus on developing areas of competitive advantage, where there are revealed strengths. In the process of implementation, it will be important to learn from success and failure and to withdraw from sectors where mistakes have been made. Playing a more pivotal role in regional development will be essential. South African companies will be encouraged to participate in regional infrastructure projects, but also in integrating regional supply chains to promote industrialisation (see Chapter 7).

The share of exports in South African output will rise and the profile will be more diverse, with a growing portion of non-mineral manufactures and services. A greater proportion of exports will be directed to emerging markets. Opportunities for increased trade and bilateral investment in Africa will develop. Offshore business services will be attracted, fuelling site developments and employment.

Expanded and diversified exports can be expected to increase employment and incomes through larger foreign exchange earnings, which enable the purchase of inputs for further industrialisation and infrastructure investments; an impetus for productivity and economic growth throughout the economy; and the creation of new jobs directly plus a more significant proportion of employment generated indirectly as a result of a concerted effort to promote linkages in domestic industries.

The diversification of trade will reduce the strong link to commodity cycles and the associated volatility in the exchange rate and earnings. This will cushion the economy from shocks, with sufficient reserves and fiscal space. In turn, a more stable environment for domestically oriented firms, which create the majority of employment, will emerge. Moreover, stability in exports reduces the risk of a foreign debt trap, protecting critical public-spending programmes.

Strengthening the capacity of the government to implement its economic policy

The South African state will be capable of implementing programmes and policies effectively and consistently, at least in priority areas. Accountability, combating corruption and professionalising the public service are of central importance. The country must exercise stronger oversight of public entities.

There must be a change in mind-set across all sectors of society – public, private and civil society – and increased focus on implementation and real change.

The government is responsible for a wide range of services for citizens and businesses, and functions through a number of spheres, agencies and institutions. Complexity and stretched capacity can blur focus, distracting attention from the critical problems. The government must therefore phase key strategies appropriately. Implementation of the economic policies presented here must be the top priority in the short to medium term.

Demonstrating strategic leadership among stakeholders to mobilise around a national vision

Given the scale and ambition of the task, all sections of society will have to provide leadership and vision. Leaders must be able to rally constituencies around long-term goals, recognising that benefits may be unevenly distributed and take time to realise. Similarly, leadership in the government must ensure a more concerted and coordinated effort to implement agreed programmes.

EMPLOYMENT SCENARIOS

The proposals in this plan are aimed at creating about 11 million net new jobs over this period, thus reducing the rate of unemployment to about 6 percent by 2030. This should be attained at the same time as South Africa increases labour-force participation rates from the current 54 percent of the working-age population to 61 percent. The specific targets and numbers for each period are outlined earlier in the chapter.

Baseline scenario (scenario 1): South Africa could continue along the current trajectory without any major improvements to the policy environment and with poor global economic conditions. While in this instance the country is able to meet some of its infrastructure commitments, the rate of investment in the economy is not much improved. More people are absorbed into the economy, but the unemployment rate declines only from the current 25 percent to 19 percent by 2030. Given the objective to create 11 million jobs by 2030, there would be a shortfall of 3.3 million. The deficit would have to be met through more than 5 million public-works job opportunities per year by 2030 (compared to the current 500 000 and the targeted 1 million job opportunities).

Solid minerals scenario (scenario 2): In a better global environment and with good performance on infrastructure programmes, the growth rate is much better and more people are employed. However, investment flows mainly to the most

FIG 3.1 INDICATIVE SCENARIOS - EMPLOYMENT OUTCOMES BY 2030

Sectors	2010	2030		
Thousands	Employment in 2010	Scenario 1 mediocre minerals	Scenario 2 solid minerals	Scenario 3 diversified
Agriculture	627	514	627	804
Mining	297	269	388	437
Manufacturing	1 556	1 880	2 169	2 289
Leader & high paid services (e.g. finance, transport)	2 025	3 009	3 657	4 188
Follower services (e.g. retail, personal services)	1 927	4 1801	4 875	4 967
Construction & utilities	828	1 054	1 278	1 407
Informal sector & domestic work; excl EPWP	2 922	4 093	4 604	5 012
Public sector, private social services & parastatals	2 529	3 278	3 518	4 225
Expanded Public Works Programme (EPWP)	420	5 483	2 644	431
Total	13 131	23 760	23 760	23 760
Average GDP growth		**3.3%**	**4.8%**	**5.4%**
Percentage working-age population working (excl EPWP)	41.0%	47.1%	54.4%	60.1%
Unemployment without EPWP	25.0%	27.7%	16.5%	7.7%

FIG 3.2 INDICATIVE SCENARIOS - SECTOR DISTRIBUTION OF EMPLOYMENT

Sectors	2010	2030		
		Scenario 1 mediocre minerals	Scenario 2 solid minerals	Scenario 3 diversified
Agriculture	4.8%	2.2%	2.6%	3.4%
Mining	2.3%	1.1%	1.6%	1.8%
Manufacturing	11.8%	7.9%	9.1%	9.6%
Leader & high paid services (e.g. finance, transport)	15.4%	12.7%	15.4%	17.6%
Follower services (e.g. retail, personal services)	14.7%	17.6%	20.5%	20.9%
Construction & utilities	6.3%	4.4%	5.4%	5.9%
Informal sector & domestic work; excl EPWP	22.3%	17.2%	19.4%	21.1%
Public sector, private social services & parastatals	19.3%	13.8%	14.8%	17.8%
EPWP	3.2%	23.1%	11.1%	1.8%
Total	100.0%	100.0%	100.0%	100.0%
Manufacturing as a % excluding informal sector & EPWP	15.2%	9.6%	11.3%	12.2%
High-skill services as a % of employment excluding informal sector & EPWP	18.9%	15.3%	19.1%	22.3%

profitable capital-intensive activities in mining, energy, chemicals and metals. As a result, most of the jobs are created in low-paid domestically oriented services, such as retail and business and personal services. In this instance, about 2.6 million public-works job opportunities would have to be created per year by 2030.

A diversified dynamic economy (scenario 3: the plan)

This plan proposes choices for a path that would lead to more substantial investments in strengthening municipal infrastructure and services, in strengthening education systems, and in generating access to capital for new and expanding firms. The Department of Trade and Industry develops partnerships with the private sector in positioning commercial representation in key export markets. Substantial investment is made in research and development and the commercialisation of South African innovations.

The substantial commitment to reducing the costs of production and living bears fruit, and South Africa becomes a more attractive investment destination. Improved efficiencies and oversight help to get the rapid increases in administered price inflation under control. A move to promote community-based house-building with innovative local inputs helps expand housing, supplier industries and related job creation. These actions improve wellbeing, so that although the majority of jobs created are still in low-skills services, families are able to achieve a decent standard of living.

The fall in production and living costs stimulates local production. As these industries expand, and value-added exports become a larger share of sales, so the rand becomes less subject to global swings. China and India grow rapidly, and the demand for commodities continues. South Africa sets up a Financial Centre for Africa to attract project finance and becomes well established as a financial and

services platform. Growing support from regional partners for this role is bolstered by substantial South African investment in major energy and infrastructure projects, as well as South Africa playing a greater role in promoting regional supply chains that underpin agricultural and industrial production in the region.

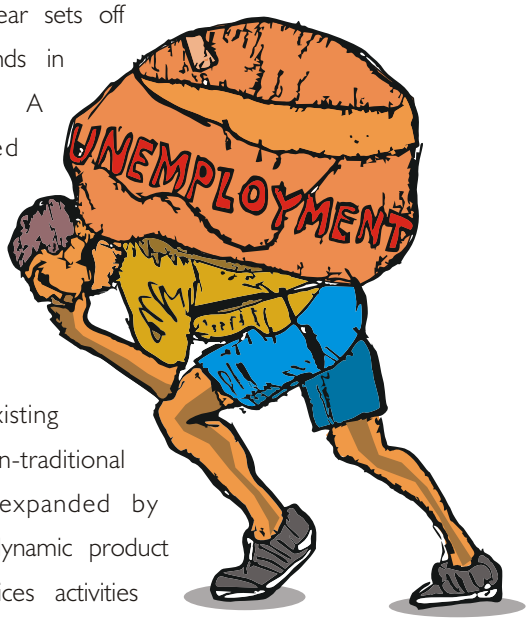
The expansion in offshore business services and related linkages stimulates almost 700 000 jobs, especially in Gauteng and the Western Cape.

Successful promotion of supplier industries to the mining industry have spin-offs in supplying global mining projects and also lateral linkages into other uses, such as water purification, electronics, and robotics. Progress is made in processing some of the minerals in the country, through clusters such as Platinum Group Metals and the production of about 25 percent of the global demand for fuel cells and related technologies.

Some of the preconditions for this growth path are:

- Strengthening commercial transport, telecommunications, energy, and water, especially in servicing municipalities and activities of an expanding small- and medium-sized cluster of firms. The approach to achieving competitive costs and productivity in economic infrastructure is discussed in chapter 4.
- Education, health and safer communities – the approach to achieving improved education and health outcomes to 2030 are discussed in chapters 9, 10 and 12.
- Human settlements and transport – improved alignment of human settlements and public-transport systems to the emerging forms of employment are discussed in chapter 8.
- Strengthening the capabilities of the workforce, ensuring that earnings are responsive to industrial demands, but also sufficient to ensure a minimum standard of living, and stabilising the environment for bargaining and labour relations in a way that is conducive to investment but also to human rights, are discussed in this chapter.
- Promoting the expansion of global market share in domestic and foreign markets.
- Playing a more pivotal role in regional development, including infrastructure investment, but also integrating supply chains.
- Strengthening public-service capabilities and the governance of state-owned enterprises, as discussed in chapter 13.

These improvements have a dynamic effect, where improvement in one year sets off activity with new rounds in subsequent years. A successful, diversified mineral-exporting economy involves success in exporting traditional products, as well as a growing role for activities linked to existing industries in new, non-traditional sectors. These are expanded by stimulating linkages in dynamic product areas and traded services activities where South Africa has a competitive advantage. In this case, domestically oriented services still play an important role in employment creation, in contributing over 40 percent of all new jobs, but the proportion is smaller. Manufacturing employment grows, but its share falls (although not by as much as in scenario 2) from 15 percent to 12 percent of formal employment. Almost a million jobs could be created in manufacturing over the 20 years. The share of high-value services rises to about 22 percent of formal employment, from 15 percent in 2010.



RURAL ECONOMIES

Rural economies will be activated through the stimulation of small-scale agriculture; tourism, including the creative and cultural industry; and mining investments and related spin-offs. Public-sector procurement will also be leveraged to stimulate local activity. Much will depend on strengthening local institutions, the flow of infrastructure funding, equitable social service provision, and addressing land tenure reform and regulation in respect of water and mining. The mining charter needs revision to improve the approach to community investment.

Spatial dynamics and rural employment

As discussed in detail in chapter 6, it is important to locate poor and unemployed people in better-situated land. This will make it easier and cheaper to access work opportunities, provide cheap and efficient public transport networks from existing townships, and encourage business activity (including labour-intensive manufacturing) close to dense townships.

These are costly and complex reforms to implement, requiring clearer planning legislation, including reforms in the management of land use, firm steps to limit urban sprawl, and prioritising urban transport networks that are adequately resourced and well run.

It is possible to raise employment in rural areas through a rural development strategy that raises agricultural output; provides basic services; supports small farmers; broadens land ownership; and invests in water, transport and other network infrastructure. A well-implemented strategy to boost agricultural output could create up to 1 million jobs by 2030.

TOWARDS FASTER GROWTH

The plan's central goals are expanding employment and entrepreneurial opportunities on the back of a growing, more inclusive economy. This will require deepening the productive base, whether in agriculture, mining, manufacturing or services. By 2030, South Africa should have a more diversified economy, with a higher global share of dynamic products, and greater depth and breadth of domestic linkages. It will need to intensify stimulation of local and foreign markets, as well as strengthen conditions to promote labour-absorbing activities. Traded activities will act as a spur to growth, as will stimulation of domestic opportunities and the linkages between the two. It will take decisive action on the part of the state and the other social partners for the country to break out of the current path dependency.

Achieving and sustaining a growth acceleration

The goal is to almost treble the size of the economy by 2030, so that 11 million more work opportunities are created.

Many countries achieve an accelerated rate of growth for, about, eight years. Very few sustain it. Only 13 countries have grown at an average of 7 percent a year for 20 years. There is no consensus on what accelerates growth and how to sustain it. Some economists propose a binding constraints approach: detecting the key constraints and eliminating them, and advancing to newer, more pressing constraints. This entails a state capable of singling out and agreeing on the main restriction, dealing effectively with it, and moving on to the next set of issues.

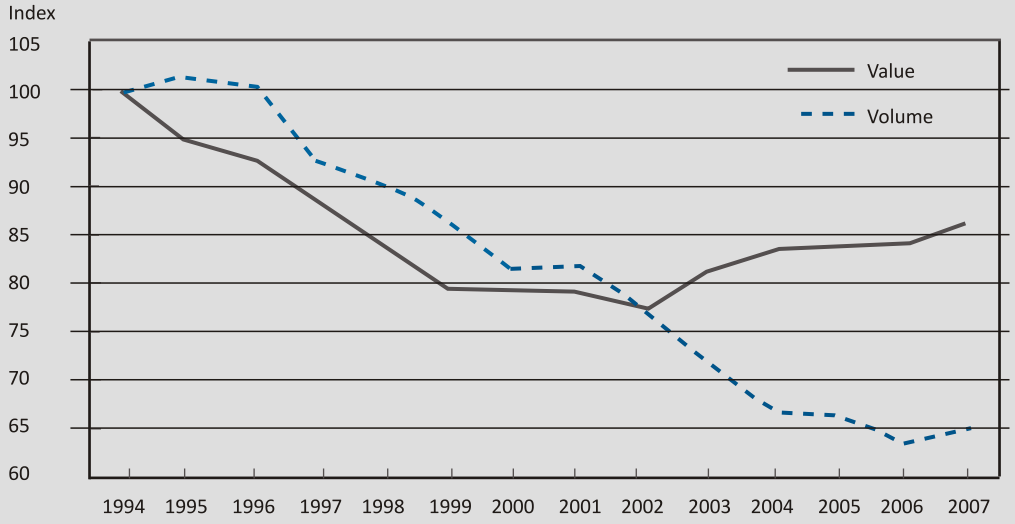
Growth acceleration might arise through an external shock that leads to rising terms of trade.[1] In African economies, this stimulus has come from rising demand for and prices of commodities. The external shock can begin such acceleration, but it will not sustain growth.

Countries can accelerate growth if firms respond to these incentives. Fig.3.3 shows rising value of South African exports since 2002, but falling volumes since 1996. This indicates poor responsiveness, cushioned by higher commodity prices. The reasons for this weak response are likely to be the "binding constraints".

Exchange-rate devaluations, in some countries, have had the effect of creating a growth spurt. However, this only works if firms can respond to opportunities and if labour and product markets are flexible enough to prevent the weaker currency from fuelling inflation. In South Africa, these conditions do not exist, though they can be developed over time. South Africa's present economic capabilities do not allow greater control over the exchange rate, although reducing volatility should receive greater attention.

This plan involves sequencing the identification of a select number of binding constraints to industrial

FIG 3.3 SOUTH AFRICAN EXPORTS - WORLD MARKET SHARE (1994 = 100)



Source: Organisation for Economic Cooperation and Development financial statistics database.

CONSTRAINTS

Labour-absorbing growth will be stimulated by identifying major constraints that hinder investment and production in key sectors. These can be addressed in a sequenced manner.

Committed action will lift some significant binding constraints. The first commitments will include constraints in electricity supply, water, business registration, urban planning approvals, mining licensing, and high-skilled labour supply – the elements that obstruct business. The rolling nature of this commitment is intended to support growth acceleration and sustain it over time, with a bias to labour absorption. Many of these are already policy commitments, but require rapid decision-making and strong institutional oversight.

expansion, eliminating them, then advancing to the next round of constraints.

Lifting those constraints to growth that are within power of policy-makers to influence can be an effective way of spurring growth. These must be factors that have an economy-wide effect on lowering prices or raising productivity, or else a targeted effect on groups of activities that underpin investment in dynamic sectors. Often a combination of actions is required, as one improvement in isolation may not be sufficiently enabling for firms.

Rapidly rising wages do not usually precede growth acceleration – they are more likely to follow the onset of a sustained acceleration by two to five years. This is particularly the case if the urgent focus is on access to employment opportunities for large numbers of workers, on the back of which qualitative improvements can be attained. This is a trade-off that South African society has to address. However, two qualifications should be attached to it: expanding access to new entrants should not be undertaken in a manner that lowers the working and remuneration conditions of existing employees; and the overall dispensation should include some sacrifices by management.

In summary, growth accelerations are associated with rising investment, rising productivity growth, increasing exports and rising employment.

Raising the rate of investment

A labour-absorbing growth path will rely on improved infrastructure and network services that support traditional industries, such as mining and agriculture, and newer dynamic industries and associated linkages. These services tend to account for a large proportion of domestic costs and can make a substantial difference to improving economy-wide efficiency and cost structures. In an

effort to promote an accelerated and sustained growth rate, these improvements can generate successive productivity spurts that begin a new round of growth.

Attaining a rate of fixed investment to GDP of 30 percent is a gradual process – taking perhaps a decade after an initial accelerated growth phase. If these rates of investment are not achieved, growth might be sustained if there is a significant rise in the productivity of capital.

The nature of infrastructure spending is important. Direct benefits from infrastructure investments that lower the real cost of transport services are generally more pronounced in industrial sectors. Infrastructure investment that reduces the real cost of communications network services extends greater direct benefits to the services sector groupings. However, given the links between sectors and sector groupings, the indirect lowering of network infrastructure costs must be considered. Investments that improve efficiency and reduce the cost of transport and communication to other productive sectors have the potential to enhance competitiveness in a way that boosts labour, rather than displacing it.

INVESTMENT

Raising the rate of investment will require measures to reduce business costs and uncertainty and enhance profitability, public sector commitment to capital investments and maintenance, and regional integration to expand the consumer base. The savings rate will ratchet up over time.

Rising fixed-capital formation does not guarantee growth or employment. It will only have this effect if output, and output per worker (or labour productivity), rises. This in turn implies falling employment per unit of output. Output must therefore rise fast enough to promote net employment growth. Fast-rising employment will depend on the expansion of highly labour-intensive, domestically oriented activities.

Rising rates of investment will be sourced from:

- Higher levels of public-sector fixed capital formation, especially in the earlier years, with an emphasis on infrastructure that promotes efficiency and reduces costs. Public-sector fixed capital formation's contribution to GDP should rise to 10 percent, which is consistent with ratios during high-growth phases in other countries.

- Private investment stimulated by expanding consumer markets, rising profitability, natural resources endowments and leveraging the country's position on the continent. It will be attracted by improved conditions created as a result of policy certainty, infrastructure delivery, efficiency of public services and the quality of labour.

- Foreign investment, which will have to play a significant role in a context of curbed savings. These investments lead to rising output, incomes and employment growth. Savings will rise. Over time, a larger share of investment should be funded domestically, but this will depend on how well resources are used in the short term to raise productivity, incomes and employment.

Gaining global market share

To optimise the impact of expanding exports, it is necessary to stimulate areas where there is a revealed competitive advantage and growing global demand, where the product would contribute to rising terms of trade, and where potential exists to expand domestic linkages.

South Africa has competitive capabilities in a range of minerals and fast-growing goods and service activities, although it is not gaining global market share. There is a high opportunity cost to this that needs investigation.

South African industrial policy will transition from its historical approach of favouring energy- and capital-intensive goods production, sometimes with limited domestic linkages, towards an increasingly diversified industrial base. It is often presumed that substantial employment might be created through trade in light manufactured goods. However, South Africa can only compete in labour-intensive activities on the basis of niche products, processes and know-how.

Trade in services deserves more attention. Some of the fastest-growing global segments are in finance and business services, where South Africa has capability. Tourism is another example, which already receives substantial attention. The country is not sufficiently exploiting demand for goods and services arising from South African investment in other countries.

Promoting structural change and stimulating new industries will require state intervention, including incentives, procurement, research and development, and infrastructure investment, to provide the right type of skills and to ease access in those sectors to other markets. If the activity is traded goods, the World Trade Organisation defines permissible subsidies as those that support only human or technology development, or site or infrastructure. If the traded activity is a service, there are few, if any, limits imposed by global regulations.

South Africa has made substantial use of trade-related benefits, especially to promote the automotive and clothing sectors, with tradable duty-free import permits linked to export performance.

The country will have to adopt a more forceful approach to market-access arrangements, as well as a commitment to commercial presence in key export markets.

GLOBAL MARKET SHARE

Opportunities to raise the share of employment in traded activities sustainably will be identified and stimulated. These will be found in clusters centred on agriculture, mining, manufacturing and services, where South Africa has proven competitive advantage and initial capabilities in dynamic products with the potential for expanded domestic linkages. Industrial zone developments and trade promotion will rely on competitive logistics, services, skills, product capabilities and market access. South Africa will find it difficult to compete with low-income economies on the basis of labour cost, unless it focuses simultaneously on lowering the cost of living and logistics costs for these products, and considers subsidising some low-skill sectors.

South Africa will strengthen its positioning for offshore business services, taking advantage of its telecommunications, banking and retail firms operating in other countries.

Strong economic diplomatic presence will be established in countries with the potential for expanded market share. Trade will be diversified towards emerging economies by improving market access for South African exports, working with regional trading partners to lower tariff and non-tariff barriers, and improving transport and logistics networks in the region.

Developing true partnerships between business and government will be essential. Cooperation can support market penetration globally. South Africa will also support domestic cluster development.

The tariff structure will be simplified while recognising the need for tariffs in specific areas. In addition, more emphasis will be given to offensive interests by seeking greater multilateral liberalisation from large emerging economies. Protection against unfair trading practices will be an essential barrier to undercutting domestic producers.

Stimulating domestically oriented activity

Most new employment will arise in domestically oriented activities, where global competition is less intense and there is high labour component. It may be functionally possible to trade in these activities, but in essence, they must take place where the demand exists. Examples include housing construction, retail, personal services such as hairdressing or cleaning, and business services such as office cleaning or repair. The environment for small-scale agricultural producers will also be improved. The stimulation of demand for these goods and services, support for small firms, access to credit, and easing of the regulatory environment could help to make these activities absorb more labour. The challenge is that the productivity of

these activities is lower than the rest of the economy, and can have the effect of dampening potential growth.

A number of countries have effectively promoted industrial development through local procurement rules. Two recent policy efforts will form an important foundation for promoting procurement. The Preferential Procurement Policy Framework Act (2000) and the Revised Preferential Procurement Regulations (2011) constitute an important step in stimulating local production through public-sector procurement. This effort must be stepped up, alongside strengthened public-procurement systems. A Local Procurement Accord, negotiated through the Department of Economic Development and social partners, commits both the private and the public sectors to ambitious targets in respect of the localisation of procurement. However, efforts to stimulate local procurement should not reinforce higher costs for the public sector and business because this will undermine growth and job creation.

STIMULATING DOMESTIC DEMAND

Domestically oriented industries will be actively stimulated, as they will be the main source of employment creation. Public and private procurement will be important sources of demand, enabling market entry in a highly concentrated environment. Small-business support and special sector-targeting measures will be pursued and are discussed in sections below.

South Africa as an integral part of regional growth

Leveraging a regional platform will be an essential part of a growth strategy. Each market is relatively small, but together they create a substantial consumer base that could attract foreign investment. Economies of scale and scope could be enabled through this larger market and through regional production chains. South Africa's growth potential will be tightly linked to that of the region.

Currently less than 6 percent of South Africa's merchandise imports are sourced from the Southern African Development Community (SADC), while more than 18 percent of the country's merchandise exports are to other SADC countries.

Commodities are an important driver, and currently account for 32 percent of growth. Commodity investments, large infrastructure projects and growing consumer demand are potential opportunities for South African companies, along with consequent regional growth in consumer demand. The extent to which this potential can be unlocked will depend on how the continent deals with barriers to trade and investment, and implements agreements on regional integration.

South Africa will have to develop strategic relationships across the continent and further afield. This will depend on trade negotiating capabilities, as well as the ability to leverage project finance for regional investments. Bilateral agreements are crucial.

The current strategy rests on leveraging African growth, which has been faster than South Africa's.

South Africa therefore needs to fulfil a more active and integrating role within the region. This may

entail shifting activities that cannot be undertaken competitively in South Africa to lower-cost environments. In southern Africa's case, this could include integrating farmers (and intermediate-input suppliers) within the region into supply chains, and shifting production of some of the more highly commoditised products. Similarly, geographic diversification of South Africa's power sources could reduce risks of supply constraints, assist in correcting trade imbalances, and help to increase regional demand for South African exports. In the area of tourism, rising costs in South Africa can be partially offset by the packaging and marketing of regional tourism destinations together with South African ones – so that the relative attractiveness of both the local and regional offerings are enhanced and sustained. This could necessitate a different approach towards the development and expansion of regional transport routes and modes.

REGIONAL OPPORTUNITIES

South Africa will act as a spur to regional growth, rather than merely relying on it. This will involve greater commitment to regional industrialisation and supply chain linkages, shifting trade balances, power purchase agreements, the establishment of a Financial Centre for Africa, and substantially more financial resources devoted to funding projects in the region with linkages to South African companies.

By 2030, regional cooperation and integration in southern Africa and the continent will have produced demonstrable benefits for South Africa and its neighbours, boosting economic growth and social welfare (employment and incomes), as well as giving the region greater voice and influence in international forums. Progress in relation to regional integration will be reflected in the increasing share of intra-African trade in total continental trade: an estimated doubling from current levels of about 10 percent by 2030. The approach to achieving this result is outlined in the chapter on South Africa in the region and the world (chapter 7).

NATIONAL SYSTEMS OF INNOVATION AND LEARNING PERMEATE SOCIETY AND BUSINESS

Continuous learning and innovation are essential ingredients for the success of middle- and upper-income economies. A substantial research and development sector, with support for the commercialisation of innovation, is essential. However, learning, innovation and process improvements often take place in incremental steps on the shop floor if there is a conducive environment. A stronger system of labour relations and improved shop-floor relations and communication will promote learning feedback loops within existing firms.

Accelerated technological redundancy and reduced product lifecycles create opportunities for new industrial firms to enter new product segments, but they also increase the risk to established firms and product segments. The policies and institutions that will support the formation of new, dynamic market segments will need to be agile, efficient, dynamic and self-correcting. They must help firms discover new lines of competitive advantage.

Global experience indicates that while growth in export earnings can encourage higher imports, it does not necessarily generate technological innovation and broad-based, export-led economic growth. In shifting to a more dynamic economy, the country must allow structural change arising from technological redundancy. It is unclear how South Africa will manage the implications of such shifts for the output and employment of existing, but no longer viable, firms. The best solution is for the state to play an active role both in funding research and development and in guiding the type of research that the private and public sectors conduct. Despite an excellent set of science institutions, research priorities are not always consistent with South Africa's competitive advantage or growth strategy. Often the country looks far afield when the base for innovation and new product development are linked to existing industries and firms. A well-functioning research capacity is vital in sustaining growth and improving productivity. Chapter 9 considers implications for the education system.

A RESPONSIVE LABOUR MARKET

By 2030, the South African economy should generate sufficient opportunity that enables those who want to work the access and possibility to do so. It should create opportunities and work for all, while ensuring human rights, labour standards and democratic representation. Progressively over time, the vision of decent work should be achieved, in an expanding economy, with rising skill levels. Constructive labour relations should be conducive to an inclusive economy..

INNOVATION

South Africa's competitiveness will rely on national systems of innovation, permeating the culture of business and society. Innovation and learning must become integral. This will require interventions from the schooling system, through to shop-floor behaviour, to research and development spending and commercialisation. Public policy could focus on research and development in existing areas of competitive advantage, where global markets are set to grow. These include high-value agriculture, mining inputs and downstream processing, innovation to meet environmental and energy efficiency objectives, and financial services.

The labour regime will become more responsive to the challenge of simultaneously expanding employment opportunities, raising living standards and reducing inequality. The labour environment operates in a context of slow growth, insufficient levels of employment, and weak skills. Issues that need attention include:

- Improving access to lifelong learning and career advancement
- Improving labour market matching and transitions
- Stabilising the labour environment, improving dispute resolution and shop-floor relations
- Clarifying dismissal and retrenchment provisions in the Labour Relations Act (1995) Code of Good Practice and its management
- Strengthening the labour courts, bargaining councils and resourcing the Commission for Conciliation, Mediation and Arbitration (CCMA)
- Reviewing regulations and standards for small and medium sized enterprises
- Addressingf essential services.

Labour relations involve buyers and sellers in a highly contested terrain. In South Africa, there are extreme income and wage inequalities. Achieving desired social objectives is a challenge, particularly given the competing interests of reducing mass unemployment, raising living standards and closing the earnings gap. In the earlier phase of the plan, emphasis will have to be placed on mass access to jobs while maintaining standards where decent jobs already exist.

Historically, race-based labour rules entrenched apartheid injustice and increased inequality. The central roles of the new labour regime were to define and protect against unfair labour practices; minimise dispute settlement costs, ensuring visibly fair outcomes; promote collaboration between workers and employers to enable industrial expansion, with visibly fair distribution of benefits; and overcome obstacles to skills development and career mobility.

Wage determination in the private sector

Wage determination must be conducive to employment and equity objectives. Some considerations include:

- Ensuring a fair division of earnings in a context of extreme inequality
- Determining affordable wages that support economic expansion
- Recognising the need to achieve a social floor, including the social wage (for example free basic services and transport costs) and measures to reduce inflation of basic commodities and that of administered prices.

From a 20-year perspective, real wage growth will have to be linked to productivity growth – although it is possible for it to veer off for a few years, it is not feasible to sustain a labour-absorbing path unless both are growing in tandem. This is a sensitive, but central point. Raising economy-wide and intra-firm productivity will help achieve rising real wages and expanding employment.

In 2010, the median income from work was R2 800 per month overall, and R3 683 per month in the non-agricultural formal sector. The bottom 25 percent of workers averaged R1 500 per month, the top 25 percent R6 500, and the top 5 percent R17 000. Within the top 5 percent, there is significant upward variation. The variation by race and gender is substantial. Average earnings for women are 25–50 percent less than for men. In the bottom 50 percent of earners, the average earnings of African workers is one-quarter to one-fifth that of their white counterparts. With high dependency ratios in low-income households, the majority of working people live near or below the poverty line. Addressing this tension requires an appreciation of the multi-dimensional relationships among a variety

of factors. Mass labour absorption will reduce the dependency ratio and thus lift the pressure on the employed. State interventions and cooperative relations with business will help reduce prices of basic commodities and improve the social wage. Employers will have to commit to higher rates of investment and labour absorption, and equitable sharing of the benefits of higher growth and productivity. Measures such as entry-level wage flexibility should be encouraged, but should not be exploited to displace experienced workers. In other words, there should be commitment to achieving the objectives agreed upon, within rules that are jointly developed.

Public-sector labour relations should be conducive to delivery and employment objectives

The public sector is the largest employer and lies at the heart of service delivery. Its labour regime has to be conducive to service-delivery and developmental objectives.

The current system of managing disputes in essential services such as health, education and policing does not enable public-sector productivity. Extended strike action can undermine the delivery of essential services. The current system neither discourages strike action, nor inspires confidence in other ways of addressing disputes and grievances. Improved relations and commitments between the employer and organised labour are required to achieve a more effective working environment. A clear definition for essential services is required. The determinations of appropriate sanctions are required where essential services and minimum service level agreements are not upheld. Similarly, expectations of the state as employer to implement agreements on wages and conditions are required, and appropriate sanctions set where these are not implemented timeously.

There have already been substantial movements towards improved pay equity in the public service. The public-sector wage bill has grown rapidly over the past few years and is set to exceed one-third of total government expenditure. The levels need to be sustainable. The Commission recommends that multi-year agreements be reached on public-service pay, and this is determined in line with the national budget process.

Another reason for strike action in the public sector is that its bargaining council represents different occupations and skill levels, leading to conflation of priorities and bargaining position. The Commission therefore recommends that the public service bargaining council be reformed, and that the chamber be broken into various separate chambers, based on the occupations and skills levels in the public service.

Skills supply

Chapter 9 deals extensively with education and training. To deal with the skills crisis the Commission has identified improving the quality of education outcomes throughout the education system as one of the highest priorities over the next 18 years, and beyond. This includes the post-school system which the Commission believes must provide quality learning opportunities for young people; adults who want to change careers or upgrade skills; people who have left school before completing their secondary education; and unemployed people who wish to start a career (see chapter 9 improving education, training and innovation for the detailed proposals).

Active labour-market policies

In South Africa, most low-income households live far from the centres of economic activity. The costs of searching for and getting to work are high, and information about work is often unavailable. In this context, labour-market services are extremely important, including those that prepare

workseekers and match them with opportunities.

In addition, low-cost and efficient public transport is essential – the approach to achieving this is discussed in the chapter on human settlements (chapter 8).

Several labour-market experiments will be put into action from 2012. The following proposals will strengthen labour matching and increase skills development and supply:

- Provide driver training for school leavers.
- Offer a tax subsidy to employers to reduce the initial cost of hiring young labour-market entrants; and facilitate agreement between employers and the unions on entry-level wages.
- Give a subsidy to the placement sector to identify and prepare matric graduates, and place them in work opportunities. The placement company would be paid upon successful placement. This should be complemented by strengthening the ability of the Department of Labour's labour centres to match supply and demand in the labour market.
- Extend the non-state-sector Expanded Public Works Programme's employment incentive, aimed at increasing employment in non-profit organisations.
- Expand learnerships and make training vouchers directly available to workseekers.
- Create employee retention schemes to offer short-time work during periods of low demand.
- Provide access to lifelong learning that improves employability and institute measures to expand further and higher education throughput and quality (as discussed in chapter 9).
- Adopt a more open approach to skilled immigration to expand the supply of high skills in the short term, in a manner that obviates displacement of South Africans.

Labour-market regulation

To achieve a "decent work" agenda, one must balance faster expansion in employment opportunities with the protection of human rights. Policy intervention will be required to improve employment creation and labour protection. The main areas that require attention are:

- An approach to handling probationary periods that reflects the intention of probation
- An approach that simplifies dismissal procedures for poor performance or misconduct
- An effective approach to regulating temporary employment services
- Monitoring compliance to statutory sectoral minimum wages
- Implementing and monitoring health and safety regulations
- Strengthening the CCMA and the Labour Court in dispute resolution and to support trade unions and employers in managing shop-floor relations
- Limiting the access of senior managers who earn above R300 000 to the CCMA, given that their employment contracts better regulate dismissal procedures.

Approach to probation and dismissals

Probation allows employers to assess the suitability of employees. It is set for a specified period, often six months, to determine whether a new employee fits in based on capability, performance, personality, culture and other factors. Probation allows the new employee the opportunity to perform, but also gives the employer the chance to avoid undue risk. Uncertainty about the application of current provisions undermines the willingness of firms to hire inexperienced workers.

To ease entry into formal work opportunities, ordinary unfair dismissal protections should not apply to employees on probation, up to a limit of six

months of service. This means that the contract is assumed to be limited to the probationary period, unless confirmed otherwise. To prevent the abuse of terminating and re-employing just before the probationary period expires, the period of service could include all previous service with the employer, whether directly or through a temporary placement agency.

Dismissals: misconduct or poor performance

Pre-dismissal procedures in cases of misconduct or poor performance are of concern to employers. The Code of Good Practice has a simple set of guidelines for such cases. However, experience has not reflected this simplicity. The old Industrial Court developed jurisprudence under the old Labour Relations Act (1956) that imposed strict procedural requirements on pre-dismissal hearings. Despite the amended act trying to break from this approach, lawyers, arbitrators and judges continue to apply technical and exacting jurisprudence in applying the new act. Rulings from the Labour Court have clarified that the "criminal model" of procedural fairness is not consistent with the 1996 act and arbitrators are required to follow a less technical approach. The procedures, however, remain strict and formulaic, and are inconsistent with legislation on the statute books. There is also anecdotal evidence of excessive reversal of dismissals on procedural rather than substantive grounds.

To reduce the regulatory burden, we recommend that the pre-dismissal procedure requirements be revisited to simplify the procedures. Any appeal or reversal of a dismissal should be ruled on substantive and not procedural grounds, except in the case of constructive dismissal.

Labour regulation for small business

Small businesses highlight the obligations of labour legislation as one of their main regulatory burdens, arguing that they generally do not have the financial or administrative resources to comply with all regulatory requirements. This does not, however, imply that these businesses should be exempt from labour regulatory requirements, as complete exemption may act as a perverse incentive for a race to the bottom among small business and for larger employers to reduce their workforce to circumvent labour regulation.

To reduce the regulatory burden on small- and medium-sized enterprises, we recommend that the Code of Good Practice clearly lay out procedures appropriate to small business.

Compliance requirements and regulations for reporting on employment equity and skills development should be simplified for small firms, or even eliminated for very small firms.

Regulating temporary employment services

Private temporary employment and placement services have significantly contributed to labour-market matching in the past two decades. This may partly be explained by formal employers seeking to circumvent labour regulations. It may also be caused by the rapid expansion of services sectors, which have been the main source of employment growth. Bhorat[3] estimates that 900 000 people have been given some work opportunity as a result of temporary employment services. These services are essential given the fragmented labour market, where low-income households are generally far from economic opportunity and have weak labour-market networks. Most new opportunities are in services activities, which often involve changing jobs periodically. These employment services raise the chance of achieving more regularised employment, as well as access to skills training for new placements. They also provide access to benefits for workers.

To ensure that the opportunity for labour matching is available to vulnerable workers, while protecting their basic labour rights, South Africa needs to regulate the private labour placement sector and temporary employment services effectively. Some basic provisions could ensure that after a worker had spent six months with a temporary employment service and/or client, the two would be jointly and severally liable for unfair dismissal and unfair labour practices. The temporary employment service would be responsible for the employment relationship with regard to the Unemployment Insurance Fund, the Compensation for Occupational Injuries and Diseases Act (1993), the Basic Conditions of Employment Act (1997, as amended) and the Skills Development Act (1998).

Strengthening the ccma, the bargaining councils and the labour court

The CCMA and bargaining councils

The CCMA is an independent institution overseen by a tripartite governing body. This system was intended to provide cheap, quick, accessible and informal dispute resolution. Cases not settled by mediation or arbitration are referred to the Labour Court.

The Bargaining Councils play an essential role in dispute resolution within their respective sectors. They typically handle 90 000 cases a year. The CCMA plays a larger role for unorganised sectors, such as domestic workers.

The resources provided to the CCMA must be in line with the pressures of cases handled. The CCMA's funding model requires review and deepening, along with recognition of the need for its enhanced role in developing capacity for conciliation, mediation and arbitration for the parties.

Labour relations have become fraught over the past few years and this has increased the workload and effectiveness of the organisation. Reduced negotiating capacity, the re-emergence of non-work-place issues in wage negotiations, and the rise of general mistrust between parties and has resulted in a rise in cases referred to the Labour Court.

To deal with this, the CCMA is introducing negotiating training forums and mediation capacity-building for parties. The operational efficiencies of this institution are important for the effective operation of the labour market. The Commission recommends additional support for the CCMA.

The Labour Court

Labour courts are specialist courts with national jurisdiction and have the same status as the High Court of South Africa.

The Labour Court handles only a fraction of all disputes, as intended by the new labour regulatory regime. Even so, the courts are not handling this reduced caseload well. Only 20 percent of reviews lodged with the labour courts in the first 10 years of the CCMA's operation have been finalised. It takes an average of 24 months for a review application to be heard in the Labour Court. In the Labour Appeal Court, reports of delays between 12 and 18 months between date of hearing and date of judgment are not uncommon.

The Commission recommends a review of the funding model and the operational functionality of the Labour Court and Labour Appeals Court.

PROVIDING A STABLE AND ENABLING MACROECONOMIC PLATFORM

MACROECONOMY

A stable and enabling macroeconomic platform will underpin sustainable growth and employment creation. Within the framework of a floating exchange rate, the government will explore approaches to protecting firms from rand volatility. It will devote considerable attention to fiscal impact on development, through improved efficiency in government spending, and an appropriate balance between investment and consumption expenditures

A stable and enabling macroeconomic platform will underpin sustainable growth and employment creation. Macroeconomic policy serves as a foundation for growth and development. It must support the country's overall development strategy and contribute towards higher growth and employment.

The principal task of macroeconomic policy is to provide a stable and enabling platform upon which firms and individuals invest, work and consume. A crucial role for macroeconomic policy is to minimise the cost of shocks to the economy, especially in its impact on workers and the poor. It does this by ensuring relative stability in prices, and in critical variables, such as interest rates and the exchange rate. There is an inherent trade-off among stable prices, interest rates and exchange rates when the price of leading imports and exports change.

The success of the development plan will depend on supporting investment, especially domestic investment; incentivising savings; and enabling firms and individuals to take a longer-term perspective of economic opportunity. Given South Africa's economic circumstances, a floating exchange rate is the most sensible instrument to protect the economy from external shocks. For example, if the oil price rises by 10 percent under a fixed exchange-rate regime, the price of fuel will rise by a similar magnitude. However, under a floating exchange rate, an appreciation of the currency can offset the need for a fuel price rise. Similarly, if the gold or platinum price falls sharply, a weaker exchange rate can smooth out the rand earnings of these commodities.

The rand is a highly volatile currency, militating against long-term expansion in goods production and diversification, and constraining small firms. Policy should focus on minimising the impact of this volatility on the real economy. Higher reserves, higher savings rates, a more diversified economy (and export basket), prudent and countercyclical fiscal management, sensible mineral royalty regimes and macroprudential regulations[4] all help to provide the stable platform for investment, growth and employment creation.

Additional steps can be taken to help protect the economy from an overvalued exchange rate when commodity prices are high. Running a budget surplus and faster accumulation of reserves helps to weaken the exchange rate. The mandate of the Reserve Bank gives it the licence to take factors such as the exchange rate and employment into account in conducting monetary policy. Rand volatility poses great difficulty for both exporters and importers, and for small- and medium-sized enterprises in particular. An approach will be required to buffer smaller firms from rand volatility.

The balance in expenditure between consumption and investment will be key to delivering higher growth and employment. Significant choices are to

be made among public-sector wage levels, the size of the public sector, and the allocation to investment. The budget should prioritise those investments that raise economic growth and that improve people's capabilities.

Development-finance institutions are part of the overall fiscal armoury of the state. They partner the private sector in lowering risk, take a long-term perspective towards investment, and promote the government's development objectives. Development-finance institutions in the industrial, infrastructure, agricultural and housing sectors are central to the plan to raise growth and employment. Measures will have to be instituted to ensure that they operate efficiently and have sound balance sheets, for them to meet their development mandate.

ECONOMIC TRANSFORMATION

Economic transformation is about broadening opportunities for all South Africans, but particularly for the historically disadvantaged. It is about raising employment, reducing poverty and inequality, and raising standards of living and education. It includes broadening ownership and control of capital accumulation. In addition, it is about broadening access to services such banking services, mortgage loans, telecoms and broadband services, and reasonably priced retail services. It is also about equity in life chances and encompasses an ethos of inclusiveness that is presently missing. This includes equity in ownership of assets, income distribution and access to management, professions and skilled jobs.

Employment equity and workplace opportunity

Employment equity in the workplace is a key element of the country's plans to broaden opportunities for the historically disadvantaged. Since 1994, it has successfully contributed to a growing black middle class. It is a policy premised on the fundamental acceptance that opportunity was distorted by apartheid and that rectifying this is a logical, moral and constitutional imperative.

For at least the next decade, employment equity should focus mainly on providing opportunities for younger people from historically disadvantaged communities who remain largely marginalised. More specifically, race and gender should continue to be the main determinants of selection. This will ensure that society is able to utilise the totality of the country's human resources, and also help improve social cohesion . It will be critical in this regard to put in place a more robust and efficient monitoring and enforcement system.

The Employment Equity Act (1998) states that if two candidates have the same qualifications, similar competencies and experience, then the black person or woman should be selected. The act does not encourage the appointment of people without the requisite qualifications, experience or competence. If these provisions were implemented consistently and fairly, the act would enjoy broader support and appeal among citizens.

The intention of the act is to encourage firms to develop their own human potential. This requires spending time and resources mentoring and developing staff. Staff training, career-pathing and mobility in the workplace will grow both the person and the company. South African employers spend too little on training their staff and investing in their long-term potential. If more staff were trained, the economy would do better and the incentive to job-hop would be reduced. Short-term solutions, such as overpaying for scarce skills, are counterproductive to the long-term development of both the individual and the company. The government may need to review the present incentive structure embodied in the Skills Development Act to ensure higher spending on staff development.

Two other factors affect skills and staff development: rapid economic growth, which will lead to greater career opportunities and rising incomes; and an improved education system, producing ever greater numbers of skilled black and female work entrants.

Transforming ownership of the economy

BEE largely focuses on broadening ownership and control of capital accumulation. It aims to de-racialise ownership structures as well as the top echelons of the business community.

Two potential avenues exist for ensuring greater black ownership and control: the first is through redistribution, and the second is through ensuring that new growth is skewed towards black entrepreneurs.

Most BEE has taken place through the first avenue as deals have been struck to enable black ownership of large firms. There has been less success in implementing the second opportunity, which focuses on growing entrepreneurs including small businesses.

Instruments to drive empowerment include:

- Licensing arrangements in mining, telecoms and broadcasting
- Preferential procurement legislation
- BEE charters, the codes and the BEE scorecard
- Development Finance Institutions which either specifically seeks to broaden black ownership or generally seeks to grow new sectors.

The combined effect of the legislation is that major companies must meet targets on seven elements of BBBEE: ownership, management control, employment equity, skills development, preferential procurement, enterprise development and socioeconomic development.

The present model of BEE has not succeeded to any considerable degree in broadening the scope of ownership and control of large firms. However, there have been difficulties. These include:

- Lack of capital to acquire ownership or control of major parts of the economy. This has encouraged debt-driven deals that are likely to work only when the economy is growing rapidly and company profitability is expanding significantly.

- There have been some positive spin-offs from procurement policy. In many instances it has enabled fast and more visible growth of black entrepreneurs. However, this has also created perverse incentives such as causing job losses when firms import goods rather than use local producers. In addition, the current processes are riddled with corruption and incompetency.

- Misaligned targets and definitions between the BBBEE Act (2003) and the codes and the sector charters, and the other redress legislation such as the Employment Equity Act and the Public Finance Management Act (1999).

To overcome these challenges, the Commission makes a number of proposals for transforming the ownership of the economy. They include:

- Creating an enabling environment for small, micro and medium enterprises and entrepreneurs to thrive. This includes inculcating the spirit of entrepreneurship in schools, lowering the cost of doing business in the economy, and reducing barriers to entry in various value chains.

- Aligning all legislation and the codes and charters that flow from the BBBEE Act. This process has begun and should continue to ensure that the state procurement lever is used more effectively to advance socioeconomic targets in certain

geographies and industries. Mandatory targets for socioeconomic development and job creation for all tenders above R10 million should be introduced.

- The National Empowerment Fund must be resourced adequately to execute its mandate. It must strengthen its support to black-owned small and medium sized enterprises as well as strengthen and expand the provision of finance and other support to new black industrialists and entrepreneurs. This should not just be in the form of financial support, but must also include enabling market access and the removal of administrative and regulatory burdens on small businesses.

- The state must develop capacity to optimise returns from South Africa's natural resources. Rent collected from mining companies should be used to drive an accelerated development agenda for skills development and sustainable job creation.

Land reform

The Constitution protects property rights and prevents confiscation of property without due compensation. However, it also provides a legal, political and moral basis for redress measures such as land reform. Flowing from the Constitution, the White Paper on land allows for land redistribution, land restitution and tenure reform. The principles underpinning land reform are threefold:

- De-racialising the rural economy
- Democratic and equitable land allocation and use across race, gender and class
- A sustained production discipline for food security.

Overall progress has been slow. In 1994, the target for redistribution based on all three pillars was 30 percent of land to be redistributed in five years. By 2011, only 4.1 percent of land had been redistributed, most of which was state land. The rate for productive land has been even slower: only 3.7 percent of agricultural land has been redistributed since 1994.

Chapter 6, which deals with an integrated and inclusive rural economy, provides specific proposals to raise agricultural production and effect land reform in a way that focuses both on ensuring land is distributed more equitably and on building the capabilities of farmers and communities to earn an income. The chapter also makes specific recommendations on land tenure in communal areas. These balance traditional authority with greater certainty for female-headed households to invest in farming.

Small and expanding firms will support job creation and redress skewed ownership patterns

Small and expanding firms will become more prominent, and generate the majority of new jobs created. They will also contribute to changing apartheid-legacy patterns of business ownership. They will be stimulated through public and private procurement, improved access to debt and equity finance, and a simplified regulatory environment.

Small- and medium-sized enterprises will play an important role in employment creation. According to the Finscope (2006) survey, 90 percent of jobs created between 1998 and 2005 were in small, medium and micro enterprises. Despite this, total early-stage entrepreneurial activity rates in South Africa are about half of what they are in other developing countries.

State efforts to assist the sector have had limited success. Moreover, partly due to the lack of robust

data, the debate around small and medium sized enterprises and their ability to assist in employment growth has become heavily weighted with ideology, assumptions and anecdotes.

Aside from creating jobs, there are other advantages to broadening the base of new and expanding firms: reduced levels of economic concentration, higher levels of competition, and increased opportunities for BBBEE. However, there are real obstacles to creating such an environment, including distortions created by apartheid in ownership and access to land, capital and skills for the majority of the population; widespread crime; a policy environment that traditionally favours concentration and large corporations; and a global trade environment that encourages and rewards economies of scale and scope in both production and distribution.

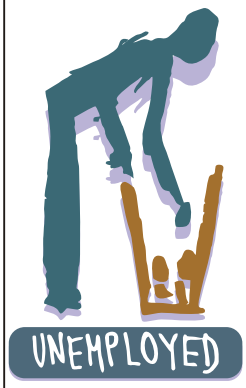
Because they have supply chains across the country, large firms are able to sell their products at prices smaller companies cannot match. A strategy to promote small business needs to address access to established supply chains and the facilitation of buyer–supplier relations.

The extent to which small-scale agriculture, microenterprises and artisanship have weakened is a concern. In many developing countries, it is these activities that provide shock absorbers for extreme poverty and platforms for self-employment, with the potential to serve as rungs on the ladder of economic advancement.

Before measures can be instituted, clear understanding of the issues facing small and medium sized enterprises and recognition of the diversity of the sector is essential. Small businesses operate in different environments and are owned and managed by people with a wide range of motivations and aspirations. The size of the business, its geographical location and the sector in which it operates will determine the kind of assistance it needs and interventions required.

Support measures should be segmented, based on whether small firms are start-ups or multiple start-ups; survivalist businesses; so called "dassies" or lifestyle businesses; "gazelles" or high-growth businesses; franchises; very high potential or high impact businesses; and/or new industries or new technology businesses.

For example, South Africa needs to address the challenge of start-ups and repeat start-ups, including after failure. The country has a comparatively low start-up rate and a high proportion is survivalist in nature. What does South Africa need to do to promote new businesses and enhance the potential of those businesses to grow? Reduced administration cost to get started could help, equity/seed funding gaps should be addressed, and quality of business models and support are important.



Entrepreneurs with the highest potential are those who have previously started businesses successfully. Creating strong markets for these businesses to buy and sell, and making it simple to start more businesses, is critical. This group of entrepreneurs is a great target market for an incentive system. Another group requiring focus on is those entrepreneurs who have failed before. They find it difficult to start businesses again as credit access and so on becomes challenging. The country needs a mechanism to address this. The one-size-fits-all support programmes of government must change.

Nearly 80 percent of small businesses in South Africa offer retail services and the remaining 20 percent provide services. Small, medium and micro enterprises in the retail sector mainly buy products and sell them in the same form. Those offering services are involved largely in manufacturing, tourism and the business-services sector, and are located primarily in Gauteng, the Western Cape and Mpumalanga.

The activities non-retail SMMEs are involved in include:

- **Business services:** IT (consulting, services, software development and programming); financial services (including insurance brokers, accounting and tax consultant firms); and advertising, communications and marketing. Sub-sectors include human resources service providers, research providers, business-support services and legal services.

- **Manufacturing:** plastics or food, steel, metal and wood manufacturing, printing, and manufacturing for the construction industry. Among the industries they are active in are chemicals, industrial equipment, clothing and textiles, rubber, packaging, sports equipment and pharmaceuticals.

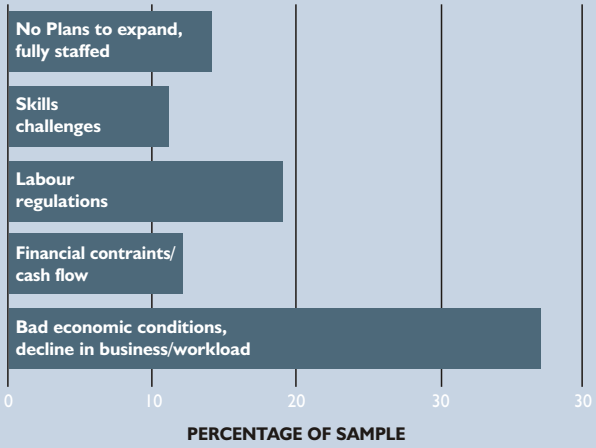
- **Tourism:** guest houses, bed-and-breakfast establishments, hotels and lodges, backpackers, tour operators and conference venues.

Small- and medium-sized enterprises operating in the various sectors face different pressures. Those in the manufacturing sector are hardest hit by labour laws and other regulatory burdens. Those in the services sector are badly affected by the shortage of skills, particularly accounting and service-sector capabilities such as sales.

The Small Business *Project's Small and Medium-sized Enterprises Growth Index 2011* shows that net new employment is not typically created on a significant scale in existing businesses. This is usually the preserve of newly established business entities, which tend to be smaller in size.

The figure above (Fig 3.4) provides the top reasons for small firms not growing their employee numbers. The main reason is the current economic environment followed by the labour environment, financial constraints and skill challenges.

FIG 3.4 GLOBAL EQUALITY



*Source: Small Business Project, **SME Growth Index**, 2011.*

The challenge is therefore twofold: to create a more enabling environment for small enterprises to grow, expand their operations and employ more people; and secondly to create the conditions under which start-ups can flourish and more entrepreneurs enter the market. Interventions to support both these outcomes will be mutually reinforcing for the sector.

Key proposals to support small business development:

- **Public and private procurement**
  - Leverage the Local Procurement Accord to promote stronger buyer–supplier relations and deeper localisation.

- Implement commitments to 30-day payments to smaller suppliers.

- Make government procurement opportunities more accessible to small businesses, streamline tender processes, improve transparency and get rid of corruption.

- **Regulatory environment**
  - Simplify the regulatory environment. The first step would be to appoint an expert panel to prepare a comprehensive regulatory review for small- and medium-sized companies to assess whether special conditions are required. This includes regulations in relation to business registration, tax, labour and local government. Regulatory Impact Assessments will be done on new regulations.

- **Access to debt and equity finance**
  - Examine a role for the state in easing access to finance by start-ups and emerging businesses. The government and the private sector should collaborate in creating financial instruments for small, medium and micro enterprises. A risk-sharing agreement should be created as start-ups are particularly in need of financial support and are least able to access it.

  - Explore the role of venture capital.

  - Urgently consider measures to reform the mandates and operations of development-finance institutions in line with initiatives already being undertaken, and upgrade the skills of those providing business advice and services.
  - Build research capacity to address the paucity of data currently available on small businesses and scale up public communication on available opportunities.

- **Small-business support services**
  - Consolidate and strengthen these. Action has already been taken to create a unified small-business service delivery agency. Public-private partnership can be considered, where the private sector is incentivised to provide small businesses with support, with increased payment contingent on success.

  - Support and grow franchising associations and get involved in commercialising models of this nature. Franchising has been globally successful in reducing risk and failure rate.

- **Address the skills gaps**
  - Provide training for school leavers and unemployed youth with a focus on skills development. The public sector should establish programmes run by well-trained ex-entrepreneurs who have first-hand experience of the sector; the government should incentivise the private sector through tax breaks to set up mentoring programmes; established small enterprises should be offered wage subsidies to take on apprentices and to offer youth placements.

  - Provide skills development for students currently in school with a focus on grooming an entrepreneurial attitude. This should include reviewing the curriculum with a view to encouraging entrepreneurial thinking and creating the skills necessary for start-ups. The review should consider focusing education into technical and academic streams after grade 8, and establishing vocational and technical training for students in grades 9 and 11.
- Promote skills development for new sectors with a focus on high-technology skills advancement. This will include improving the Further Education and Training (FET) colleges to ensure that they are producing better-quality

students with the skills identified as lacking in the small enterprise sectors. Colleges should introduce entrepreneurship programmes.

As reflected in chapter 9, the country must reform the system of skills training to provide for the needs of the economy (including the sectors and activities identified in the plan) and of society as a whole.

SECTOR AND CLUSTER STRATEGIES

To attain full employment, decent work and sustainable livelihoods, it will be necessary to take firm decisions on sectors and clusters that will serve as a platform to launch a new growth trajectory.

There are two related sets of tensions in industrial policy: between the government picking and supporting winners, and an open-architecture approach where support is informed by market-based mechanisms. In practice, most countries try both approaches, but there is an opportunity cost where resources are limited.

The sectors identified below are those with substantial potential for either growth stimulation or employment, or both. They cover areas of existing competitive advantage and the main resource industries. There is evidence that there is substantial growing global demand in these areas, that they will contribute to rising terms of trade, and that they have potential to stimulate domestic linkages.

While the sectors identified below contain competitive advantages for South Africa and the possibility for large-scale labour absorption, these and other sectors should be promoted in a manner that allows for a transition to a knowledge economy and optimal usage of information and communication technologies (ICTs). Research into and initiation of such a transition should happen immediately, as should optimal exploitation of capabilities in which South Africa is already a leading player, because such initiatives take a long time to bear fruit.

The agro-industrial cluster

The agro cluster encompasses farming activities, downstream processing of foodstuffs and beverages, and upstream suppliers of inputs into food manufacturing (such as packaging, containers and preservatives) and into farming (such as fertiliser, seed and capital equipment). The sector favours large commercial farms, and vertically integrated agro-processing. This constrains entry and expansion of small farmers and manufacturers. South Africa accounts for 0.6 percent of global market share in food sales, increasingly veering away from mass grains towards more diversified products such as edible fruits and nuts, fats and oils, meat, and dairy products.

The falling share of agriculture employment is not unusual in a development process, but is so in the context of a large labour surplus. Agriculture is still one of the most labour-intensive goods-production sectors, with substantial employment linkages. Resources are not being used sensibly, which requires urgent attention because this sector is one of the few remaining goods producers with strong direct and indirect economic and employment links to the rural poor.

The neglect of agriculture speaks to the neglect of rural communities. The contraction in formal employment in agriculture is not a recent phenomenon. In 1971, there were 1.8 million people employed. This dropped to 1.2 million in 1995, and, dramatically, to just over 600 000 today (or 900 000, if food and beverage processing and fishing are included). The number of hectares under cultivation has fallen since 1974, and hectares under irrigation have not expanded since the early 1990s.[5]

Compared to other regions, South Africa has a small share of its rural population engaged in agriculture. These longstanding trends show that although it is possible to turn agricultural production around, it will not be easy or rapid.

Major investments in South Africa's commercial farming sector (from the public sector, the private sector, and public-private partnerships) have resulted in new growth and jobs. For example, partnerships between the Industrial Development Corporation and the private sector have led to expansion of the table grape industry along the Orange River and the sugar industry into Mpumalanga), and more recently the wine industry has expanded. Similar opportunities exist with untapped potential, including on the Makatini Flats and in the Eastern Cape (Umzimvubu River Basin). New initiatives, such as those to do with agriculture in the green economy and conservation efforts, can potentially create new employment opportunities in rural areas. Climate change will influence which investments will pay off best, and where they should be made.

Without major policy improvements, the agriculture sector could continue to shed employment, mostly due to land consolidation and technical change. Of the range of possible employment outcomes in agriculture discussed here, the most optimistic scenario shows that about 1 million direct and indirect jobs can be created. The future depends on whether the country can develop land to produce labour-absorbing crops. An additional million opportunities might be created in micro and semi-subsistence farming.

Chapter 6 outlines proposals to stabilise income for farmers, and to stimulate demand for their output.

AGRICULTURE AND AGRO-PROCESSING

- Key proposals in the agriculture and agro-processing sectors include:
- Substantial investment in irrigation infrastructure, including water storage, distribution and reticulation throughout the country where the natural resource base allows, as well as in water-saving technology. A 50 percent increase in land under irrigation would cost R40 billion in off-farm infrastructure over a 10-year period.
- Greater investment in providing innovative market linkages for small-scale farmers in communal and land-reform areas.
- As part of comprehensive support packages for farmers, preferential procurement mechanisms to ensure that new agricultural entrants can also access these markets.
- Tenure security. Farmers will only invest in these areas if they believe that their income streams from agriculture are secure. Tenure security will secure incomes for existing farmers at all scales, for new entrants into agriculture, and for the investment required to grow incomes.
- Technology development. Growth in agricultural production has always been fuelled by technology, and the returns to investment in agricultural research and development are high.
- Policy measures to increase intake of fruits and vegetables, and reduce intake of saturated fats, sugar and salt, as recommended in the South African food dietary guidelines, to accompany strategies to increase vegetable and fruit production.
- Exploration of innovative measures, such as procurement from small-scale farmers to create local buffer stocks and community-owned emergency services.

The minerals and metals cluster

The minerals cluster encompasses all mining and quarrying activities, supplier industries to the mining sector, and downstream beneficiation of the minerals that are mined.

The collective share of direct mining activities of South Africa's GDP has declined from 21 percent in 1970 to only 6 percent in 2010. The number of people employed directly in mining (excluding upstream and downstream industries) fell from 660 000 in 1970 to about 440 000 in 2004 and stabilised at that level. Mining, minerals and secondary beneficiated products account for almost 60 percent of export revenue.

The expansion of mining exports mainly depends on global demand, the availability of the mineral, prospecting and mining technology, access to energy and water, and an enabling and transparent regulatory environment. The relative competitiveness of alternative locations is also a factor. In minerals such as platinum or manganese, South Africa has the main global deposits. Despite this clear potential, the mining sector has failed to benefit fully from the commodities boom over the past decade or more. South Africa must exploit its mineral resources to create employment and generate foreign exchange and tax revenue.

Given the energy-intensive nature of mining and mineral beneficiation, South Africa will also need to invest heavily in helping the industry to reduce its carbon footprint. Similarly, the mining sector needs to use water more efficiently. Concerns about the impact of a resource curse should not be confused with an essential commitment to expanding minerals production and exports. The resource curse will be addressed partly through stimulating forward and backward linkages to expand industrial and services capabilities.

The South African mining industry has performed poorly over the past decade. During the commodity boom from 2001 to 2008, the mining industry shrank by 1 percent per year, as compared to an average growth of 5 percent per annum in the top 20 mining exporting countries. The mining industry is smaller now than it was in 1994. This is an opportunity lost, as estimates show the mining sector could expand by 3 percent to 4 percent a year to 2020, creating a further 100 000 jobs.[6] The Human Sciences Research Council's most optimistic estimates show that mining employment could expand to 200 000 by 2024,[7] potentially stimulating a further 100 000 jobs through linkages, and more if they are actively stimulated. This relies substantially on platinum-group metals.

The central constraints are uncertainty in the regulatory framework and property rights; electricity shortages and prices; infrastructure weaknesses, especially in heavy haul rail services; ports and water; and skills gaps.

It is urgent to stimulate mining investment and production in a way that is environmentally sound and that promotes forward and backward linkages, given South Africa's substantial unrealised opportunity and global market dominance in deposits.

Beneficiation or downstream production can raise the unit value of South African exports. In this regard, resource-cluster development, including the identification of sophisticated resource-based products that South Africa can manufacture, will be critical. Electricity is the main constraint, as most of these activities are energy intensive. As long as electricity is scarce, there will be a trade-off between beneficiation and other more labour-absorbing activities. In general, beneficiation is not a panacea because it is also usually capital intensive, contributing little to overall job creation.

Substantially more attention will be devoted to stimulating backward linkages or supplier industries (such as capital equipment, chemicals and engineering services). Demand is certain; there is an opportunity for specialised product development, and the product complement is diverse. They are also more labour-absorbing than typical downstream projects. Such products have the potential for servicing mining projects globally, which is an advantage should the commodity boom persist.

Mining companies have an explicit requirement to participate in local development, and have the resources to do so in South Africa and the region. The sector could stimulate local economic development more substantially if the mining charter was aligned to these goals. More could be done on human-resource development, local economic development and procurement.

Notwithstanding the difficulties, it should be possible to create about 300 000 jobs in the minerals cluster, including indirect jobs.

Manufacturing

South Africa's manufacturing strength lies in capital-intensive industries. In the context of high

MINERALS CLUSTER

Proposals to grow investment, outputs, exports and employment in the minerals cluster include:

- Address the major constraints impeding accelerated growth and development of the mining sector in South Africa. The main interventions include: ensuring certainty in respect of property rights; passing amendments to the Minerals and Petroleum Resource Development Act (2002) to ensure a predictable, competitive and stable mining regulatory framework; secure reliable electricity supply and/or enable firms to supply their own plant with an estimated potential of 2 500MW by 2015; and secure, reliable rail services, potentially enabling private participation.
- Develop, deepen and enhance linkages with other sections of the economy. This includes: linkages with both manufacturers of inputs (capital goods and consumables) and suppliers of mining-related services; and downstream producers, especially for platinum-group metals and chrome ore. In this regard, an export tax could be considered.
- Provide focused research and development support to enable improved extraction methods that lengthen mine life; better energy efficiency and less water intensity; and alternative uses of South Africa's extracted minerals, especially platinum-group metals, titanium and others that have potential for application in new energy systems and machinery.
- Identify opportunities to increase regional involvement and benefit in the whole minerals cluster. This could include encouraging the establishment and development of alternative providers of partially processed intermediate inputs in other countries in the region.
- Ensure active engagement on, and resolution to, issues raised through the Mining Industry Growth and Development Task Team process.
- Improve alignment of mining charter requirements to ensure effectiveness in local communities.

unemployment, growth would ideally be sourced through expanded contribution of labour. However, to compete, the country's cost structure requires an emphasis on productivity, products and logistics.

The most important contributions to manufacturing expansion will be in relation to the business environment. Challenges relate to the availability and cost of electricity; the efficiency of the logistics platform; the quality of telecommunications; and fast-rising administered pricing for electricity, transport, fuel, and fertilizer. A constrained skills supply also poses great challenges. A volatile and sometimes overvalued currency adversely affects both imported inputs and exports.

Half of South Africa's manufacturing exports lie in capital-intensive processed minerals, metals and chemicals. Intensive support to the motor industry has had a substantial effect on expanding both imports and exports of vehicles, the stimulation of assembly, and some backward linkages, but vehicle retail sales generate most employment.

Other major opportunities for manufacturing should be considered in relation to clusters of activity and are discussed in other parts of this section – such as supplier industries to construction, the energy sector, waste reutilisation, mining inputs, downstream processing of metals, and others.

STIMULATING MANUFACTURING

- Stimulation of these sectors will mainly be facilitated through:
- Ensuring a growing share of products that are dynamic, and have potential for domestic linkages
- Leveraging public and private procurement to promote localisation and industrial diversification
- Intensifying research and development support for product development, innovation and commercialisation
- Exploring approaches to buffering manufacturers from the effects of currency volatility
- Strengthening network infrastructure and skills supply, and bringing administered prices under control.

Construction/infrastructure cluster

The construction/infrastructure cluster includes industries that produce new infrastructure and construction assets, the network of suppliers to those industries, and the entities engaged in operating and maintaining this new infrastructure. Infrastructure investment is crucially important because it creates jobs for low-skilled people, encourages private investment, lowers the cost of doing business, promotes spatial inclusivity, and has strong backward linkages to supplier industries.

The state has committed substantial funding to public infrastructure to address backlogs, but not all of it has been spent. Its current commitment is R808 billion over the next three years.

Employment in the construction/infrastructure sector has fallen from 833 000 in 2006 to 712 000 in 2009. Of this, about 60 percent is formally employed. There have been only two years of substantial employment growth in construction over the past decade.

Rising income and employment, combined with a stable outlook for interest rates, can promote small-scale construction in the residential construction and housing renovation market – a key employment driver. Similarly, more and better-quality public housing has strong linkages to local supplier industries, promoting growth and employment.

There is also scope for export growth – particularly to other African markets – for products that competitively meet customer needs.

CONSTRUCTION/INFRASTRUCTURE

Key proposals to grow this sector:

- Address government's ability to spend its infrastructure budget, particularly with regard to project-management capacity, long-term planning, and monitoring and evaluation of both expenditure patterns and construction work.
- Support the civil construction and the supplier industries in their export efforts – with the establishment of a Financial Centre for Africa, and more support in commercial diplomatic relations.
- Intensify support to supplier industries such as building supplies, steel, glass and cement.
- Create conditions for a less cyclically volatile industry by emphasising numerous, smaller-scale, regionally dispersed projects to address backlogs, which are more accessible to smaller firms and new entrants.
- Expand public funding for alternative types of low-income housing that would generate more demand directly and in supplier industries.
- Promote a simultaneous focus on more energy-efficient buildings and building techniques to reduce demands on electricity supply in the longer term. Home insulation and the installation of solar water heaters are labour-intensive activities that have strong backward linkages to supplier industries.

The green economy

The United Nations Environmental Programme defines the green economy as "a system of economic activities related to the production, distribution and consumption of goods and services that result in improved human well- being over the long term, while not exposing future generations to significant environmental risks and ecological scarcities". Shifting to a green economy, including to a low-carbon economy, is shifting to a more sustainable economic growth and development path in the long term, and therefore has implications for choices about the structure of the economy. This section deals with the green economy in the context of a new and growing sector within the South African economy. Chapter 5 considers how South Africa will shift to a low carbon-emitting path.

The green economy agenda arises simultaneously with South Africa's energy shortages. Aside from intentions to build coal-fired plants, South Africa's imperative to expand renewable energy sources dramatically and to promote energy saving is consistent with the global agenda. A target to generate 20 000 MWh of renewable energy by 2030 has been set. Progress towards achieving this target has so far been sluggish, with about 1 percent of electricity generated from renewable sources.

The green economy agenda will be leveraged to promote deeper industrialisation, energy efficiency and employment. The Green Economy Accord currently being negotiated among social partners will help drive this agenda forward.

The finance sector

The finance sector incorporates all those activities linked to credit and loans, the raising of capital, the trading of financial assets and properties, the investment and management of savings, and the provision of banking and insurance services. Like many other areas, it has undergone significant change in recent decades, mainly as a result of technological change. There is now a far larger foreign presence in ownership as a result of mergers and acquisitions.

While the rest of the economy has expanded by 67 percent since 1994, finance sector output has tripled, and was an important contributor to employment expansion. About 300 000 to 400 000 people work in finance, insurance and related activities. Substantial employment is created indirectly, through property, building maintenance, security, personal and business services.

In addition to its role as a provider of potentially dynamic intermediate services, the finance sector has the potential to contribute towards greater inclusion of historically marginalised groups – by extending access to banking and insurance services, by helping to promote and mobilise household savings, and by easing broader access to credit. While the South African banking and insurance sector is viewed as relatively sophisticated in a global context, banks and insurers find it hard to extend services to this market segment using traditional channels because of their high costs and limited potential for income.

The proportion of the population that is banked or has access to transactional financial services and savings facilities is expected to increase from about 63 percent to about 90 percent by 2030. Developments in ICT have made it possible to establish alternative virtual networks that can be used to deliver financial and other services at much lower cost. Similarly, alternative, lower-cost technology platforms such as the internet and mobile networks will make it easier for short-term insurers to offer reduced premiums (for commensurately lower levels of cover), which should help to expand access.

THE FINANCE SECTOR

Areas that should be prioritised:

- Continuously broaden access to banking services to poorer people and lowering costs through a combination of competitive pressures and reducing other infrastructure costs.
- Strengthen credit extension to productive investments, especially small and expanding firms, and for working capital. Government and the private sector have to work together to find ways of increasing business lending.
- Provide small-business advisory and support services, financed partly by the state.
- Conclude discussions to identify and deploy investable capital to increase production in labour-absorbing sectors.
- Encourage private firms, such as construction firms, to partner with South African banks in providing project finance for contracts on the continent.

It is of concern that South Africa's banks do not extend sufficient credit to businesses, especially smaller firms. Greater access to credit for firms would lead to higher levels of business investment and jobs. Several countries, most notably India, have quotas for credit to the business sector. To reduce lending risks, South Africa should consider public-private partnerships to provide advisory and support services.

The country has not used its sophisticated financial services industry sufficiently to foster growth and create employment. With government support, these sectors can expand aggressively on the continent, with strong linkages to the South African economy. Obstacles to expanding back-office operations include high internet charges, low bandwidth, and skills constraints in managing these types of operations. Making it easier for foreign companies to bring in skilled foreign workers will also help the sector.

Retail and business services

Retail and business services together are the biggest employers in most middle- and high-income economies. In South Africa, the formal retail sector accounts for almost 2 million jobs, and another 3 million jobs exist in informal activities. Business services account for about 20 percent to 30 percent of gross value added and over 1 million jobs.

A number of retailers have located in the region, and this will generate export opportunities for fast-moving consumer goods producers if effectively leveraged.

Business services comprise a wide set of activities, including office cleaning, computer repair, real estate and back-office processing.

Information technology-enabled services transacted locally and across borders have become firmly established over the past decade, and could be seen as a rapidly-growing new industry. South Africa must therefore invest into drawing this business to its shores.

RETAIL AND BUSINESS

In support of employment and growth, the following will be pursued in the plan:

- The retail sector will be encouraged to procure goods and services aimed at stimulating local producers, and especially small and expanding firms.
- Further investigation will be conducted on opportunities to stimulate sustainable small-scale retail and cooperative buying, with the aim of reducing costs in townships and rural areas, and stimulating related employment.
- South African retail operations in the region will be encouraged to supply stores with South African products, and also be supported to develop suppliers within the region in support of regional industrialisation objectives.
- Information technology-enabled service exports will be promoted, with the aim of attracting United States, United Kingdom and Indian business-process outsourcing. South Africa should become a leading provider of information technology-enabled services globally, with services integrated into the region.
- Rising consumption of the lower-income groups in South Africa and the region should stimulate retail employment and demand for supplier industries.

Tourism and culture

The tourism cluster encompasses the range of activities and associated incomes that accompany people visiting the country. The total contribution of tourism activity to South Africa's gross value added was estimated at over 9 percent in 2008. South Africa has the disadvantage of being far from the wealthiest consumers, but it has several comparative advantages, including natural beauty, well-managed national and other parks, the domestic aviation sector, hotel capacity and the personal-services industry. South Africa has positioned itself as a conference and sports event destination. It is also home to nine world heritage sites and an area of global niche tourism.

Culture, the arts and other parts of the creative economy have the potential to generate employment and export earnings. Foreigners visit South Africa to see, understand and learn about its peoples and cultures. The arts and related creative economy sector are thus an asset that needs investment to provide opportunities for more people, often outside of the formal economy.

The tourism industry and the creative economy sector are labour intensive, and stimulate the growth of small businesses. They can develop other spin-offs, such as foreign direct investment and the crafts industry. Increased airline competition would help lower costs of travel.

Public-sector employment

The public service typically plays an important role in employment creation. South Africa exhibits a paradox in this regard. The public sector employs about 9 percent of the labour force and accounts for about 18 percent of formal employment. Despite this limited number, the public-service wage bill (including local government) exceeds 12 percent of GDP – very high by both developed and developing country standards.

South Africa's public sector is faced with a dilemma. In a skills-constrained economy, the premium for skilled labour is high. This pushes up the salaries of skilled people in the public service. The public service also pays well above the market rate for low-skilled people, inhibiting its ability to create low-skill jobs.

KEY POLICY ISSUES:

- Emphasis will be placed on increasing the total number of tourists entering the country, and the average amount of money spent by each tourist.
- Ease of doing business, as well as availability of appropriate levels of tourism infrastructure (particularly transport, tourism offerings/ products and accommodation), will play an important role in attracting different types of tourists.
- Foreign business tourists arriving by air generate the most significant multipliers. South Africa will be positioned as the business and shopping centre for the region.
- South Africa can do more to develop the region as an international tourist destination by emphasising the broader biodiversity, cultural diversity, scenic beauty and range of tourism products, and making it easier for tourists to travel between countries in the region. A Schengen-type visa for the region will be considered.

In theory, it should be possible to grow public employment in areas such as health, policing, social welfare and education. This, however, has to be balanced against the magnitude of increases in public-sector salaries. Furthermore, the public service has to identify opportunities in entry-level services such as auxiliary nurses, community health workers and day-care services for pre-schools.

Public employment schemes

The problem of unemployment and under-employment has become too big for market-based solutions to solve in the next 10 to 20 years. There is no doubt that market-based employment is the most sustainable source of job creation, but in even the most optimistic of scenarios, many people are likely to remain out of work. Low productivity, non-market services such as expanded public works projects in government construction, care, self-help projects and survivalist activities are generically called public employment schemes.

The public employment programmes should target the creation of 2 million opportunities annually by 2020 or earlier, if possible. The central challenge is to identify institutional approaches that will enable this scale of achievement. Few programmes have succeeded. South Africa has existing commitments to public employment in the EPWP and the new Community Works Programme. The EPWP II could provide a number of these opportunities, mostly in the social sector, particularly in community-based care such as early childhood development projects. The Community Works Programme, which decentralises decision-making to the ward level, also holds this promise. These employment schemes should therefore complement social-delivery programmes to strengthen community reach.

The government must investigate more creative and innovative ideas. For example, the Department of Arts and Culture's plans include employment of graduates as arts facilitators for clusters of schools. The rationale is to identify and develop talent and support career choices in the arts, as well as to develop audiences and consumers through exposure to the arts and participation in them. This would include all learners having access to heritage sites, performing and visual arts etcetera.

ROLE OF THE STATE AND INSTITUTIONAL CAPABILITY

This plan places a high premium on making specific choices to launch the country onto a higher growth trajectory. It does not seek to address all the challenges at the same time. The government will have to provide firm and focused leadership. The major institutional challenges in the public sector are dealt with in chapter 13. In the economic sphere, among the major stumbling blocks to efficient economic services are poor coordination and integration, multiple priorities, and an undefined hierarchy of authority among the plethora of government departments involved in the economic sector.

Whenever a complex and integrated set of responsibilities is split across departments, it is difficult to maintain coherence over time. This has been evident in the inability of the government to drive a microeconomic reform strategy over the past 18 years because the functions are split over so many departments. . While integrative structures on such priorities and employment and infrastructure have been set up, there has been in the recent period a higher level of fragmentation in government's economic strategy and how it is implemented. The Commission recognises that a certain degree of fragmentation has crept into government's economic strategy and this must be fixed. Clear lines of responsibility are necessary but clear direction and a commonly agreed upon strategy are also of central importance.

To deal with this issue, the Commission proposes that the Presidency, as the centre of government, be given strategic coordinating responsibility. This will entail convening power to resolve key points of disagreement and ensuring policy alignment. See chapter 13.

The country also needs to clarify its thinking, and develop a firm and consistent view on the role of the state in the economy. The realisation of the economic, and indeed other, objectives of Vision 2030 requires long-term commitments by all sectors of society, including the private sector. Policy certainty is therefore essential.

Specific proposals include:

- Strengthening the role of the state as service provider, as the core provider of public goods (such as infrastructure and other public services), as an economic regulator, as a consumer, and as a critical player in giving leadership to economic development and addressing market failures.

- Creating a clear system of hierarchy and decision-making across economic line-function departments and spheres of government. The Presidency will act as the strategic centre of power to resolve key points of disagreement and ensure policy alignment.

- Responsiveness on the part of the state to anticipate possible crises and respond to them rapidly and appropriately.

Public employment schemes will be an essential part of an employment plan to 2030. The main opportunities will lie in community-based services and the roll-out of the social-sector initiatives of the Expanded Public Works Programme (EPWP). Realistically, South Africa must plan and budget for a minimum of two million opportunities annually.

Emphasis should be placed on generating market-based opportunities where possible.

- Establishing significant consequences for not reaching targets, whether in social or economic areas of delivery.

- Measuring performance in economic services departments on the basis of success, or otherwise in facilitating investment and building partnerships among the economic actors.

- Improving trust between the public and private sectors. The government must treat private actors as partners in policy design and implementation, and the private sector in turn must respond to and facilitate the realisation of national objectives.

- Urgently addressing constraints to public-private partnerships – including the institutional arrangements for regulating and executing such partnerships as well as relevant capacity in government departments and spheres.

- That any direct state involvement in productive sectors should be informed by the "balance of evidence" in relation to stimulating economic growth and competitiveness, creating jobs and reducing inequality, as well as availability and optimal deployment of public resources.

Social compact

- For South Africa to achieve its objective to eliminate poverty, reduce inequality and create jobs requires greater trust between the state and business. As highlighted in the diagnostic report and the inputs of various organisations and individuals, the lack of trust between government and business and in turn, between these and the labour movement, is a stumbling block towards faster economic development. Various accords have been signed between social partners and an institutional mechanism such as the National Economic Development and Labour Affairs Council (NEDLAC) exists. But because of the lack of strategic engagement among the social partners, focus on immediate sector interests and general questioning of each other's "bona fides", no effective partnership exists. This problem is especially acute at regional and local level.

- The Commission proposes that the National Development Plan serves as a basis for developing a broad social compact among critical role-players and society at large. See chapter 15. This should also find expression at local and regional levels, with greater engagement between businesses and provincial and local government, as well as trade unions and other sections of civil society.

CONCLUSION

- Achieving full employment and sustainable livelihoods is possible. Moving onto this new trajectory of high, sustained and job-creating growth implies a break from the current path. It requires a commitment by all sectors of society to contribute to the efforts required to meet our common objectives, and difficult choices will have to be made.

Trade-offs and choices

- Achieving full employment, decent work and sustainable livelihoods will depend on making choices during various phases to 2030. The ability to do this is a function of leadership among all social partners. The achievement of the objectives and targets in this plan will be to the benefit of all, but each sector of society needs to agree on the contribution it will make, and take turns to carry the heavier part of the load.

- Given that many proposals in this plan will take time to register any meaningful impact, it is critical to urgently introduce the active labour-market policies proposed in this chapter, to initiate massive absorption of young people and

women into economic activity. This will require decisiveness on the part of the state, and business and labour should adopt a strategic approach to negotiations and building trust between themselves.

Role of the state

Not only does the state have a role in setting the appropriate macroeconomic framework, it must also provide the right microeconomic conditions, to ensure that the day-to-day decisions and actions of people and companies help deliver the best social and economic outcomes. These frameworks and interventions determine the social and economic climate that South Africans live in, and therefore the level of economic growth and employment.

Among other actions, the state must enhance regulation of market participation, identify and resolve market failures, provide appropriate public infrastructure and services, and help to lower transaction costs across the economy.

The private sector

Most of the jobs will be created in the private sector. This, however, will require South African entrepreneurs to be vibrant and seize opportunities when and where they arise, and to adapt themselves to the continuous process of technological change.

Rather than rely on economic rent and endeavouring to accumulate the bulk of the rewards of improved productivity and general economic performance, the private sector should embrace entrepreneurship, innovation and an equitable sharing of the fruits of prosperity.

Worker leadership

Worker leaders have to advance and defend the interests of employed workers, and with other sectors of society, ensure that inequality is reduced. At the same time, they need to consider those who are presently marginalised from economic activity.

Allowing for greater access to the labour market for those not active in the economy and ensuring that those currently without an appropriate voice are adequately catered for is a responsibility of leaders of workers and society at large.

The first phase (2012–2017)

Movement towards an inclusive and dynamic economy requires that the country should urgently launch the virtuous cycle that allows it to move to a new growth trajectory.

In the early years, emphasis will be on absorbing the unemployed, especially young people, into economic activity.

Higher mining exports during this period of high commodity prices will help pay for the development of capabilities and endowments to forge a new path in the economy of the future. The country needs urgent investments in rail, water and energy infrastructure, alongside regulatory reforms that provide policy certainty. At the same time, the private sector should commit more investments to supplier industries for the infrastructure programme and in general economic capacity while capital costs are low, and imported equipment is cheaper. Opportunities for large exports to sub-Saharan Africa and other destinations in the developing world should be creatively pursued.

Concurrently, policy instruments and agreements on moving to the next phase should be ironed out. The plan identifies a number of steps required to move towards this new path. These include prioritising actions that lift key constraints to economic expansion, even though the government's responsibility is necessarily broader. In the

first five years, the government will commit to:

- Doubling the annual expansion in high-skills supply and improving education throughput at primary and secondary levels
- Improving the labour relations environment
- Interventions to improve labour-market matching
- Ensuring the supply of energy and water is reliable and sufficient for a growing economy, and that the responsibilities of municipal maintenance of distribution systems are appropriately allocated and funded
- Intensifying research and development spending, emphasising opportunities linked to existing industries
- Developing the arrangements for a Financial Centre for Africa
- Implementing its commitment to promote industrial diversification through its procurement programme
- Changing the approach to land tenure systems in ways that stimulate production and economic opportunity, thereby reducing uncertainty
- Expanding public employment programmes rapidly.

The second phase (2018–2023)

Subsequent to this, South Africa should focus on diversifying the economic base. This should include building the capacities required to produce capital and intermediary goods for the infrastructure programme and sub-Saharan Africa. It should include resource-cluster development for the mining industry, combining production of capital goods, provision of engineering services, and beneficiation that targets identified opportunities.

In this phase, the country should lay the foundations for more intensive improvements in productivity. Innovation across state, business and social sectors should start to become pervasive. Centres of learning should be aligned to industrial clusters with potential for domestic and global linkages. Innovation should also focus on improved public services and on goods and services aimed at low-income sectors.

Approaching 2030

As the country approaches 2030, the emphasis should be on consolidating the gains of the second phase, with greater emphasis on innovation, improved productivity, more intensive pursuit of a knowledge economy and better exploitation of comparative and competitive advantages in an integrated continent.

Closer to 2030, South Africa should be approaching "developed world" status, with the quality of life greatly improved, with skilled labour becoming the predominant feature of the labour force and with levels of inequality greatly reduced.

NOTES

1. Rising terms of trade means the price of exports is greater than the price of imports. In the development process, a country starts with low-priced (commodity) exports and high-priced (fabricated) imports. Over time, shifting this balance is accomplished by raising the sophistication of production and exports.

2. Available at: http://dx.doi.org/10.1787/406237323856

3. Bhorat H (2011). "A labour market position paper for South Africa: Six policy suggestions". Paper prepared for the National Planning Commission.

4. Macroprudential regulations govern the banking and insurance sectors, compelling these institutions to keep a major portion of their assets in the country.

5. BFAP (2011). The contribution of the agro-industrial complex to employment in South Africa. Report prepared for the National Planning Commission.

6. Mining Industry Growth and Development Task Team (2010). Going for sustainable growth and meaningful transformation – the competitiveness assessment of the South African mining industry.

7. Baartjes N, Auchterlonie A, Sorensen P and Goode R (2007). Mining Employment Scenarios for South Africa to 2024. Human Sciences Research Council.

8. UNEP, xxxx.

CHAPTER FOUR

Economic infrastructure – the foundation of social and economic development

KEY POINTS

- South Africa needs to maintain and expand its electricity, water, transport and telecommunications infrastructure in order to support economic growth and social development goals. Given the government's limited finances, private funding will need to be sourced for some of these investments.
- The role and effectiveness of sector regulators needs to be reviewed. In addition to issuing licences and setting tariffs, regulators need to place more emphasis on stimulating market competition and promoting affordable access to quality services. This will require capacity-building in regulatory institutions.
- Policy planning and decision-making often requires trade-offs between competing national goals. For instance, the need to diversify South Africa's energy mix to include more renewable energy sources, which tend to be variable in terms of production, should be balanced against the need to provide a reliable, more affordable electricity supply.

INTRODUCTION

South Africa needs to invest in a strong network of economic infrastructure designed to support the country's medium- and long-term economic and social objectives. This economic infrastructure is a precondition for providing basic services such as electricity, water, sanitation, telecommunications and public transport, and it needs to be robust and extensive enough to meet industrial, commercial and household needs.

South Africa has a relatively good core network of national economic infrastructure. The challenge is to maintain and expand it to address the demands of the growing economy. In the transport and energy sectors – dominated by state-owned enterprises – the economy has already been constrained by inadequate investment and ineffective operation and maintenance of existing infrastructure. In the telecommunications field, policy and regulatory uncertainty and lack of capability remain barriers to infrastructure investment and to achieving affordable, quality services, especially for the poor. In the water sector, delaying critical investments may result in water shortages during a drought period.

There is some concern that the state does not have the institutional or financial capacity to implement the investment plans needed to finance infrastructure on the required scale. Other issues include the increasing cost of electricity, roll out of infrastructure to rural areas, the likely introduction of a carbon tax and the poor performance of some state-owned enterprises. Civil society has protested against exploring shale gas in the Karoo and the envisaged nuclear-build programme, arguing that the government was focusing too much on infrastructure and too little on protecting South Africa's scarce resources, especially water.

The country needs to make large investments to propel economic activity. These investments need to be made in a structured, considered manner to prevent inappropriate initiatives, protect South Africa's resources and ensure that prioritised investments are efficiently implemented. Poor investment decisions commandeer the state's financial resources and hinder other important investments, ultimately constraining economic growth. Greater use of public-private financing is likely to bring about better decision-making and improved spending discipline, resulting in more rigorous assessment, shareholder accountability and reporting. These factors will, in turn, ensure easier access to capital.

Current investment levels are insufficient and maintenance programmes are lagging. The government needs to better coordinate collaborative investment by businesses and provincial and local government into key infrastructure projects, such as in the Waterberg/Lephalale region in Limpopo, at Coega in the Eastern Cape, and along the strategic freight corridor linking Gauteng and Durban. The formation of the presidential infrastructure coordinating committee goes some way towards achieving these goals.

Priority should be given to infrastructure programmes that contribute to regional integration. These include the African Union's north-south corridor and sector-specific projects such as enhancing border facilities, improving energy access and information and communications technology (ICT) connectivity, and revising transport links.

Programmes in underdeveloped regions, such as a proposed multipurpose development around a new dam on the Umzimvubu River, should also be prioritised since it could mobilise the natural resource advantages of an otherwise underdeveloped area.

State-owned enterprise performance may be improved by combining cooperation and competition. Mechanisms are also needed to ensure local industry remains regionally and globally competitive, while meeting domestic needs.

Access to basic electricity, water and sanitation, and public transport for many South Africans, particularly in poor rural and peri-urban communities, accessing electricity, safe water, sanitation, telecommunications and public transport is a daily challenge. Even where infrastructure is available, households can often not afford enough electricity and water to cook and stay warm, or the fares to go to town to look for work. These problems will only be resolved if their underlying causes are addressed. Most important among these are:

- Many households are too poor to pay the costs of services.
- Some municipalities are poorly managed or have limited human and financial resources to deliver services.
- In other municipalities, there is not adequate bulk infrastructure to supply all households with electricity and water services.
- Unrestrained use by some households leaves others with nothing.
- These causes are addressed by the following chapters of the plan:

- **Chapter 3** discusses how household incomes will be adequate to pay for services if there are jobs that pay enough. Where this is not the case, some form of subsidy must be available to ensure that people can access basic services. This can be provided as a grant to the household or to the municipality to provide free services that meet people's basic needs.
- **Chapter 13** suggests ways in which municipal performance can be improved to ensure service delivery. It also suggests reviewing the way municipalities are funded and the levels of services they should provide in light of the difficulties that those serving mainly poor communities face. Where municipalities do not have the staff or the finances to provide services effectively, they should approach neighbouring municipalities, regional agencies, Eskom and their local water boards for help. They should also consider empowering local communities, particularly in scattered rural settlements, to run their own services.
- **Chapter 15**, which covers transforming society and uniting the country, discusses how communities can take action to improve their circumstances. In many places, uncontrolled water use by households at the bottom of the hill means that water never reaches those who live higher up. Similarly, uncontrolled electricity use from unmetered, unauthorised connections causes transformers to trip or burn out, cutting off whole communities. People need to come together to work out ways to maintain a fair share of services for everyone.
- **Chapter 8** addresses the need to properly locate and plan settlements. This can help improve access to adequate and affordable public transport, an area in which poor people carry an unfair burden that aggravates their poverty.

THE ROLE OF REGULATORS

While some network industries (such as power generation and ICT services) lend themselves to competition, core components such as the electricity grid itself, gas and water pipelines, and railway lines tend to form natural monopolies. With

high fixed costs and decreasing average costs of service provision as more customers join these networks, it is often difficult to stimulate meaningful competition or to encourage multiple market entrants. In such cases, effective economic regulation is essential.

Over the past two decades, independent regulatory authorities have been established worldwide to issue licences, ensure access to networks, set prices and establish technical and service standards. South Africa has dedicated regulatory agencies for electricity, gas and petroleum pipelines, telecommunications and ports. These regulators are tasked with safeguarding reliable and competitively priced services for consumers, while promoting affordable access for poor and remote households. They are supposed to ensure that utilities and operators, are efficient and financially viable so that they can invest in maintaining, refurbishing and extending their networks.

After more than 15 years of sector regulation, it is fitting to analyse the effectiveness of these regulators. Although regulators have succeeded in issuing licences, developing pricing methods and establishing technical and service standards, they have not achieved the positive outcomes initially envisaged. Based on the performance of the ICT, electricity and port sectors, South Africa is slipping down international benchmark rankings. The reliability of electricity supply has deteriorated and prices that were previously below economically viable levels are now climbing at rates that consumers are unable to absorb. Communications quality, speed and cost are significantly worse in South Africa than in comparable nations, with a similar situation in rail and port performance.

Regulators are confronted by two challenges: first, to make sure that there are adequate levels of investment to ensure customers get reliable services, and second, to ensure that pricing levels are managed in a way that creates certainty and mitigates against shocks. This requires:

- A closer working relationship between regulators, utilities and government departments
- Better management of financing requirements through economically viable pricing levels
- A greater climate of certainty and an avoidance of economic shocks.

The institutional arrangements and design of network regulators is being reconsidered. Regulation works best where there is sufficient political will to support it; where regulators are legally independent, publicly accountable and their decision-making is transparent, and where the regulator is backed by adequate institutional, and human capacity. South Africa faces challenges in all these areas. As a result, it makes sense to initially restrain the regulatory agencies' decision-making discretion while their institutional design is reviewed, their roles and accountabilities are clarified and the related legislation and subsidiary regulations are updated.

Improved regulatory performance is vital for national development. Capacity building remains a core challenge, requiring sustained training to improve leadership and technical capabilities. The quality of regulation, however, is not just about the regulator. The state itself must have adequate capacity and capability to formulate effective policies; support the design, establishment, review and improvement of regulators; and respond to issues identified by capable regulators. A capable state (chapter 13), with functioning, well-run utilities, departments and municipalities, will help ensure efficient regulation.

Proposals to improve regulation

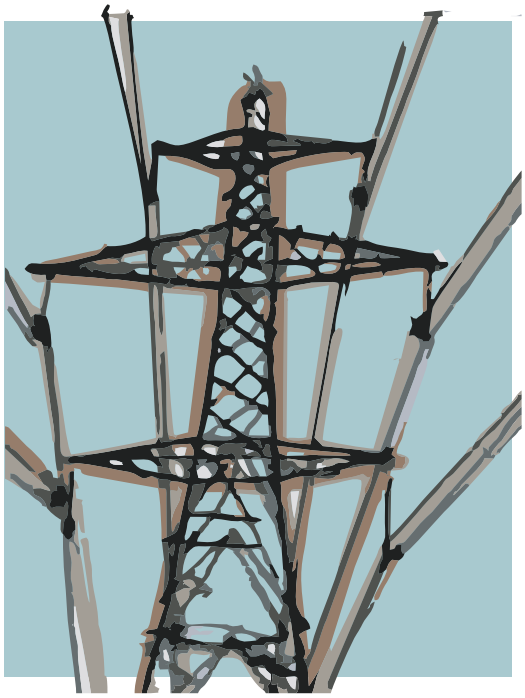
The following is proposed for the immediate future:

- Institute a far-reaching review of current infrastructure regulators to clarify roles, strengthen accountability, update legislation and regulations, and reform institutional design.
- Explore the possibility of further consolidation of regulators.
- Establish a monitoring and evaluation unit in the Presidency to undertake periodic regulatory impact reviews and provide advice and support to regulatory authorities.

THE ENERGY SECTOR: EMPOWERING SOUTH AFRICA

The plan envisages that, by 2030, South Africa will have an energy sector that promotes:

- Economic growth and development through adequate investment in energy infrastructure. The sector should provide reliable and efficient energy service at competitive rates, while supporting economic growth through job creation.
- Social equity through expanded access to energy at affordable tariffs and through targeted, sustainable subsidies for needy households.
- Environmental sustainability through efforts to reduce pollution and mitigate the effects of climate change.



More specifically, South Africa should have adequate supply security in electricity and in liquid fuels, such that economic activity, transport, and welfare are not disrupted. Prices for energy are likely to be higher in future, but they will still be competitive compared with South Africa's major trading partners. In addition, more than 90 percent of the population should enjoy access to grid-connected or off-grid electricity within 20 years.

To realise this vision, South Africa's energy system needs to be supported by effective policies, institutions, governance systems, regulation and, where appropriate, competitive markets.

The plan sets out steps that aim to ensure that, in 20 years, South Africa's energy system looks very different to the current situation: coal will contribute proportionately less to primary-energy needs, while gas and renewable energy resources – especially wind, solar and imported hydroelectricity – will play a much larger role. Public transport will be highly developed and imported hybrid and electric vehicles will be more widely used. The economy's energy intensity will continue to decline and energy-efficient options will be widely available and increasingly adopted. The country's energy market will be more diverse, with greater opportunities for investors to provide innovative, sustainable energy solutions within credible and predictable regulatory frameworks.

The energy reality

South Africa is very dependent on coal. It is the country's largest economically recoverable energy resource and among its three top mineral export earners. Internationally, South Africa ranks fifth as a

South Africa has a mixed-energy economy, with varying patterns of state ownership and regulation across subsectors. The electricity sector is dominated by the vertically integrated state-owned utility Eskom (accounting for 96 percent of production) and is regulated by the National Energy Regulator of South Africa, which is also responsible for the regulation of gas and petroleum pipelines.

Private petroleum companies (with the exception of PetroSA) dominate the liquid fuels sector, and wholesale and retail prices are regulated. In contrast, coal prices are deregulated and the industry is privately owned. Private firms produce uranium, although the country's only nuclear power plant is owned by Eskom. There is a nuclear regulator (mostly addressing safety and licensing issues) and the National Ports Regulator. Through Transnet, the state also owns and operates most of the ports (except the Richard's Bay Coal Terminal and some private terminal concessions), the national rail network and the petroleum pipelines that transport petroleum crude and product to Gauteng and surrounding inland areas.

coal producer and exporter. Domestically, coal is used to produce:

- Over 70 percent of primary energy
- More than 90 percent of electricity
- A third of liquid fuels.

As a result, South Africa is a significant emitter of carbon dioxide, which contributes to climate change. Domestic electricity has historically been underpriced, resulting in mining houses investing in energy-intensive beneficiation processes. Energy intensity is one and a half to four times higher than the Organisation for Economic Cooperation and Development average (depending on whether gross domestic product is measured in nominal or purchasing-power parity terms).

Adequate supply is a key concern, especially for electricity and liquid fuels. South Africa experienced multiple power failures between 2005 and 2008, resulting in lower economic growth and widespread inconvenience. Even though the 2009 recession depressed demand, the supply-demand balance remains tight. Similarly, the distribution of petrol, diesel and gas has not always been reliable. The prices of paraffin, liquefied petroleum gas and alternative household fuels (including biomass and renewable energy sources) are far from optimal, even though paraffin and liquefied petroleum gas prices are regulated. Too many households rely on costly inferior fuels that also pose health risks.

The quality of market competition and regulation in the energy sector has been far from optimal. The economy requires:

- Increased competition in electricity generation
- Better regulation of price, supply and quality of electricity and petroleum products
- An end to crippling transport constraints due to ineffective policy-making and regulation, especially rail. Lack of rail capacity has constrained delivery of coal to power stations as well the expansion of coal exports. The export capacity of the privately owned Richard's Bay Port is a third higher than the existing rail capacity from the coalfields.

Perhaps the most successful achievement in the energy sector over the past 15 years has been the National Electrification Programme. In the early 1990s, two out of three South Africans did not have electricity; now about three quarters of the population have access.

Key policy issues and planning priorities

South Africa needs to devise policies and plans for the following in order to improve the country's energy situation:

- Growth in coal exports needs to be balanced against the need for domestic coal-supply security.
- Gas should be explored as an alternative to coal for energy production.
- There needs to be a greater mix of energy sources and a greater diversity of independent power producers (IPPs) in the energy industry.
- Municipal electricity-distribution services need to be improved.
- Electricity pricing and access need to accommodate the needs of the poor.
- The timing and/or desirability of nuclear power and a new petrol refinery need to be considered.

These issues are addressed in detail below. This is followed by a discussion on integrated energy planning, policy trade-offs and phasing considerations to 2030.

Balance domestic coal supply security with growth in exports

Given fixed investments and low direct costs, coal will continue to be the dominant fuel in South Africa for the next 20 years. A national coal policy that takes into consideration South Africa's realistic coal reserves, the need for a sustainable supply of domestic coal for power, synthetic fuels and industrial chemicals, and the need to expand the coal export market, is urgently required. The coal industry's development has been constrained in recent years due to regulatory uncertainty in the mining sector, too little investment in new infrastructure and a failure to maintain existing infrastructure. The policy needs to take the following into consideration:

- The changing coal-mining landscape
- The need for greater collaboration
- The need to ensure security of domestic coal supply while promoting export
- Technologies that may provide for cleaner coal use.

Rail Infrastructure For Coal

Coal reserves are declining in some areas and new ones are coming on-stream elsewhere. Two thirds of South Africa's coal reserves and resources are in the Waterberg. As coal reserves in the central basin diminish, a new heavy haul rail corridor to the Waterberg coalfield in Limpopo will need to be developed within an overall infrastructure-investment plan that also addresses additional water supplies for the Lephalale area.

Transport infrastructure for the central coal basin and the coal line to Richard's Bay also needs strengthening to match port export capacity of at least 91 million tons per year by 2020. Other possibilities include a link with Botswana coal deposits and a trans-Kalahari rail connection, linked to expanded port capacity at Walvis Bay in Namibia and/or a further rail loop around to Maputo. Private-sector participation will be essential to relieve the rail infrastructure investment burden.[1]

Improved collaboration

Formal structures need to be established to foster collaboration between the government, Eskom, Transnet, Sasol, IPPs and the coal industry to optimise domestic coal use while maximising coal exports. Collaboration in the development of the

original railway from the central basin to Richard's Bay and the development of the Richard's Bay Coal Terminal offers a valuable lesson.

Collaboration is also needed to address the fragmentation that has accompanied black economic empowerment in the coal industry. Few smaller companies have the financial muscle to sign long-term take-or-pay contracts to motivate Transnet to invest in railway-line expansion. The government and private sector should work together to resolve this impasse and maximise economic value from this industry. One option is the creation of an inland coal market with appropriately located coal hubs that would gather and then supply domestic and export markets.

Ensure security of local coal supply while promoting exports

Changes in coal export markets are resulting in new challenges in securing coal for Eskom's power stations. Historically higher grade coals were exported and lower grades were sold to Eskom. However, countries such as India are accepting lower grade coals and Eskom has been struggling to conclude new long term coal supply contracts. Washing coal to export quality also produces middlings (i.e. the middle, lower grade fraction) for Eskom. One of the problems is that if coal is washed to lower export quality (e.g. for India) less middlings are produced, also often at a lower quality. And mines are increasingly looking for higher prices for these middlings. This has led to calls for restriction of lower grade coal exports or the imposition of export permits

However, government should be cautious in applying policy measures which might have unintended consequences. For example, banning exports of coal lower than, say 5500 kcal/kg, could disincentivise investments in new multi-product mines necessary for supplying future Eskom demand, but which also depend on export earnings for their financial viability. Most of the higher grade coals in the central basin have been mined out and new mines have to deal with lower quality resources.

Rather the best initial approach should be to facilitate a win-win solution between Eskom and the Coal Miners. And this is entirely possible as the highest value option for most mines is an income stream from both exports and Eskom. Eskom, the coal miners and government need to work together to plan the optimal utilization of specific fields. The framework for this cooperation potentially exists in the Coal Road Map exercise. The National Planning Commission could also use its convening power to help resolve these issues.

If cooperation fails, then government still has the option under the security of supply provisions in the National Energy Act (2008) to "direct any state-owned entity to acquire, maintain, monitor and

manage national strategic energy feedstocks and carriers."

The other critical intervention is the opening of the Waterberg field, as mentioned above. The latest resource and reserve estimates indicate much larger resources than previous studies. The Waterberg field yields a relatively small export fraction and a much larger Eskom fraction. New mines there are only viable if they also supply Eskom.

Innovation and technology for cleaner coal use

There is potential to increase the efficiency of coal conversion, and any new coal power investments should incorporate the latest technology. As the existing fleet of old coal-fired power stations is replaced, significant reductions in carbon emissions could be achieved. Cleaner coal technologies will be supported through research and development and technology-transfer agreements in ultra-supercritical coal power plants, fluidised-bed combustion, underground coal gasification, integrated gasification combined cycle plants, and carbon capture and storage, among others.

Gas as an alternative to coal

Substituting gas for coal will help cut South Africa's carbon intensity and greenhouse gas emissions. Possibilities include off-shore natural gas, coal-bed methane, shale gas resources in the Karoo basin and imports of liquefied natural gas, which could be used for power production, gas-to-liquid refineries and other industries.

Off-shore natural gas

New natural gas resources – enough to power at least a medium-sized power station – have been discovered off the West Coast. Further drilling may indicate that the resource is larger. The resource should be developed for power production in a phased way. Initial units will contribute to supply security, while encouraging further drilling and development.

Regionally available natural gas could either be piped to South Africa, for example from Namibia (recent finds in Mozambique are probably too far north to pipe economically), or it could be used in regional power plants with electricity transmission lines to South Africa.

Coal-bed methane gas

Experiments are under way to assess the potential for mining coal-bed methane gas, although the overall potential of this resource for producing electricity in South Africa is probably less than previously thought. Underground coal gasification technology is also being developed.

Shale gas

According to the United States Energy Information Administration, technically recoverable shale gas resources in South Africa form the fifth largest reserve globally. Confirmation of recoverable reserves is still necessary through further drilling of test wells. Even if economically recoverable resources are much lower than currently estimated, shale gas as a transitional fuel has the potential to contribute a very large proportion of South Africa's electricity needs. For example, exploitation of a 24-trillion-cubic-feet resource will power about 20 gigawatts (GW) of combined cycle gas turbines, generating about 130 000GW-hours (GWh) of electricity per year over a 20-year period.

This is more than half of current electricity production. South Africa should seek to develop these resources, provided the overall economic and environmental costs and benefits outweigh those associated with South Africa's dependence on coal, or with the alternative of nuclear power. The

national value of this resource needs to be maximized.

Liquefied natural gas

A global market has developed for liquefied natural gas imports, the prices of which are increasingly delinked from oil prices. With South Africa needing to diversify its energy mix, liquefied natural gas imports and the associated infrastructure could provide economic and environmentally positive options for power production, gas-to-liquids production (at Mossgas) and other industrial energy uses.

Required infrastructure to re-gasify liquefied natural gas is becoming more affordable, with some ships incorporating these regasification capabilities onboard, combined with local submersible docking and pipeline facilities to deliver gas onshore. Investment should begin in liquefied natural gas infrastructure.

Diversify power sources and ownership in the electricity sector

The elements addressed below relate to reducing the carbon intensity of power sources, and the need to increase private participation and investment in this field.

Balancing supply security, affordability and climate-change mitigation

South Africa will need to meet about 29 000 megawatts (MW) of new power demand between 2012 and 2030. A further 10 900MW of old power capacity will be retired. As a result, more than 40 000MW of new power capacity needs to be built. Eskom's current committed capacity expansion programme will see more than 10 000MW of new generating capacity added to the existing system. However, there is still a clear gap between future needs and committed infrastructure investments.

Power generation plants contribute about half of South Africa's current greenhouse gas emissions. If the sector follows the proposed carbon emissions scenario of peak, plateau and decline, the balance of new capacity will need to come from gas, wind, solar, imported hydroelectricity and possibly a nuclear programme from about 2023. Programmes to curb demand will also be necessary.

The Department of Energy's Integrated Resource Plan 2010-2030 lays out these options in a policy-adjusted scenario that seeks a trade-off between least-cost investment, technology risks, water-use implications, localisation and regional imports. The plan calls for 21 500MW of new renewable energy capacity to be in place by 2030. International

bidding rounds have already been held to fast-track renewable energy procurement with positive outcomes in terms of falling prices and substantial new private investment

Further refinements and regular updates of the Integrated Resource Plan will be necessary to track demand (which could be lower because of energy-efficiency gains or a sluggish economy, or higher if economic growth accelerates) and to assess whether new generation technologies are delivering timely and affordable power. To ensure supply security, a back-up plan with flexible, incremental and rapidly implementable response measures is required. Planning capability needs to be vested in the independent system and market operator (ISMO). Improved data collection, stakeholder involvement and publication systems will be necessary for more effective planning.

Increasing diversity in South Africa's energy-production mix is important to mitigate climate change while enhancing supply security. For example, combined cycle gas turbines – a cleaner and less capital-intensive technology than coal-fired power stations – can be used to improve supply security by flexibly picking up any shortfall in supply from renewable energy sources. Developing the southern African region's hydroelectric resources, first in countries such as Zambia and Mozambique, is also a priority.

Botswana, Zimbabwe and Mozambique have considerable undeveloped coal reserves. The Southern African Development Community has very low per capita carbon emissions and these resources could be used for regional power production, providing considerable economic benefits. There is thus a prospect for accelerated economic development based on enhanced inter-regional electricity trade.

Diversifying South Africa's power mix will also require enhanced investments in transmission infrastructure and control systems.

South Africa's quest for a lower carbon-emitting power sector needs to be balanced against the potentially higher costs and variable supply that come with new and renewable energy. The costs of renewable-energy technologies, such as solar, are falling, but they are still higher than conventional power technologies. Recent local renewable energy bidding rounds attracted solar prices two or three times that of coal-fired electricity.

Ultimately, South Africa's electricity plan needs to balance increased use of new and renewable energy technologies with established, cheaper energy sources that offer proven security of supply. As South Africa seeks an appropriate balance between responding to climate-change concerns and employing least-cost power-generation technologies to propel economic growth, it will adopt a least-regret approach. South Africa needs to remain competitive throughout the transition to a low-carbon future.

Widen participation and accelerate investment in electricity sector

South Africa needs a clear policy that makes explicit the electricity market structure and how it will evolve over time. New build opportunities need to be clearly divided between Eskom and IPPs. It is also important to employ effective procurement processes that initiate timely, internationally competitive bidding for new capacity and negotiate robust contracts. The government, with the cooperation of Eskom, needs to quicken its plans to establish an independent system and market operator. This operator should be tasked with procuring and contracting IPPs and, preferably, managing transmission assets. Remaining regulatory uncertainties that need to be resolved include the

question of IPPs selling to customers other than Eskom, access to Eskom's grid and rights to trade electricity.

Effort must be made to maximise debt-raising on capital markets for Eskom, backed where necessary by sovereign guarantees. However, private investment will be needed to augment public initiatives.

Improving electricity distribution

A reliable electricity supply depends on sufficient generating capacity coupled with a dependable transmission and distribution grid. Municipalities distribute about half of South Africa's electricity, with increasing local supply failures. Previous government policy required that municipal distribution assets be transferred to six new regional electricity distributors. Little progress has been made on this in the past 10 years, not least because a constitutional amendment shifting responsibility for electricity distribution from local to national government was abandoned in the face of increasing opposition. During this policy hiatus, municipal investments in infrastructure have been inadequate, with maintenance and refurbishment backlogs now exceeding R35 billion.

Proposals to address the problem are:

- **Invest in human and physical capital in the 12 largest municipal distributors,** which account for 80 percent of the electricity distributed by local government. This is a high-priority programme that needs to be driven at national level in collaboration with these municipalities. In addition, Eskom, or larger cities or towns, could take over electricity distribution functions on a voluntary basis from smaller, poorly performing municipalities. Medium-sized municipalities, performing reasonably, could continue with delivery.

- **Improve governmental support for combating illegal use.** Electricity theft, through illegal connections and tampering of meters, is becoming an increasing problem, as is theft and vandalism of electricity cables and transformers. Eskom and municipalities are currently losing billions of rand annually. The government needs to support the electricity industry in this struggle by running a high-profile, well-resourced programme that publicises the negative effects of theft and vandalism on service delivery and encourages community-based approaches to address these issues.

- **Improve demand-side management.** The next 20 years will see smarter management of electricity grids through innovative control systems and smart meters. This will open opportunities for more distributed generation systems, both to meet local demand and to feed back into the grid.

Electricity prices

Electricity prices will have to increase to cost-reflective levels if Eskom is to be able to service its debt and fund effective operations, refurbishment and system expansion. The government is probably close to the limits of the fiscal and guarantee support it can give Eskom (given other huge infrastructure needs plus ongoing social imperatives). Eskom's access to private debt is also becoming more difficult and expensive.

There is, however, concern that a sharp price increase could dampen economic growth and development. The challenge is to find ways to stagger the pace of price increases. Investments in generation plants and transmission and distribution networks are typically capital-intensive and lumpy. Management of debt-to-equity and interest cover ratios often requires steep price increases. However, after the majority of the debt is amortised, utilities could receive significant free cash flows.

A number of related pricing issues need to be addressed:

- The regulator can **establish appropriate mechanisms to prefund capital and create a smooth price path over a longer term** so that consumers face more predictable and manageable price increases. (There are lessons in the way the Trans-Caledon Tunnel Authority smoothed water tariffs for the Gauteng area).

- **Widen access to reduced tariffs for low-income families.** Free basic electricity and cross-subsidised tariffs are already available for many low-income households. However, these need to be applied more consistently and comprehensively to shield poor consumers from high price increases. Since the costs of these subsidies will become significant in future, any increases in their level, and any proposals for a new subsidy mechanism, should be carefully assessed as part of a local government fiscal review.

- **Introduce carbon pricing with appropriate conditional exemptions.** The purpose of a carbon tax is to change investment behaviour away from carbon-intensive power generation technologies. However, given the structure of South Africa's electricity market, this is unlikely to occur without additional measures. The regulator and Eskom will be forced to pass the additional costs of a carbon tax directly to captive consumers, who do not yet have the choice of alternative, cleaner electricity supplies. The Integrated Resource Plan already incorporates a shadow carbon price: higher-cost renewable energy technologies were forced into the plan in order to reach carbon-emission mitigation targets. External factors are thus beginning to be internalised in the electricity price through the "policy-adjusted" plan.

Nevertheless, it may still make sense to have an economy-wide carbon tax, coupled with conditional exemptions in some sectors (or rebate or recycling schemes), to send a broad signal to the industry and consumers that they are living in a carbon-constrained world. To achieve meaningful shifts in technologies for electricity generation, it is important that this tax is introduced alongside direct low-carbon policy actions. A conditional carbon tax exemption could be applied to the electricity sector, provided it progressively moves to a lower carbon generation mix, as mandated in the Integrated Resource Plan. This would significantly increase renewable energy and diversify generation sources.

National electrification and energy poverty

The energy needs of poor households are still inadequately met. Between a fifth and a quarter of South Africans still have no access to the grid. The electrification programme has slowed (annual connection rates are now half of those a decade ago) and the original goal of universal access by 2014 is not feasible. The following interventions are proposed:

- A thorough review of targets, planning, technology choices, funding and implementation.
- Subject to costs, South Africa could aim for at least 90 percent grid connection by 2030, with alternative off-grid options offered to the remaining households for whom a connection is impractical.

Develop integrated programmes to tackle energy poverty by building on research done since the 1990s around household energy use. Even poor households with access to electricity can afford to use only modest amounts and rely on other sources such as paraffin, gas and fuel wood. An integrated programme could include sustainable production of fuel wood and its safe combustion in efficient stoves in rural areas.

Reassess the timing and/or desirability of nuclear power and a new petroleum refinery

Nuclear power

- According to the Integrated Resource Plan, more nuclear energy plants will need to be commissioned from 2023/24. Although nuclear power does provide a low-carbon base-load alternative, South Africa needs a thorough investigation on the implications of nuclear energy, including its costs, financing options, institutional arrangements, safety, environmental costs and benefits, localisation and employment opportunities, and uranium enrichment and fuel-fabrication possibilities. While some of these issues were investigated in the IRP, a potential nuclear fleet will involve a level of investment unprecedented in South Africa. An in depth investigation into the financial viability of nuclear energy is thus vital. The National Nuclear Energy Executive Coordinating Committee (NNEECC), chaired by the Deputy-President, will have to make a final "stop-go" decision on South Africa's nuclear future, especially after actual costs and financing options are revealed.

- South Africa needs an alternative plan – 'Plan B' – should nuclear energy prove too expensive, sufficient financing be unavailable or timelines too tight. All possible alternatives need to be explored, including the use of gas, which could provide reliable base-load and mid-merit power generation through combined-cycle gas turbines. Gas turbines can be invested in incrementally to match demand growth. While their operational costs are arguably higher than those of nuclear stations, their unit capital costs are cheaper, they are more easily financed and they are more able to adjust their output to make up the shortfall from variable renewable energy sources.

- The development of shale gas resources, if available, will still take some time. In the meantime, West Coast gas resources should be developed and investments should be made in liquefied natural gas import infrastructure as insurance for the future.

Petroleum refinery

- South Africa produces about 5 percent of its fuel needs from gas, about 35 percent from coal and about 50 percent from local crude oil refineries. About 10 percent is imported from refineries elsewhere in the world. South Africa has a sizeable capital stock and management capacity to produce fuel from gas.

- The country faces several related pressures around liquid fuels over the next decade. Refined fuel products are needed to run the economy and much of the demand is on the Highveld, far from the coast. South Africa also needs to improve the standards of fuels used, for health reasons and to accommodate more efficient engines that will reduce fuel demand and carbon emissions. At the same time, undue fuel-price increases should be avoided, as they will negatively impact the economy.

- South Africa faces the following specific challenges in the liquid fuels sector:

- Gas stocks for the existing gas-to-liquids plant from off-shore fields are declining. South Africa should source sufficient feedstocks to support – and, ideally, increase – production. If there are no feedstock constraints, the Mossgas plant will be able to increase its production by about a third through major new investment. There are several options to secure feedstocks:
  - Invest in gas fields close or adjacent to existing fields in the southern Cape. This is the best option, as marginal costs are lower. This will also allow further exploitation of existing fields, maximising use of existing capital. PetroSA is best placed to lead this

FIG 4.1 EACH OPTION HAS DIFFERENT ADVANTAGES AND DISADVANTAGES AS INDICATED IN THE TABLE BELOW:

Options	Advantages	Disadvantages
New oil-to-liquid refinery e.g. Mthombo at Coega	-A degree of fuel security -The capacity to export -Industrial externalities (especially in plastics) arising from the concentration of refining capacity and expertise -Potential to move to cleaner fuel standards more quickly, and at lower cost.	-South Africa would probably have to export the surplus product at a loss (or with local fuel users subsidising exports). -The size of the project leads to increased risk – and the potential for significant macroeconomic implications (this would need to be about 400 barrels per day, to achieve economies of scale). -A greenfields site will need to be found in Durban – or the product will need to be transhipped from Coega to Durban, and then piped to Johannesburg, increasing costs. -Some existing refineries may need to be closed, risking loss of skills and managerial know-how.
New coal-to-liquid plant	-Would allow for use of indigenous and abundant feed stocks -Scale makes 80 000 barrels per day feasible - South Africa has technology and managerial expertise in this area.	-The process is heavily carbon intensive – and with a carbon tax of US$25 a ton, the economics look less favourable. -It is a large capital-intensive investment in a capital-constrained country. -This will require significant government subsidies, either directly or indirectly.
Upgrade existing refineries	- Will use the present oil companies' capacity and skills set -Will allow South Africa to keep Durban as a petrochemicals hub -Will lower costs, due to new pipeline in Durban -The risk is largely borne by the private sector.	-Durban is a densely populated city – and there are already environmental concerns about the site. -Oil companies will want to pass both risks and costs on to the public sector and/or consumer. -The space for a major upgrade may not exist. -
Import refined product	-Refining margins are low at present, so this option is cheaper. -This will not consume significant capital, in the context of current capital constraints.	Fuel security is lower with this option, given dependencies. -If refining margins rise quickly, the import bill and current account deficit will be negatively affected.
Partner with Angola or Nigeria	-These countries need refined products and have the input products. -South Africa will co-finance, thereby sharing risks.	-Political risk associated with these options is high. -The cost of building in these countries is high, given limited skills, infrastructure and poor governance.

investment, given its existing capital and its management experience.

- In the longer term, the Mossel Bay Refinery could use either liquefied natural gas imports or Karoo shale gas, if it becomes available.

- Refining capacity has run out and South Africa now has to import a share of its refined fuel needs. There are five options to deal with this:
  - Build a new oil-to-liquid refinery (for example the proposed Mthombo project in Coega)
  - Build a new coal-to-liquid refinery
  - Upgrade the existing refineries, allow significant expansion of one or more of the existing refineries or do both
  - Import refined product
  - Build a refinery in Angola or Nigeria and buy a share of the product of that refinery.

- Each option has different advantages and disadvantages, as indicated in Fig.4.1.

The least risky and most cost-effective option is to continue importing a share of refined product until the country reaches a stage where it can absorb the output of either a new refinery or a major upgrade of an existing refinery. South Africa will therefore continue to import, taking a decision on the next step by 2016 or 2017 at the latest. Timing is important, given lead-time requirements to develop a new refinery (estimated at about eight to 10 years) that would be expected to produce output by 2025 to 2028 (if no other options are implemented). The decision will need to consider fuel security, employment, the current account, the rand, interest rates, fuel standards and competition.

Other issues related to liquid fuels:

- **Clean fuel standards:** Health issues and the advent of new, more efficient automobile engines mean that South Africa needs to migrate to international clean fuel standards. This requires major investment in upgrades and conversions of existing refineries at a time when the major oil companies are increasingly selling-off refinery assets. A mechanism has to be found to fund these upgrades. This issue is also linked to the decision around a new, modern refinery investment, which would meet these new standards.
- **Biofuels** are also a possibility in the future, but because South Africa is largely a dry country, production is likely to be located in the southern Africa region.

- **Vehicle Carbon Tax:** If South Africa adopted a consistent carbon price across the economy, and this price was around R100/t carbon, it would translate into an increase of only 5 per cent at the pump (compared to 20 per cent for the electricity sector), thus sending only a weak signal to consumers to conserve petrol or diesel. A much more effective instrument would be a tax on vehicle sales based on their carbon-emission signatures. Such a tax would encourage consumers to opt for more fuel-efficient vehicles, thus saving liquid-fuels-based emissions.

- **Electric vehicles:** Over the next 20 years, South Africa can expect to see greater use of electric vehicles, making it even more vital that we start decarbonising electricity generation. We shall also encourage a shift to greater use of public transport, as outlined in the transport section of this chapter.

Integrated energy planning

The energy sector is primarily organised along individual supply industries. It is therefore necessary and useful to outline actions needed in these specific sectors. However, fuels may be substituted and demand-side measures have the potential to substantially reduce their consumption.

South Africa's approach to energy planning needs to become more holistic and integrated. It is difficult for the Department of Energy, on its own, to deal effectively with cross-cutting issues, which encompass institutional capacity, governance, competition, regulation, investment, spatial planning, linkages to transport, water and ICT infrastructure and economic, social and environmental impacts. The Commission can assist the DoE in defining various policy, scenario and planning options and is willing to play a facilitating role between relevant stakeholders.

Trade-offs

Trade-offs to consider when deliberating South Africa's future energy mix includes the need to:

- Balance the need for a lower carbon-intensive power-generation mix (which implies adopting higher cost and variable renewable energy

technologies) with the need for competitive electricity prices and a reliable electricity supply, which are essential for economic growth.

- Balance the need for a less energy and carbon-intensive economy with the need to take advantage of the country's mineral resources. South Africa has to explore credible ways to improve the energy efficiency of mining and minerals processing while expanding mineral extraction, beneficiation and exports. A reasonable trade-off seems possible. As stated in the chapter 5 on transitioning to a low-carbon economy, recent research indicates that the total carbon emissions from mining and producing gold, platinum-group metals, coal, iron, steel, ferro-alloy metals and aluminium (including onsite emissions and those embedded in associated electricity use)are lower than often assumed – about 15 percent of South Africa's total national carbon emissions. Projections indicate that emissions from these sectors will not grow much and may even decline due to structural changes and less carbon-intensive electricity production.

- Balance state ownership of energy enterprises with effective regulation and market reforms needed to stimulate competition and achieve greater private-sector involvement.

Phasing

The steps needed to move to a different energy context by 2030 are outlined below. They are grouped according to short-, medium- and long-term priorities.

Short term

Over the next five years, South Africa needs to:

- Develop a national coal policy and investment strategy based on a realistic estimate of coal reserves, the sustainable supply of coal for domestic needs and the sustainable expansion of coal-export markets within the context of diminishing carbon intensity. The government further needs to forge a compact with coal-industry leaders to secure coal for domestic energy-production needs.

- Invest in a new heavy-haul rail corridor to the Waterberg coalfields in Limpopo. This should form part of an integrated infrastructure investment plan for the Lephalale area that addresses, among other factors, the additional water supplies needed.

- Strengthen rail infrastructure in the central coal basin and the coal line to Richard's Bay. The government will broker a partnership between Transnet and the private sector for these projects.

- Do exploratory drilling for economically recoverable coal seam and shale gas reserves. Full investigations into whether the use of these resources is possible will continue, taking into account environmental implications.

- Develop West-Coast off-shore gas for power production by contracting private-sector service providers.

- Promote investment in liquefied natural gas landing infrastructure.

- Commission Eskom's Medupi coal power station and Ingula pumped-storage plant. In addition, at least 3 725MW of renewable energy will be contracted from the private sector.

- Pass the Independent System and Market Operator Act, after which Eskom's system operator, planning, power procurement, purchasing and contracting functions will be transferred to an independent state-owned enterprise. Eskom's transmission assets should also be transferred to this entity. The independent operator's mandate will include procuring and contracting IPPs, including those able to provide renewable energy.

- Amend the National Energy Regulator Act (2004) and the Electricity Regulation Act (2006) to ensure a more efficient and predictable regulatory environment.

- Ring-fence the electricity-distribution businesses of the 12 largest municipalities, representing 80 percent of municipal distribution, and resolve their maintenance and refurbishment backlogs. Develop a financing plan for these municipalities that takes into consideration the need to invest in human capital.

- Develop a sustainable national electrification plan.

- While the decision has been taken in principle, further and more in-depth investigations are needed into the implications of greater nuclear energy use, including the potential costs, financing mechanisms, institutional arrangements, safety, environmental costs and benefits, localisation and employment opportunities, and the possibilities of uranium enrichment and fuel fabrication. The National Nuclear Energy Executive Coordinating Committee will make a stop-go decision after actual costs and financing options are revealed.

- Agree on a funding mechanism for upgrading of existing refineries to ensure they meet new fuel-quality standards. Imports will continue, ensuring that the growing deficit in petroleum products is met. Petroleum refiners and importers will hold stocks of sufficient size to ensure supply security.

- The Commission will work with the Department of Energy on an interdepartmental process to develop and regularly update integrated energy plans. Integrated Resource Planning capabilities (for the electricity sector) will be institutionalised in the Independent System Operator.

- Introduce a vehicle point-of-sale carbon tax based on their carbon-emission levels. This would encourage consumers to opt for more fuel-efficient vehicles, cutting emissions from liquid fuels.

- Encourage greater use of hybrid or electric vehicles and public transport. A shift to electric vehicles will increase electricity demand and will have implications for network design, smart-metering and tariff structures that encourage off-peak use. Greater use of public transport will also be encouraged, as outlined in the transport section of the plan.

Medium term

By 2020, it is envisaged that:

- Coal rail capacity will match coal export port capacity at Richard's Bay (at least 91 million tons per year).

- The Kusile coal-fired power station will be commissioned and at least 7 000MW of renewable energy will be contracted, mostly from private IPPs.

- Liquefied natural gas infrastructure will be in place to power the first combined-cycle gas turbines.

- Pro-poor electricity tariffs will be better targeted to include all qualifying electricity customers.

- Electrification coverage will reach at least 85 percent. Integrated household energy supply strategies will offer affordable access to complementary energy sources that include solar water and space heating.

- A decision will be made on whether South Africa should continue importing petroleum products or invest in a new refinery.

Long term

By 2030:

- More than 20 000MW of renewable energy will be contracted, including an increasing share from regional hydroelectricity, provided this is an affordable target.

- Rail and port capacity will be further enhanced to support increased coal exports.

- About 11 000MW of Eskom's older coal-powered stations will be decommissioned, but close to 6 000MW of new coal capacity will be contracted – part of it from other southern African countries (subject to South Africa's commitments in climate-change negotiations).

- Cleaner coal technologies will be promoted through research and development investments and technology-transfer agreements in, among others, the use of ultra-supercritical coal-power plants, fluidised-bed combustion, underground coal gasification, integrated gasification combined cycle and carbon capture and storage.

- The extent of economically recoverable coal-bed seam and shale gas reserves will be understood. Subject to acceptable environmental controls, these gas resources, supplemented by liquefied natural gas imports, will begin to supply a growing share of power production. This could avoid the need for further base-load nuclear generation.

- Rising energy prices, an economy-wide carbon tax with sector exemptions, coupled with direct action (such as the implementation of the Integrated Resource Plan in the electricity sector; scaled taxes on the sale of high-emission vehicles, equipment and building standards; and targeted energy-efficiency programmes) will drive South Africa's energy sector on a path to lower carbon and energy intensity.

- At least 90 percent of South Africans will have access to grid electricity, with the remainder meeting their energy needs from off-grid sources.

- Hybrid and electric vehicles will be more widely used.

WATER RESOURCES AND SERVICES

Water is a strategic resource critical for social and economic development and there is growing concern about the potential impact of water-related risks. South Africa ranks low – 128th of 132 countries – in Yale University's Environmental Performance Index.[3] This is attributed, in part, to the poor state of its water ecosystems. South Africa also ranks 148th out of 180 countries in terms of water availability per capita, according to the 2012 World Water Development Report.[4] Since South Africa is already a water-scarce country, greater attention will have to be paid to its management and use.

Water supply and sanitation services, which depend on adequate management, are a priority for most South African communities. Their effective and sustainable management is essential for community health, development and cohesion, and continued economic activity.

By 2030, it is envisaged that effective management of water and the services derived from it will support a strong economy and a healthy environment. The country's development will reflect an understanding of available water resources and effective water planning that cuts across different economic sectors and spheres of government. All main urban and industrial centres will have a reliable water supply to meet their needs, while increasingly efficient agricultural water use will support productive rural communities. Natural water sources will be protected to prevent excessive extraction and pollution. Water will be

recognised as a foundation for activities such as tourism and recreation, reinforcing the importance of its protection. Where rivers are shared with other countries, South Africa will ensure that it continues to respect its obligations.

Before 2030, all South Africans will have affordable, reliable access to sufficient safe water and hygienic sanitation. Service provision arrangements will vary in different parts of the country, with different approaches adopted for densely built-up urban areas and scattered rural settlements. Local governments will retain responsibility for ensuring service provision in their areas and, in many cases, will continue to manage the services directly. However, alternative solutions such as community-based management, local franchising or the use of regional water utilities will be allowed if they would be more effective. Authorities responsible for water-resource management will coordinate their activities with local service providers, and monitor and support them, as discussed in chapter 13.

The water reality

After 1994, a major infrastructure expansion programme was initiated to address a long history of underinvestment, resulting in improved access to potable water. This was complemented by a greater focus on water-resource management. However, there is still much to do.

Implementing broader water-resource policies that address equitable allocation and protection of the resource remains a challenge. Water restrictions due to drought have been limited in recent years but the threat remains due to delays in investment in infrastructure and a failure to moderate growth in demand. Backlogs in service provision in rural areas remain and there is pressure to upgrade urban service levels, which will require further investment.

There are serious concerns about the ability of the current water administration to cope with emerging challenges. The available pool of experienced water engineers and scientists is shrinking rapidly. Administrative failures and the absence of enforcement indicate that management quality is deteriorating and institutional memory is being eroded. Delays in issuing water licences are affecting economic activity, with new farmers also being affected as the administration fails to reallocate water rights in areas where demand exceeds supply, as provided for in the National Water Act (1998).

Managing water resources

Managing, monitoring and protecting South Africa's water resources in a sustainable way while allowing for economic growth demands the following:

- **Effective administration.** Management of South Africa's limited water resources must become more effective. This includes involving users so that they understand and can respond to emerging constraints; systematic monitoring to ensure effective water-supply planning, development and operation; and regulating water's various uses (including for disposal of wastewater) to ensure sustainability. Effective administration requires clear and coherent legislation and policies based on strong research and development capacity and the right technical tools. As the nation's water resources are extensively interconnected – often flowing across political boundaries – oversight of their management and administration should remain national. But some decentralisation of responsibilities is necessary, because it is at local level that users can best be involved.

- **Evolving water-resource management.** Given growing uncertainty about the availability of water to meet expanding demand, the management approach must be regularly reviewed. A statutory public process for this already

exists, requiring that a national water resource strategy is produced every five years. This strategy is informed by catchment management strategies and local government's water services development plans, as outlined in their integrated development plans. If this review process is properly implemented, priority areas for intervention will be identified and implementation can be monitored.

- **Prioritisation.** There is an urgent need for a coherent plan to ensure the protection of water resources and the environment in the Mpumalanga Highveld coalfields, upstream of the Vaal and Loskop dams, as well as in the Lephalale-Waterberg area. Given environmental pressures and development demands, current water allocations in the upper Vaal and Olifants River water-management areas urgently need to be revised. Local planning should also ensure that groundwater resources are optimally used. If properly planned and managed, groundwater can often meet local needs more effectively than large regional infrastructure projects.

Water-management strategies

The Commission proposes that the following strategies are adopted:

- **Establish a national water-resources infrastructure agency.** The Department of Water Affairs has identified the actions necessary to reconcile the water demands of major urban and industrial centres with potential supplies up to 2030.[5] These plans need to be translated into well-timed investment programmes to avoid supply constraints. Large investments in regional systems could be undertaken by a national water-resources infrastructure agency, perhaps modelled on the South African National Roads Agency Limited. This agency would build on the foundation provided by the Trans-Caledon Tunnel Authority, which is already supporting implementation of several large projects, and help to resolve the organisational challenges faced by the department's Water Trading Entity. However, the national government, through the Department of Water Affairs, should continue to lead the planning process, reviewing these programmes every five years to ensure coordination with other long-term economic and infrastructure plans.

- **Reduce demand.** Reducing growth in water demand is just as important as increasing its supply. Current planning assumes it will be possible to achieve an average reduction in water demand of 15 percent below baseline levels in urban areas by 2030. Detailed targets have been set for different areas.

Achieving demand reductions on this scale will require programmes to reduce water leakage in distribution networks and improve efficient domestic and commercial water use. The Commission proposes running a national programme to support local and sectoral initiatives to reduce water demand and improve water-use efficiency. Demand-management projects with merit should be given priority and regarded as being on par with water-supply expansion projects in terms of importance.

- **Manage agricultural use better.** Agriculture uses the largest volume of water (even though agricultural water supplies are less reliable than those supplied to urban and industrial users). The farming sector will have to increase its water efficiency to improve production and allow for water to be transferred to new users in water-scarce areas, to compensate for the expansion of irrigated agriculture, which has high job-creation potential. The Commission proposes a dedicated national programme to provide support to local and sectoral efforts to reduce water demand and improve water-use efficiency. Water-saving and demand-management projects should be

considered as part of the overall range of water-supply investment programmes. These can be compared with supply expansion projects, and should be prioritised accordingly, based on their merits.

- **Investigate water reuse and desalination.** There is already extensive indirect reuse of water in inland areas, where municipal and industrial wastewater is reintroduced into rivers after treatment. However, there is considerable scope for further water reuse. Many municipalities lack the technical capacity to build and manage their wastewater treatment systems. As a result, a regional approach to wastewater management may be required in certain areas.

Water infrastructure investment should include projects to treat and reuse water, selected on their merits. Research into water reuse and desalination and the skills to operate such technology should be developed, perhaps under the auspices of a national water-resource infrastructure agency (discussed below) or the Water Research Commission.

Institutional arrangements for water-resource management

The institutions that manage water resources should reflect the shared, public nature of water. Although current legislation provides an institutional framework to achieve this, implementation has been slow. This is, in part, because the growing water challenges – and the need to build institutions to deal with them – are not fully understood. Human resources are also limited.

Institutional development is particularly needed for the Olifants River, Crocodile-west subcatchments of the Limpopo, the Nkomati River and the upper and middle Vaal subcatchments, and the Umzimvubu River in the Eastern Cape, where water supplies have already reached their limit and where water allocations need to be reviewed. Such catchment-based institutions will need strong support from national bodies, especially in terms of resource monitoring and infrastructure planning.

Water-management institutions should ensure that their operations and development align with the country's macro-development strategies and sectoral priorities. If there is capacity, the consultative process that produces the national water-resource strategy every five years could be used to ensure such alignment. The Commission should support and facilitate this alignment process.

Institutional arrangements for water services

In terms of the Constitution's allocations of powers and functions, the provision of water supply and sanitation services is the responsibility of municipalities, with support and oversight from provincial and national level. Many of the institutional challenges at this level are generic, and are dealt with in chapter 13. There are, however, a range of specific considerations on the best institutional approach to adopt in different circumstances, as well the financial arrangements to ensure sustainable, accessible services for poor communities.

Key policy issues

The following policy issues guide appropriate actions to improve the management, use and conservation of South Africa's water resources:

- Enhanced management capacity will be needed to address the increasing pressures on water resources. This capacity is in decline, partly due to institutional uncertainty. New institutional arrangements should acknowledge limited human-resource capacity and give high priority to the development and retention of the specialised staff required. Current human-resource development programmes have had limited success and must be made a strategic priority.

- Institutional arrangements for water-resource management need to be finalised, specifically the number of water-management areas to be established, the mechanisms through which users will be involved in the management of water in these areas, as well as the organisation of the management and development of major water-resource infrastructure.

- A review of existing water allocations is needed in areas where new users are seeking access, but current users already take more than can reliably be provided. There is statutory provision for these reviews, which if not undertaken, will result in a rise of illegal use and the over-allocation of the resource. This will reduce supply reliability, jeopardise existing social and economic uses and damage the environment.

- To guide water-management approaches, strategic planning decisions are needed on general economic and social development, as well as environmental protection. Geographic areas where this is needed include:
  - Mpumalanga Highveld coalfields – a balance between environmental protection, agriculture, energy requirements and water resources.
  - Lephalale and Waterberg areas – water requirements and sources for mining and energy investments.
  - Olifants River (Limpopo/Mpumalanga) – careful consideration of the balance between mining, agriculture and nature conservation.
  - Umzimvubu River (Eastern Cape) – water-resource development could support agriculture, domestic supply, hydropower production, transport and tourism if planned in a coordinated manner.
- Investments to support economic uses of water, including urban consumption, should normally be funded by users through appropriate pricing measures, which must include arrangements to ensure that all people can afford access to basic water services. However, the challenges of sustaining service provision in poor municipalities must be recognised and addressed.

- It is likely that a substantial proportion of investments to support rural development (including agriculture and rural settlements) will have to be publicly funded. Policy is needed to guide such investments to achieve a balance between financial costs and social benefits.

- The norms and standards for basic water supply and sanitation services should guide the allocation of funds to municipalities. However, in many cases, new investments are routinely designed to exceed existing norms and standards, resulting in service provision that is financially unsustainable. An urgent review of the norms and standards, together with the financial provisions to meet these, is required.

- Many small and rural municipalities lack the financial and technical capacity to manage water services adequately. Some flexibility in approach is recommended, which could include the use of regional utilities and community management of franchise arrangements, provided municipalities retain their role as the political authority responsible for service oversight.

- Water availability and demand varies widely. This limits the usefulness of pricing as an instrument of allocation and control and increases the complexity of price-setting. At present, water price-setting aims to recover the cost of making water available, while administrative allocation methods seek to balance economic, social and environmental benefits where markets frequently fail. For water services, price-setting is regulated by municipal procedures. In this context, the need for

an independent economic regulator for water, its specific functions and the potential costs and benefits in relation to the current arrangements should be carefully assessed. This assessment could take place within the proposed cross-sectoral review of infrastructure regulators.

Trade-offs

In charting a way forward for water management, the following trade-offs and issues emerge:

- A balance has to be achieved between water allocations for industrial and urban use, with important economic implications, and for agriculture and conservation, which have important social and environmental implications.

- Greater water-use efficiency in agriculture tends to be capital- and skills-intensive, but may in turn support job creation. These gains will be difficult for new entrants to agriculture to achieve without substantial support.

- The costs associated with environmental protection (for example, those associated with enforcing pollution standards and extraction of restrictions) should be set against social and economic needs. Current legislation allows for different levels of protection, but in many cases water reserved for the environment is already used for other purposes.

- Any review of norms and standards for basic water supply and sanitation services should consider whether service provision through public infrastructure is advisable outside formal settlement areas, given the high costs associated with serving scattered rural communities. Household grants for self-supply may be considered in some areas.
- At municipal level, it is important to balance the political autonomy and exclusive service-delivery mandate granted by the Constitution with the realities of limited financial and human-resources capacity. A flexible institutional model should allow continued political oversight of local service provision by municipalities, while taking advantage of other delivery models such as regional service providers or community management.

- A balance is needed between allocating financial resources to support investments in higher levels of service and providing services to underserved households, while also maintaining and periodically refurbishing existing infrastructure.

- In some rural areas (for example, around Sekhukhune district municipality in Limpopo and Bushbuckridge local municipality in Mpumalanga), reliable water supplies can only be made available through large and costly distribution works. Decisions about such schemes must recognise that they are unlikely to be viable without substantial ongoing operating subsidies.

Phasing

Between 2012 and 2015, the following actions are required to achieve the 2030 goals:

- The national water-resource strategy should be tabled for consultation by mid-2012 and approved by year-end to guide the development of the sector. Along with the water-resource investment programme, it should be reviewed in consultation with water users and other stakeholders every five years to ensure that it adapts to changing environmental, social and economic circumstances.

- Future institutional arrangements for water-resource management must be defined by the end of 2012, with implementation by 2015 at the latest, if institutional memory is to be retained and continuity in management ensured. The institutional arrangements could include:
  - A national water-resource infrastructure

agency that will develop and manage large economic infrastructure systems.

- Catchment management agencies to undertake resource management on a decentralised basis, with the involvement of local stakeholders.
- National capacity to support research, development and operation of water reuse and desalination facilities.
- A dedicated national water-conservation and demand-management programme, with clear national and local targets for 2017 and 2022, and subprogrammes focused on municipalities, industry and agriculture.

- A comprehensive investment programme for water-resource development, bulk-water supply and wastewater management must be established for major centres is being finalised and should be reviewed every five years. This programme will include the following major investment projects, with clear allocation of responsibilities for financing and implementation and set targets for completion:
  - The Lesotho Highlands Project Phase 2, which is to be completed by 2020 to supply the Vaal system.
  - Current KwaZulu-Natal Midlands projects (eThekwini and Msunduzi municipalities and surrounds), which need to be completed and future major augmentations decided on. These augmentations could be through desalination, reuse or by building a new dam on the Mkomazi River in time for water to be available in 2022.
  - Western Cape water-reuse and ground-water projects, which are to be completed by 2017.
  - Regional water infrastructure investments and bulk-water supply programmes, which must be defined by the end of 2012, with clear implementation targets.
  - The management of water services must be strengthened and regional water and wastewater utilities established to support municipalities (including expanding mandates of existing water boards) by 2017.

TRANSPORT

By 2030, investments in the transport sector will:

- Bridge geographic distances affordably, foster reliably and safely so that all South Africans can access previously inaccessible economic opportunities, social spaces and services.
- Support economic development by allowing the transport of goods from points of production to where they are consumed. This will also facilitate regional and international trade.
- Promote a low-carbon economy by offering transport alternatives that minimise environmental harm.

The state will oversee a transport system that takes into consideration the realities of transport in South Africa and strives to serve the interests of society. It will provide basic infrastructure where needed. Where independent service providers would best meet transport needs, the government will enable licensing within a framework of effective regulation. Crucially, the state agents responsible for transport will have the competence, information gathering and planning facilities and the necessary leadership to achieve these goals.

The transport reality

South Africa needs reliable, economical and smooth-flowing corridors linking its various modes of transport (road, rail, air, sea ports and pipelines). Currently, these corridors are dominated by outdated, malfunction-prone railway technology and poor intermodal linkages.[6] Ports are characterised by high costs and substandard productivity relative to global benchmarks.

About 96 percent of South Africa's bulk commodity exports are transported by sea.

Although rail is the ideal mode of transport for large, uniform freight travelling further than 400km, 69 percent of all freight transport activity (measured by ton kilometres) is conveyed by road, parts of which are "rail friendly". This strains a road network already suffering from significant maintenance backlogs and contributes to poor road safety. South Africa's high accident rate places a huge burden on society, both in terms of the emotional and health costs of death and injury, and the financial costs of damaged and lost cargo.

Social and economic exclusion caused by apartheid is still evident in the long distances many people, especially the poor, travel from where they live to where they work. Providing suitable means for the safe, efficient and cost-effective transport of people and goods is crucial. Such mobility broadens social and economic access, alleviating poverty.

Recent investments have given South Africa's air-travel infrastructure the capacity to handle projected passenger volumes to 2030. However, air transport poses a challenge for wider development. In contrast to intercontinental travel, where network density and cross-subsidisation of flights keep prices down, the cost of a plane ticket to a destination within Africa is prohibitive. In future, the significant levels of carbon emissions resulting from air travel may substantially reduce travel for business and leisure and may negatively affect the tourism sector.

Strategic focus areas

South Africa needs to focus on a number of strategic focus areas if it is to reach its transportation goals by 2030.

- **Prioritisation.** Transport decisions usually involve expensive, expansive systems that take years to build and are in place for decades. Given the financial and time commitment such decisions demand, it is important to carefully rank competing options using clear decision-making criteria. Focus should be on safety, affordability and efficacy rather than on trying to incorporate all transport options. Decisions should take South Africa's developmental goals into consideration and guard against adopting transport approaches from other nations that are not aligned with South Africa's priorities or resources.

- **Focus on transport as a system**. Instead of focusing on a particular transport mode, emphasis should be placed on the total transport network. This systemic approach will help improve transport efficiency and accessibility while reducing the overall environmental, social and economic costs. This approach should also consider transportation options that would contribute towards South Africa's decarbonisation efforts, for instance, the use of electric buses or offering companies incentives for using delivery vehicles powered by liquefied natural gas.

- **Look beyond transport.** Social and economic mobility does not necessarily depend on a transport system. Spatial planning – for example, establishing more economic opportunities where people live or creating new settlements close to work hubs – could also provide a solution. However, this is a long process. In the medium term, South Africa will probably continue to experience increasing traffic congestion.

- **Behavioural change**. Behavioural change is critical for reducing the environmental, social and economic costs associated with transport. Targeted communications campaigns and the availability of alternatives have the potential to improve South Africa's transport situation by shifting public thinking about public transport and transport that uses

alternative energy sources. For instance, while some forms of private transport, such as the car, will still be used in 2030, there will be a marked move towards public transport as more options become available to commuters.

Key policy and planning priorities

With these strategies in mind, the government needs to focus on the following policy issues going forward.

Create workable urban transit solutions

To create a streamlined and effective urban transport system, the government needs to:

- **Increase investment in public transport and resolve existing public-transport policy issues.** This includes attracting private-sector investment. Both public and private investment should go towards extending bus services, refurbishing commuter trains, linking high-volume corridors and integrating all these into an effective service. The government needs to coordinate these investments if economies of scale are to be maximised.

Public-transport investment increased at 15 percent a year from 2006. In the short term, to harvest these investments, future asset management and increased use of existing assets must be a priority, with a focus on doing more with what the country has. It is crucial to strengthen governance of the sector and operational efficiency.

Nowhere is this more evident than in the bus rapid transport system, which has demonstrated the potential of high-quality mass transit systems while also showing it is critically important to align social interests with technical solutions. The Johannesburg bus rapid transport project incorporated taxi owners – a milestone in formalising the taxi industry as a transport operator. During 2011, however, striking drivers halted this transport system. As public transport must be dependable, authorities will have to create reliable services by placing commuters' interests above the sectarian concerns of transport providers, while also allowing these services to be economically sustainable businesses. Fixing problems with bus rapid transport systems is a priority given the significant financial and spatial investments made to date and the potential such a system represents for qualitatively better public transport.

- **Devolve transport management to local government.** Governmental policy is to devolve transport management to local government. This will help align the fragmented and conflicting interests of multiple transport authorities, each with separate funding sources and mandates. However, handing responsibility for transport over to municipal authorities will only succeed if it is accompanied by strengthening of institutions and alignment of legislation, policy and practice. Where metropolitan municipalities are adjacent, a regional transport authority may be appropriate to support integration, as proposed in Gauteng's 2055 strategy, which prioritises harmonising transportation efforts within its city region.

- **Provide incentives for public-transport use**. Public-transport subsidies will increase affordability for low-income commuters. Mounting costs for private car users (tolls and projected higher fuel costs), together with prioritising flow of public-transport vehicles on roads, might encourage motorists to use public transport.

Public-transport solutions should extend services to captive transport users while winning custom from those who have options. This will require a public-transport system that has the capacity, frequency, coverage and safety performance required to compete with the benefits of having a privately owned car. The Gautrain has shown public

transport is an option for commuters who can afford to use cars. The airport link has been quickly and successfully adopted, although this is not the case on the Pretoria-Johannesburg route, which has a small reach and weaker links to commuters' departure and destination points. Authorities may need to add additional feeder services to make this link work, increasing the already considerable cost

.

- **Improve road infrastructure.** Even with greatly expanded public transport, city dwellers will still use cars. Transport authorities will need to plan and invest in road and transport infrastructure construction, maintenance and oversight – and integration with public services – while using technology, such as intelligent traffic signalling, to maximise traffic flow.

- **Renew the commuter train fleet.** Even though trains provide the lowest-cost transport service in metropolitan areas, they are also often unreliable and uncomfortable, with the forced retirement of aged rolling stock placing more pressure on operations. New technology is needed to improve service levels.

Strengthen and optimise freight corridors

South Africa is a transport-intensive economy. Its advantages in terms of resources are greatly eroded by high transport costs and poor freight transport infrastructure. South Africa's mineral sector, for example, has the potential to drive economic growth in the short term, yet it is being stifled by limited capacity to transport mineral commodities, particularly coal, manganese and iron ore, on existing rail lines.

Most of South Africa's bulk freight is transported on existing national road and rail networks. Planning should prioritise improving the capacity, efficiency and sustainability of these corridors while enhancing the performance of seaports and inland terminals. Plans should be informed by experience and the poor performance of Transnet's capacity expansion programmes. Richard's Bay Coal Terminal, for instance, is greatly underutilised because capacity on the adjacent rail link did not keep up with expansion on the terminal.

Given the magnitude of these capacity constraints and the huge financial and organisational resources needed to improve corridor performance, effective partnerships need to be developed between the public and private sector. Healthy competition between service providers is also key.

The following corridors have been identified for expansion and improvement:

- **Durban-Gauteng corridor.** By 2030, the Durban-Gauteng freight corridor should be a model for how to strengthen and optimise freight corridors. As the corridor that handles most of the country's high-value freight, it is the first priority. It is also the most strategic corridor to achieve a shift of freight from road to rail by overcoming rail's main drawback – lack of intermodal flexibility – by improving the performance of terminals on either end. It could demonstrate that the institutional model needed for corridor improvement rests with aligning the interests of cities with authorities across all tiers of government, as well as the transport operators that connect the intervening space. Transnet and its partners in this project are making progress with this emerging institutional model.

Success factors include unrestricted access into the terminals for freight, removing bottlenecks on the road and rail routes, and expanding terminal capacity. Planning priorities include new access routes into Durban's port, allowing for segregation of freight from other rail traffic, and building new hubs or inland terminals around Gauteng for improved road-rail transfers. At least three new

Gauteng hubs will replace existing inner-city hubs as they reach full capacity. Higher rail density and throughput to achieve scale economies will require rail alignment, together with upgraded technology to move and control trains. Transnet has developed plans that will address the capacity of Durban's port. Further container capacity to meet South Africa's needs over the longer term will be provided by constructing a new terminal on the site vacated by moving Durban's airport to La Mercy.

- **Coal-transport corridors.** The Waterberg coalfields in Limpopo need to be linked both to domestic power generators and to export facilities in Richard's Bay. Planning should also take Botswana's need to access Indian Ocean ports for its own coal exports into consideration. Transnet has firm plans for capacity expansion for coal exports up to 97 Million tons per annum through Richard's Bay to be reached in stages. The needs of coal producers, domestic customers, notably Eskom, and access to export channels are at such a scale that network-wide capacity expansion is required, including a rail link through Swaziland that will give flexibility to coal transport, as well as benefit trade in timber and sugar with that country. Improvements to the coal transport corridors require strengthening lines tunnels, bridges, power supply and building new lines. The long-term economics of the coal market are difficult to predict and therefore do not give certainty to the transport market forecast. When firm commitments to expand are made prompt and economical execution will be crucial and challenging because multiple infrastructure projects could be competing for scarce resources at the same time.

- **North-south corridor,** a Durban to Dar es Salaam transport network, linking the two major ports of the Southern African Development Community, Central and East African economic communities embracing improvements to road and rail links through the countries.

As indicated by the Port Regulator, South African ports perform poorly, operating at levels below comparative operations at costs that are significantly higher than the global average. This is hindering the nation's development objectives. Poor performance is largely due to the absence of competition in terminal operations and Transnet's business model, which uses surplus generated by ports to fund investments elsewhere. The trade-offs obscured within the Transnet group must be addressed if port prices are to be competitive.

South Africa is also a maritime nation with a 3 000km coastline straddling a major strategic shipping route. Close to 80 percent of trade is by sea, but the country has a weak maritime industry that does not adequately complement its land and aviation national infrastructure and services. South Africa needs to reappraise the maritime sector in light of its geopolitical positioning and ask what contribution it could make to employment and regional trade.

Provide long-distance passenger transport options

Long-distance transport alternatives include travel by intercity bus, taxi, private transport, air travel and limited intercity passenger trains. In this context, where should scarce public resources be directed?

South Africa's largest single public asset is its road network. National and provincial roads are the prime means of connecting people and moving cargo from small settlements and secondary towns to the centres of economic activity. At a replacement value of R1.7 trillion, preserving it is a top priority. In the short term, before expansion can be considered, maintenance needs to be done on local and provincial government roads to prevent further deterioration.

Institutional capacity to manage road traffic also needs to be strengthened. This includes upgrading safety mechanisms, rigorously enforcing compliance with road-safety rules and wide-scale road-safety education. Success will be evident in road users changing their behaviour.

In the long term, the proposed expansion of intercity passenger rail services will need to be carefully assessed. Rail is costly and South Africa would have to practically start from scratch due to the age of its long-distance passenger fleet. Intercity passenger rail makes up a small part of the market with little patronage. It is only a significant service for low-income travellers at annual holiday peak times. Alternatives, specifically road-based options currently in service, will have to be assessed against the high costs and limited coverage of passenger rail. Given the need to fund improvements to transport services for commuter rail and bus services with a wide reach for poor people, the net benefits of passenger rail investments seem unjustified.

Rural access and mobility

To achieve a meaningful level of rural access and mobility, planning should offer different services to meet different local needs. Where population is concentrated in an area with little productive economic activity, priority should be given to enabling easy access to basic needs and state support (for example, service points for public health care and grant support). Scheduled public-transport services could be provided to ensure such access.

People tend to relocate from isolated rural homes and settle at transport nodes or along transport corridors to access services. These movements provide further opportunities for improved economies of scale for public transport. Given limited resources and urban migration, subsidised services should be limited to such places.

Phasing

Providing sustainable transport services that are efficient and inclusive is inextricably linked to the need for spatial change in South Africa's cities and improvement in related transport corridors. Users will adjust to pricing that is supported by greater transparency regarding the full costs associated with each service, including costs linked to environmental impact. Key themes are discussed below.

2010–2015: Consolidation and selective expansion

Greater emphasis will be placed on asset management, increased use of existing assets, extending economic infrastructure through joint private and public projects, and expanding public commuter rail-transit services.

Given scarce resources, some needs will have to be deferred. The state will need to maintain public confidence that improvements will spread by achieving excellence in meeting priority needs. Decisions on project selection will be driven by tightly focused criteria. Priorities include:

- **Improving streamlining of assets and institutional arrangements for public transport (including the powers and functions of role players).** Asset-use needs to be consolidated and existing assets should be used better. First, public transport and infrastructure must be managed better by removing duplicated functions, refining powers and functions, imposing accountability and enhancing governance and decision-making processes. Thereafter, streamlining institutional arrangements in metropolitan areas can be achieved by setting up regional transit authorities. It is crucial to ensure that all parts of the existing road-based commuter services function properly, as many commuters depend on bus and minibus taxi services. Large public investments have been made, offering a glimpse into how better-performing

public transport can improve people's commute. Transport authorities should focus on enforcing sector-wide compliance and encouraging contracted operators and independent service providers to invest and provide a more commuter-friendly experience.

- **Renewing the commuter rail fleet,** with a region-by-region shift to new high-capacity rolling stock, supported by station upgrades and improved facilities to enhance links to road-based services. Stabilising existing services is crucial, because complete fleet renewal could take up to 15 years.

- **Expand capacity for mineral exports,** targeting metal ores and coal. This involves improving strategic freight corridors for southern African and international trade. Private-sector partnerships (primarily with Transnet and the South African National Roads Agency Limited) are essential to upgrade corridors. Where state-owned enterprises are unable to meet demand for freight services, the state should vigorously encourage private-sector involvement. The National Ports Act (2005), which stipulates that all new developments should be concessioned, needs to be more stringently enforced so that all operators (public or private) perform or are replaced. Intensive application of information technology to transport systems will increase use and flow rates through new railway signalling and highway traffic control systems. These are strategic investments that can be deployed more rapidly than building new fleets or roads to boost the use of existing infrastructure.

- **Optimal utilisation of assets** – Port of Ngqura's modern deep-water facilities makes it attractive for container transhipment traffic .

- **Transport planning,** led by central government to formulate credible long-term plans for transport that synchronises with spatial planning and aligns the infrastructure investment activities of provincial and local government and clearly communicates the state's transport vision to the private sector.

2016–2020: In step with evolving land-use changes

Guided by plans for the urban form, the focus will be on achieving the mutually reinforcing effect of transit-led growth. This will help increase concentration in urban settlements, while improving economies of scale for transport modes. Once the instructional reforms for public transport have been completed, regional transit authorities should be established.

2021–2025: Energy efficiency

Emphasis will be on increasing energy efficiency and the resilience of transport networks, drawing on progress in establishing renewable energy resources.

Use of lightweight materials in freight and passenger vehicles should be increasingly preferred, because of their lower lifecycle energy requirements and greater load-carrying capacity.

2026–2030: Mid-life upgrades

Reviewing progress towards the 2030 vision should guide the tactical adjustments needed to overcome problems. Planning should provide for refitting transport systems to incorporate technological improvements.

INFORMATION AND COMMUNICATIONS INFRASTRUCTURE

ICT is a critical enabler of economic activity in an increasingly networked world. As a sector, ICT may provide important direct opportunities for manufacturing, service provision and job creation, but their main contribution to economic development is to enhance communication and information flows that improve productivity and

efficiency. For this reason, a country that seeks to be globally competitive must have an effective ICT system, as this "infostructure" provides the backbone to a modern economy and its connections to the global economy. The link between ICT's contribution to economic growth only takes effect when connectivity reaches a critical point, estimated to be 40 percent for voice communications (Röller & Waverman 2001) and 20 percent for broadband (Koutroumpis 2009).[7]

An immediate policy goal is to ensure that national ICT structures adequately support the needs of the economy, allowing for parties beyond the public sector to participate. At present, there is an effective duopoly in the mobile-phone market. Telkom still dominates the telecommunications backbone and telephony markets. This dominance has been ineffectually regulated, resulting in high input costs for businesses, which has in turn resulted in an increase in the costs of services and products. It has also inhibited investment in growth areas within ICT, such as business-process outsourcing and offshore information-technology-enabled services. Telkom's monopoly has seen deterioration in fixed-line connections that will further undermine South Africa's future competitiveness unless it is addressed.

By 2030, ICT will underpin the development of a dynamic and connected information society and a vibrant knowledge economy that is more inclusive and prosperous. A seamless information infrastructure will be universally available and accessible and will meet the needs of citizens, business and the public sector, providing access to the creation and consumption of a wide range of converged services required for effective economic and social participation – at a cost and quality at least equal to South Africa's main peers and competitors. Within this vision, the underlying ICT infrastructure and institutions will be the core of a widespread digital communications system. This ecosystem of digital networks, services, applications, content and devices, firmly integrated in the economic and social fabric, will connect public administration and the active citizen; promote economic growth, development and competitiveness; drive the creation of decent work; underpin nation building and strengthen social cohesion; and support local, national and regional integration. Public services and educational and information products will be accessible to all, and will build on the information, education and entertainment role envisaged for public broadcasting. The human development on which all this is premised will have created an e-literate (online) public able to take advantage of these technological advances and drive demand for services.

ICT will continue to reduce spatial exclusion, enabling seamless participation by the majority in the global ICT system, not simply as users but as content developers and application innovators.

The ITC reality

More South Africans use mobile phones (29 million) than listen to radio (28 million).[8] Despite this, growth in South Africa's ICT sector has not brought affordable, universal access to the full range of communications services. The performance of most state interventions in the ICT sector has been disappointing. South Africa has lost its status as continental leader in internet and broadband connectivity.[9] The price of services and equipment remains a significant barrier to expanding mobile-phone and fixed-line use, with limited network competition further increasing costs.

International evidence suggests that a new ICT gap is opening up between those with access to high-speed internet and those who access internet via mobile connections.[10] While users cope with deteriorating fixed-line connections by switching to

mobile networks in the short term, this may lock South Africans out of global networks in the longer term as applications in other countries are increasingly based on ultra-high-speed "fibre to premises" networks.

The main constraining factors have been:

- Poor returns from the state's investment in Telkom.
- Little evidence of an effective strategy to ensure that connectivity in South Africa keeps up with its peers.
- Policy constraints, weaknesses in institutional arrangements, conflicting policies, regulatory failure and limited competition.
- The ability of the regulator, the Independent Communications Authority of South Africa, to enable a more open market. Its work has been hampered by legal bottlenecks, limited capacity and expertise, and policy direction being complicated by the constitutional guarantee of "independence", which should only apply to broadcasting rather than to the technical areas of ICT, although this may need to be revised as broadcasting and ICTs converge.[11] The last comprehensive policy review was in 1996.

A single cohesive strategy is needed to ensure the diffusion of ICTs in all areas of society and the economy. Like energy and transport, ICT is an enabler – it can speed up delivery, support analysis, build intelligence and create new ways to share, learn and engage. But ineffective ICT can also disable economic and social activity.

In the very short term and well in advance of 2030, the state will need to re-establish the shape and nature of its participation in the sector. A new policy framework will be needed to realise the vision of a fully connected society. A key issue will be to decide on the role of state infrastructure interventions. These interventions will have to balance the priority goal of achieving affordable and truly universal access to communications services, while recognising the general efficiencies that may be derived from the application of private capital in economic activity.

In future, the state's primary role in the ICT sector will be to facilitate competition and private investment, to ensure effective regulation where market failure is apparent, and to intervene directly to meet specific social goals. Direct involvement will be limited to interventions to ensure universal access and to help marginalised communities develop the capacity to use ICTs effectively.

Policies and priorities

Implement an enabling, coordinated and integrated e-strategy

To achieve its ICT goals, South Africa must have a coordinated, enabling ICT strategy and plan. The key aspects of this are:

- A national e-strategy that cuts across government departments and sectors.
- Stimulating sector growth and innovation by driving public and private ICT investment, especially in network upgrades and expansion (particularly in broadband) and development of applications and local content.
- Reviewing the market structure and analysing the benefits and costs of duplicating versus sharing infrastructure, given that the radio spectrum on which mobile networks depend is limited.
- Establishing a common carrier network, possibly by structurally separating Telkom's backbone operations from its retail services.
- At least applying open-access policies to encourage sharing of certain elements of the backbone fibre network, without discouraging private long-term investment.
- Targeted public investment, possibly through public-private partnerships.
- Developing the specialised institutional capacity to ensure that policy keeps up with the evolution of

the sector and that regulation is effective.

- Focusing on stimulating demand by promoting e-literacy, instituting ICT rebates and incentives and developing ICT applications in sectors such as health and education as well as on the supply-side infrastructure and institutions.
- Effectively engaging various institutions, including global ICT governance agencies, such as the International Telecommunications Union and the World Trade Organisation, on issues of regional integration and harmonisation.

The digital divide can be partially addressed through more competitive and efficient markets and effective regulation that enables operators to meet the demand for affordable services, reducing the number of households or individuals requiring support. Further strategies to enable access are "smart subsidies",[12] which require a once-off intervention. These should be favoured over strategies that require permanent subsidies.[13]

The rate of change in the ICT sector means that such programmes should regularly be reviewed and refocused. This will require the state's investment and support.

Demand stimulation and job development

- **Demand-side interventions.** Improving equitable access to ICT services will require action to stimulate demand. At the most fundamental level, e-literacy needs to be improved through training in schools, at tertiary-education facilities and adult-education colleges, as well as through supplier training. A larger audience will, in turn, help stimulate market demand for multilingual, relevant local content and make it practical to develop online and mobile government-service applications.

- **Job creation and the skills challenge.** Constructing and maintaining communications networks will generate both unskilled job opportunities in the short to medium term (such as digging trenches or spanning cables for expanding networks) and skilled work over the longer term (as networks need to be maintained, upgraded and refurbished). The education system, supported by government investment into ICT skills development, will need to prepare for this.

- **Role of the private sector.** Experience elsewhere demonstrates that private-sector participation and competition, coupled with effective regulation, have the potential to deliver lower prices and improved quality and speed of service. South Africa needs to commit to intensifying competition in the ICT sector.

- **Streamline spectrum allocation.** Spectrum allocation is perhaps the biggest regulatory bottleneck in the deployment of wireless technologies that will, in the short to medium term, meet the diverse needs of society and economy. The radio spectrum is a scarce resource that needs to be optimally allocated to meet both economic and social objectives. Significant high-capacity spectrum will become available with the shift from analogue terrestrial television broadcasting to digital terrestrial broadcasting. This should be swiftly allocated to ensure that services based on emerging technologies can expand.

Mechanisms for this allocation need to be based on clear conditions, transparent processes and limited discretion. In order to qualify for allocation, potential services providers have to meet specific conditions and clearly define the services that they will provide. The awarding process may take the form of auctions or reverse bidding,[14] as long as the process is robust and transparent. The ultimate goal will be to attract appropriate investment at a low enough price to meet social and economic needs.

Once allocated, spectrum bandwidth should be fully tradable (within the original allocation criteria). Regulators should not be too restrictive in dictating which technologies should use which parts of the spectrum. They should discourage spectrum-hoarding, where licensees buy spectrum bandwidth and either fail to use it or use it only in certain geographical areas. Spectrum policy should favour competition, but incumbents should not be excluded from gaining access to bands needed for expansion or to apply new technologies. In line with global trends, spectrum licences should be technology-neutral so that they can be adapted to meet rapidly changing technological developments without high regulatory costs.

- **Local-loop challenge.** The local loop – the fixed connection between the main telecommunications network and end users – has historically been operated by Telkom and serviced by copper wires. Internationally, the trend is to use fibre-optic cables for the local loop as they are less valuable (and therefore less vulnerable to theft) and offer far higher speeds. Telkom's copper network is deteriorating. Competitor Neotel, meanwhile, is making slow progress in rolling out fixed-line connections, relying instead on wireless connections, particularly for domestic users.

The strategic medium-term objective is to improve the quality, reduce the cost and expand the reach of the local loop. To achieve this there must be clarity about Telkom's future role and regulatory incentives to ensure that local-loop unbundling achieves its objective, which is to expand affordable access to high-quality, high-speed broadband.

Building institutional capacity and competencies

The state needs to have sufficient institutional agility and competence to make effective interventions in this rapidly changing sector. The government's primary role should be to ensure that public policy promotes market access and creates effective institutions that ensure competition, regulate operator behaviour and address market failure.

In pursuing these goals, it will be important to address the inherent conflict of interest between the state's role as a competitive player in the market (through its enterprises, InfraCo and Sentech, as well as its majority share in Telkom) and its role as a policy-maker. Similarly, at local-government level, there is tension between the fact that municipalities both regulate access for infrastructure (through wayleaves, for example) and compete with private service providers by developing their own broadband networks to perform city management functions. A better distinction of these roles is required to avoid unintended policy outcomes. Mechanisms will have to be put in place to ensure the regulator's autonomy from the state and industry interests, and accountability will have to be ensured through transparency and specialised parliamentary oversight.

At some scales, it may be desirable to coordinate state and private investment into infrastructure to avoid costly duplication. Pragmatic regulatory approaches to facilitate this should be explored.

Trade-offs

The following trade-offs and choices apply:

- There is a need to ensure sufficient large-scale investment (through both public and private funds) to allow for extension of ICT infrastructure that supports the economy. This must be balanced against the need to ensure that the objectives of greater inclusivity and sustainability and specific strategic goals of access and service provision are met, even in underserviced areas and marginalised communities. Given that the state is capital constrained, with many urgent priorities, willing and capable private investors are needed. Creating a collaborative partnership with defined social

responsibilities may be appropriate. Alternatively, where private investment is able to create the connectivity, public investment could focus more on enabling the demand by supporting e-literacy and content delivery or reducing investment risk

- Low barriers to market entry and competitive markets require less intensive regulation and have the potential to drive down prices and improve consumer choice. However, such low barriers may also threaten the financial viability of current service providers or state-owned enterprises. Greater competition may also limit new, potentially risky investments in emerging ICT technologies.

- As broadcast and other ICT technologies converge, setting quotas for local content on television and radio promotes local production, but also has the potential to increase broadcasting costs. This could make it difficult for regulated broadcast services to compete against content providers on unregulated services such as the internet.

- Encouraging cost efficiency in the sector by regulating prices could result in job losses among present service providers. However, lower prices could swell telecommunications demand, creating other jobs elsewhere in the ICT sector and the broader economy.

- Allowing network competition to extend networks and services, with likely duplication of resources and infrastructure in a resource-constrained environment, needs to be weighed against the effects of having a single common carrier backbone that offers fair, open access to its facilities in a competitive services sector.

- Deterioration of the local loop highlights the need for strategic decisions about the future role of Telkom, which holds the local-loop monopoly and is still state controlled even if it is not entirely state owned. While protecting the local-loop monopoly may ensure ongoing dividends for the state in the short term, the deteriorating fixed-line network may impose serious costs on society in the longer term. Structural separation of local loop and backbone activities may be required. Open Reach and British Telecom are a successful example of such a structural separation.

- Making critical spectrum available to operators to deploy new technologies to grow their business. Alternatively, waiting for a full spectrum audit and conducting comprehensive allocations or auctions of the entire reassigned spectrum with the associated losses that delays bring.

Phasing

Phasing of priorities to create an enabling ICT reality by 2030 is discussed below.

Short term: 2012–2015

There is a clear and urgent need for a full policy review, which has not been done in the ICT sector since 1995. In the next five years, South Africa needs to develop a more comprehensive and integrated e-strategy that reflects the cross-cutting nature of the ICT sector. This should link policy objectives to specific strategies. It should include plans to allocate the new spectrum that will become available with the switch to digital broadcasting, and should set out a strategy for universal internet access, with clear targets for monitoring and evaluation. In addition, it should outline interventions to promote ICT diffusion such as e-literacy programmes to stimulate demand, ICT skills development and institutional capacity-building.

Evidence suggests that affordable internet access is best achieved through effectively regulated competitive markets, complemented by targeted state intervention.

The following policy issues require attention:

- Adjust market structures and remove legal constraints to enable full competition in services.

- Develop a strategy for the local loop to ensure that quality improves, costs are reduced and fixed-line coverage is expanded to meet demand for high-speed telecommunications.

- Ensure that regulatory agencies have the resources to encourage market entry and fair competition, as well as address market failure.

- Implement a service- and technology-neutral licensing regime to allow for flexible use of resources, especially for spectrum that is urgently needed for next generation services.

- Make spectrum available on a "use it or lose it" basis to encourage efficient use, drive down costs and stimulate innovation.

- Spectrum allocation should accompany set obligations to overcome historical inequalities in the ICT sector. However, these obligations should not delay the competitive allocation of this resource.

- Ensure access to low-cost, high-speed international bandwidth with open-access policies.

- Facilitate the development of high-bandwidth backbone networks.

- Assess state-owned enterprise and municipal performance in ICT provision and decide on the future role and configuration of the state's family of ICT enterprises (Broadband InfraCo, Sentech and Telkom). Examine the market's ability to sustain infrastructure competition and whether the benefits of this outweigh the problems of duplication of facilities in a resource-constrained environment.

- Identify alternatives to infrastructure competition through structural separation of the national backbone from the services offered by Telkom to create a common carrier that offers open access to service competitors. Similarly, encourage or prescribe sharing of expensive trenching infrastructure by creating common rights of way for competing operators to lay dedicated lines.

Medium term: 2015–2020

Between 2015 and 2020, the following goals should be pursued:

- **Extend broadband penetration.** The Commission supports the Department of Communications' proposed target of 100 percent broadband penetration by 2020. All schools, health facilities and similar social institutions should be connected and individual citizens should have affordable access to information services and voice communication at appropriate locations. Broadband is currently defined as a minimum connection speed of 256 kilobytes per second, but by 2020, this will probably be at least 2 megabytes per second, with some countries aiming for 100 megabytes per second. South Africa's goals should be to remain competitive rather than to set firm numerical targets.

- **Benchmark South Africa's performance against other countries.** It is suggested that by 2020, strategic investment and regulatory guidance will result in the costs associated with internet access falling to match South Africa's peers. More generally, South Africa should aim to position itself in the top quartile of the International Telecommunications Union's ICT Development Index ranking of middle-income countries. It should also aim to regain its position as the continent's leader in both quality and cost of ICT services.

Long term: 2020–2030

Ongoing e-strategy implementation and refinement will ensure that the ICT sector supports, rather than limits, South Africa's global competitiveness and economic performers. The country will maintain or improve its International Telecommunications Union rankings.

By 2030, the government will make extensive use of ICT to engage with and provide services to citizens. All South Africans will be able to use core ICT services and enjoy access to a wide range of entertainment, information and educational services. The e-strategy collaborations between the state, industry and academia will stimulate research and innovation, and promote local content production and multimedia hub establishment. These systems will be used to interact with the global ICT ecosystem, of which South Africa will be an integral part.

NOTES

1. The transport section contains more detail on these rail projects.
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8. Development Bank of South Africa (2011). Communications Infrastructure. Paper commissioned by the National Planning Commission, 4 April 2011. Pretoria: Development Bank of South Africa.
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11. Gillwald A (2011). SA Telecoms – still a way to go. Engineer IT. Available at: http://eepublishers.co.za/article/research-act-africa.html (accessed 7 January 2012).
12. Smart subsidies are innovative systems to reduce common problems facing subsidy programmes and extend their benefits.
13. InfoDev Regulatory Toolkit (2009). Available at http://www.infodev.org/admin/www.ictregulationtoolkit.org (accessed 7 January 2011).
14. Reverse bidding is a type of bidding in which the roles of buyer and seller are reversed. In ordinary bidding buyers compete to obtain a service by offering increasingly higher prices. In reverse bidding, the sellers compete to obtain business from the buyer and prices will typically decrease as the sellers undercut each other.

CHAPTER FIVE

Ensuring environmental sustainability and an equitable transition to a low-carbon economy

KEY POINTS

- South Africa has a rich endowment of natural resources and mineral deposits, which, if responsibly used, can fund the transition to a low-carbon future and a more diverse and inclusive economy.
- Developmental challenges must be addressed in a manner that ensures environmental sustainability and builds resilience to the effects of climate change, particularly in poorer communities.
- Investment in skills, technology and institutional capacity is critical to support the development of a more sustainable society and the transition to a low-carbon economy. Focused, institutionalised capacity building and management structures are needed.
- Carbon-pricing mechanisms that target specific mitigation opportunities need to be implemented.
- Consumer awareness initiatives and sufficient recycling infrastructure should result in South Africa becoming a zero-waste society.
- The development of environmentally sustainable green products and services, including renewable energy technologies, will contribute to the creation of jobs in niche markets where South Africa has or can develop a competitive advantage.

INTRODUCTION

The 20th century was a period of unparalleled growth for humanity's population and socioeconomic development. During this period, environmental constraints to human activity were often not fully recognised. The world is now experiencing a growing number of undesirable consequences as continued economic expansion and resource exploitation threatens the stability of natural systems.

Historically, as countries and individuals have accumulated wealth, their impact on the natural environment has increased. In some cases, this has been mitigated by policy action at national level, but all too often the result has been to export environmentally damaging activities to other, invariably poorer, countries. Addressing inequities in the wealth and distribution of resources between rich and poor is therefore critical, both between and within countries.

Developing countries are at particular risk due to a combination of geography, the intrinsic vulnerability of poor communities to environmental threats, and the pressures that economies based on resource extraction place on the environment. Given that the effects of climate change and environmental degradation fall most heavily on the poor, South Africa needs to strengthen the resilience of its society and economy to the effects of climate change.

South Africa has a rich endowment of natural resources and some of the world's most substantial mineral deposits, including coal and natural gas. However, the exploitation of minerals is an energy-intensive activity. While the country's coal deposits currently represent a relatively cheap and reliable source of energy, coal is carbon intensive and in the medium to long term, its use could prejudice South Africa's interests as global restrictions on carbon emissions to mitigate climate change are introduced. South Africa is the 42nd largest emitter per capita and is among a number of developing countries that are likely to face globally imposed emissions constraints in the near future.

Aside from coal and natural gas, the country has abundant potential sources of renewable energy in the form of solar and wind energy, but these are currently comparatively expensive, particularly when the costs of storage and transmission are taken into account. Competitively priced energy is needed to exploit mineral resources, the earnings from which will be required to fund the transformation of South African society, as well as the promotion of a more diverse and inclusive economy. For this reason, South Africa must leverage its solar resource and regional hydropower opportunities as competitive advantages, in parallel with the responsible exploitation of fossil fuels and minerals. For this to happen, the country must invest in the skills, technology and institutional capacity required to support a competitive renewable energy sector.

South Africa faces urgent developmental challenges in terms of poverty, unemployment and inequality, and will need to find ways to "decouple" the economy from the environment, to break the links between economic activity, environmental degradation and carbon-intensive energy consumption. In the past, resources were exploited in a way that was deeply unjust and left many

communities excluded from economic opportunities and benefits while the natural environment was degraded. The country must now find a way to use its environmental resources to support an economy that enables it to remain competitive, while also meeting the needs of society. Thus, sustainable development is not only economically and socially sustainable, but environmentally sustainable as well.

VISION 2030

By 2030, South Africa's transition to an environmentally sustainable, climate-change resilient, low-carbon economy and just society will be well under way:

- Coordinated planning and investment in infrastructure and services that take account of climate change and other environmental pressures, provide South Africans with access to secure housing, clean water and decent sanitation, and affordable and safe energy, making communities more resilient to the impacts of climate change and less socioeconomically vulnerable.

- Adaptation strategies in conjunction with national development strategies are implemented, including disaster preparedness, investment in more sustainable technologies and programmes to conserve and rehabilitate ecosystems and biodiversity assets.

- Investment in consumer awareness, green product design, recycling infrastructure and waste-to-energy projects results in significant strides to becoming a zero-waste society.

- Growth in the renewable energy sector by 2030, as envisaged in the Integrated Resource Plan (IRP 2010), takes off in response to falling technology costs, government's bold support for the sector, and the introduction of targeted carbon-pricing mechanisms to facilitate further private investment in renewable energy.

- The development and marketing of niche products and services, coupled with mutually beneficial partnerships with neighbouring countries, create jobs in domestic manufacturing of renewable energy technologies.

- South Africa reduces its carbon emissions, in line with its international commitments, while maintaining its competitiveness in the global economy by carefully managing investments in local and regional renewable energy resources and aggressively promoting just and equitable trading arrangements.

- Policy and regulatory frameworks are created for land use, to determine the environmental and social costs of new developments and ensure the conservation and restoration of protected areas.

- Public investment in new agricultural technologies and the development of resilient and environmentally sustainable strategies and support services for small-scale and rural farmers ensures the protection of rural livelihoods and the concurrent expansion of commercial agriculture, so South Africa remains a net exporter of agricultural produce.

Inevitably, in the transition to a greener and more environmentally sustainable economy, trade-offs must be made. However, the careful design and sequencing of decisions ensure that the decline of legacy sectors, such as coal-fired electricity generation, are balanced by concurrent growth in green economy sectors. The emergence of small, medium and micro enterprises in areas such as waste management contribute to reducing un-employment, poverty and income inequality.

Behaviour change on the part of ordinary South Africans, driven by a growing awareness of sustainable development, is one of the most significant factors in achieving progress towards the transition. A revolution in social values is under way, with the culture of conspicuous consumption being steadily supplanted by one of social and environmental responsibility.

Guiding principles for the transition

The following principles can guide the transition to an environmentally sustainable low-carbon economy, moving from policy, to process, to action:

- **Just, ethical and sustainable.** Recognise the aspirations of South Africa as a developing country and remain mindful of its unique history.
- **Global solidarity.** Justly balance national interests with collective action in relation to environmental risks and existential threats.
- **Ecosystems protection.** Acknowledge that human wellbeing is dependent on the health of the planet.
- **Full cost accounting.** Internalise both environmental and social costs in planning and investment decisions, recognising that the need to secure environmental assets may be weighed against the social benefits accrued from their use.
- **Strategic planning.** Follow a systematic approach that is responsive to emerging risk and opportunity, and which identifies and manages trade-offs.
- **Transformative.** Address the structural and systemic flaws of the economy and society with strength of leadership, boldness, visionary thinking and innovative planning.
- **Managed transition.** Build on existing processes and capacities to enable society to change in a structured and phased manner.
- **Opportunity-focused.** Look for synergies between sustainability, growth, competitiveness and employment creation, for South Africa to attain equality and prosperity.
- **Effective participation of social partners.** Be aware of mutual responsibilities, engage on differences, seek consensus and expect compromise through social dialogue.
- **Balance evidence collection with immediate action.** Recognise the basic tools needed for informed action.
- **Sound policy-making.** Develop coherent and aligned policy that provides predictable signals, while being simple, feasible and effective.
- **Least regret.** Invest early in low-carbon technologies that are least-cost, to reduce emissions and position South Africa to compete in a carbon-constrained world.
- **A regional approach.** Develop partnerships with neighbours in the region to promote mutually beneficial collaboration on mitigation and adaptation.
- **Accountability and transparency.** Lead and manage, as well as monitor, verify and report on the transition.

STEPS TOWARDS THE VISION

To achieve this vision, South Africa will need clear long-term development strategies to address the challenges of poverty, unemployment and inequality while managing natural endowments in a sustainable manner. Within an increasingly resource- and carbon-constrained global economy, the challenge is to grow sustainably by building the technological base for decoupling the economy from natural resource consumption and carbon emissions. These considerations must be central to a national development strategy.

Sustaining South Africa's ecosystems and using natural resources efficiently

The maintenance of ecosystem services such as those providing food and clean water, regulating climate and disease, supporting crop pollination and nutrient cycles, and delivering cultural benefits such as recreational opportunities, is fundamental to achieving South Africa's social and economic development objectives.

The biodiversity and ecosystems in conservation areas are national assets. Long-term planning to promote biodiversity and the conservation and rehabilitation of natural assets is critical, and should be complemented by a strategy for assessing the environmental impact of new developments as an important component of overall development and spatial planning. Where damage cannot be avoided or mitigated, and where the social and economic benefits justify the development, a commensurate investment in community development and the rehabilitation and conservation of biodiversity assets and ecosystem services is required.

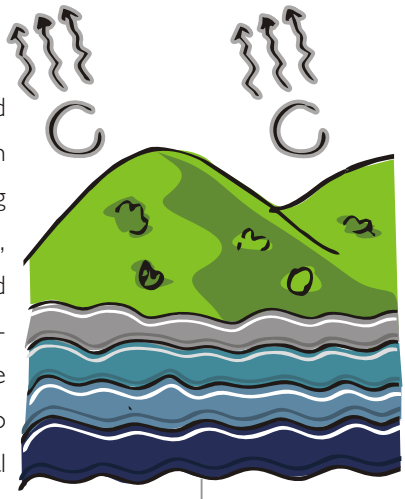
A planning imperative for the efficient management of ecosystem services and natural resources, in which the water sector has already made some progress, is to strengthen the regional approach. Cooperation with neighbouring countries has the potential to deliver competitive advantages not available to individual countries (refer to chapter 7), and can boost renewable energy production and bolster regional food security in response to the effects of climate change.

South Africa's natural resources endowment includes precious metals, diamonds, coal and an as yet undetermined amount of shale gas. The mining sector is a significant component of the economy, providing jobs and a vital source of foreign exchange. Abundant coal reserves have led to a historical dependence on coal as a source of electricity, resulting in a highly carbon-intensive economy, with the electricity sector alone accounting for almost half of greenhouse gas (GHG) emissions. The mining sector is a relatively minor contributor to carbon emissions: projections by the Department of Environmental Affairs suggest that the mining sector is responsible for 13.5 percent of carbon emissions. Emissions directly incurred by the industry (scope 1) account for 3.6 percent of the national total, with the remaining 9.9 percent consisting of scope 2 emissions, mainly embedded in the purchase of electricity.

As is true for many industrial sectors, reducing scope 2 emissions is key to reconciling the continued development of mineral endowments with the goal of building a low-carbon economy. The principle ways of achieving this are:

- Introducing more energy-efficient and less carbon-intensive industrial processes within the sector.
- Increasing the contribution of renewable energy to electricity generation.
- Reducing the carbon footprint of existing and planned coal-powered power stations through retrofitting, clean coal technologies and investigating the financial and environmental feasibility of carbon-capture and storage technologies.

The scope for increasing energy efficiency in the mining sector, while not insignificant, is limited – underscoring the need to transform the electricity sector.



Electricity pricing plans, predicated on the need to obtain a return on investment on new generating capacity as contained in IRP 2010, will also affect the mining and minerals sector, with energy-intensive operations like aluminium smelting likely to relocate once existing preferential pricing agreements expire, further reducing the sector's footprint.

Recognising that carbon pricing and energy costs will affect industries where production levels are tightly calibrated to input costs and international markets, such as ferro-alloys industries, measures such as carbon taxation will be implemented in a flexible manner that is sensitive to both the impact on employment, and the environmental impact of sustained production.

South Africa has significant renewable energy resources, particularly solar and wind. Efficient use of these natural resources is fundamental to achieving the shift away from coal-powered electricity towards the decarbonisation of the economy. The allocations in terms of the IRP for the electricity sector are a good starting point. The long-term trend towards increasing the price competiveness of renewable energy in relation to fossil fuels will continue as capacity expands, and the ability to leverage natural resources in terms of renewable energy will give South Africa an increasingly competitive advantage as carbon constraints become more important in the global economy.

Proposed interventions and planning imperatives:

- The Department of Environmental Affairs and South African National Biodiversity Institute should implement the protected areas expansion strategy and promote the biodiversity stewardship programme to build conservation partnerships around privately-owned land. National Treasury should introduce incentives to protect and rehabilitate ecosystems, such as rebates and tax reductions.

- The Department of Environmental Affairs, together with related Departments such as Agriculture and Rural Development, should investigate the socioeconomic implications and policy requirements of a system for requiring commensurate investment in community development and the protection of ecosystem services to mitigate the environmental and social impacts of new developments.

- The Department of Water Affairs should
- ensure that the implementation of national strategies for water conservation and demand management are properly resourced and enjoy appropriate policy prioritisation across the economy.

- The Department of Energy, Department of Mineral Resources, Department of Water Affairs and Department of Environmental Affairs should collaborate in developing planning instruments that ensure South Africa uses its endowment of renewable energy resources, combined with effective implementation of environmental regulations to mitigate the exploitation of strategic mineral resources.

- The National Treasury and the Department of Public Enterprises should ensure that decisions on the use of financial incentives and disincentives, such as preferential electricity pricing agreements and carbon pricing will in future be made on the basis of evaluating both the effect on employment, and the environmental impact.

Building sustainable communities

Sustainable communities are built through well-structured development planning processes that help to guide them to optimally manage natural resources and environmental risks in the pursuit of social and economic goals.

Sustainable development indicators for local government that incorporate environmental performance is a key requirement for developing the planning capacity required to ensure environmentally sustainable development of human settlements. This needs to be accomplished in a transparent and inclusive manner to ensure that the criteria for evaluating environmental performance are relevant to the communities concerned. These performance indicators should inform the system of national-to-local fiscal transfers to incentivise environmental performance, and build planning and implementation capacity.

The challenge of building environmentally sustainable communities must inform the progressive devolution of responsibility for human settlements to local government. When guided by effective planning, urban densification provides an opportunity to reduce the environmental footprint associated with delivering utility services such as waste management, electricity, water and sanitation, and public transport. It also improves access to social services such as health and education.

Building sustainable human settlements (chapter 8) requires more than bricks and mortar. In taking on its responsibilities for the building of vibrant human settlements the state must adhere to principles of sustainable development by:

- Reducing the carbon footprint and economic costs of transport for the urban poor by facilitating access to affordable, safe and convenient public transport and promoting the location of job-creating industries in close proximity to new housing developments (see chapter 8) as well as implementing urban greening programmes to promote quality of life in urban areas.

- Encouraging a holistic approach to low-cost housing developments that include local recreational facilities, retail opportunities, as well as community, social, and health services.

- Ensuring compliance with strengthened environmental requirements in building regulations, particularly with respect to energy-efficiency standards, and the roll-out of solar water heating.

- As per the National Waste Management Strategy, implementing a waste-management system through the rapid expansion of recycling infrastructure, and encouraging the composting of organic domestic waste to bolster economic activity in poor urban communities.

- Implementing stepped tariffs to promote the conservation of water and electricity, while ensuring continued access to free basic services. Local government must lead by example in terms of recycling and demand-side management.

Cities have begun to take the lead in developing partnerships that contribute to sustainable delivery of services, but national government needs to provide institutional support for project preparation and the replication of successful models at scale to accelerate and broaden this process.

Rural areas experience different challenges to urban areas, and in many cases it is the rural poor who are vulnerable to climate-change effects. Small-scale farming among African communities is crippled by the legacy of apartheid and has contributed significantly to the vulnerability of these communities. At the same time, commercial farms have struggled to adjust to the deregulation of the sector.

Increasingly, South African agriculture faces technical and structural challenges that require improved sector management, including adequate funding of research, investment in skills and training, effective communication strategies and agricultural extension. However, there are also underlying structural and policy issues that need to be addressed in order for a regeneration of rural communities to take place.

The regeneration of rural areas is fraught with location-specific dynamics, and is dealt with more fully in chapter 6. Rural development is often inextricably tied to land reform and in many parts of the country, traditional leaders determine progress. The issues are complex, and involve the need for security of tenure for small-scale farmers to leverage capital against the value of traditional arrangements for land use, in terms of providing access to land on a non-commercial basis. Gender is important, with issues of equity in many cases being an obstacle to rural development. Social determinants of sustainable development that need to inform land reform include:

- Gender should not be an obstacle to access to land.
- Strategies that promote the efficient use of agricultural land should equally promote access to land and social equity and recognise the important economic role of subsistence agriculture in some rural communities.

Dispersed rural communities often struggle to gain access to basic services such as public health, electricity and water because of the costs involved. Opportunities to "leapfrog" technologies and exchange innovative approaches to common problems with neighbouring countries exist. For instance, it is often more cost effective to provide electricity to facilities and households in dispersed rural settlements through off-grid and mini-grid renewable energy than it is to connect them to the national grid.

As with any form of community building, the building of sustainable communities cannot be accomplished as a top-down process, but must be the outcome of engagement with participation by communities. Government and non-government actors are needed to promote awareness of sustainability issues within communities, and disseminate context-sensitive information about the causes and effects of climate change. Behaviour change is important to respond to developmental challenges, and particularly to reduce the environmental footprint of communities. It is likely to enhance South Africa's ability to meet national mitigation commitments. The scope of the challenge and threat requires ordinary people, especially those with higher incomes, to make changes in their lifestyles and values, and take positive action.

Proposed interventions and policy imperatives:

- The National Treasury and the Department of Environmental Affairs should work with the South African Local Government Association to develop and implement environmental performance indicators for local government that will increasingly inform fiscal allocations and capacity-building support for climate change.

- The Department of Energy and Eskom should work with the South African Local Government Association, the South African Cities Network, the South African Photovoltaic Industry Association and financial institutions to refine incentives for widespread use of rooftop solar power in the built environment.

- As part of the National Electrification Programme, the Department of Energy should address the delivery backlog in dispersed rural settlements by expanding the use of renewable energy in off-grid electrification.

Responding effectively to climate change: mitigation

Over the past few years, South Africa has increasingly stated its ambition to act responsibly to mitigate the effects of climate change. Domestic and international commitments are based on Cabinet's approval of the "peak, plateau and decline" emissions trajectory in 2008, which was formalised internationally in South Africa's Copenhagen Pledge in 2009.

The National Climate Change Response White Paper clarifies this ambition through quantifying the business-as-usual trajectory, against which the efficacy of South Africa's collective actions to reduce GHG emissions is measured.

South Africa recognises the gap between the requirements of science for a global emissions cap that restricts climate change to safe levels, and mitigation ambitions on the part of all nations. Although, as a country, South Africa is vulnerable to the impacts of both climate change and carbon constraints, it accepts that ambitious global agreements on emission reductions may emerge in the light of the Cop17 agreement to launch the "Durban Platform of Action". Although such commitments are expected to be subject to the transfer of finance and technology from developed to developing countries, there is a need to be flexible and resilient enough to adjust the national trajectory in keeping with an equitable global agreement on mitigation measures. This means aggressively promoting the development of local manufacturing and technical capacity in a broad range of renewable energy and other clean technologies to provide the country with room to manoeuvre in a carbon-constrained global economy.

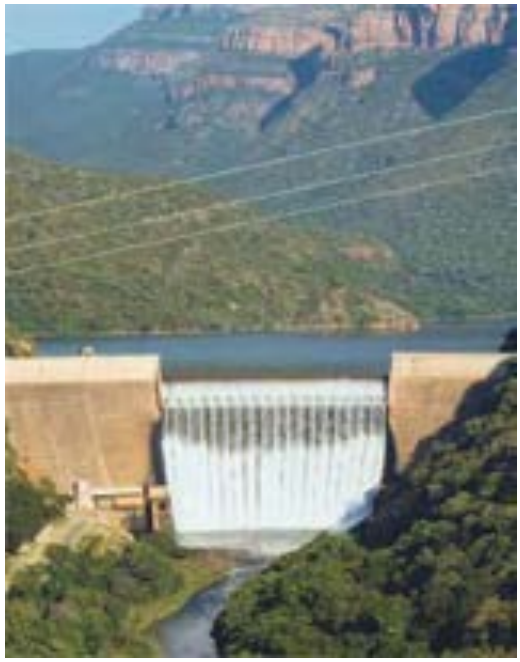
A competitive advantage can be gained through becoming an early adopter of mitigation

technologies and mitigation finance mechanisms appropriate to the local context, rather than competing for carbon space with a shrinking band of countries tied to obsolete fossil-fuel technologies that may be increasingly subject to trade barriers. Regional cooperation with neighbouring countries in terms of coordinating exploitation of hydro-electricity and biofuels (see chapter 4), as well as agreements in terms of the extraction and processing of fossil fuels, has a role that, until now, the country has failed to exploit.

With energy generation making up 48 percent of South Africa's emissions, coupled with extensive natural coal resources, the energy sector is both the most important and most challenging to transform. South Africa will build on the flagship renewable energy projects by investing in a range of renewable energy at a scale sufficient to build a local technological and manufacturing base and create employment. This will lay the basis for a more aggressive expansion of these sectors. South Africa will also explore other opportunities for diversifying its energy mix away from fossil fuels through for example partnering with neighbouring countries to develop hydropower resources, initially in Mozambique and Zambia, and eventually in the Democratic Republic of Congo. At the same time, the country will explore the use of natural gas as a less carbon intensive transitional fuel.

Data from the Draft National Greenhouse Gas Inventory for South Africa[1] suggests that industrial energy consumption makes up to 9 percent of South Africa's emissions, with a further 14 percent from industrial processes and product use. The chemical industry, especially coal to liquids, and the minerals industry, are primary contributors. Industry has committed itself to an energy efficiency programme, and further improvements will be achieved through South African Building Standards and a change in carbon pricing. There is also significant potential for improvements and changes in some industrial processes. This will be combined with a change in the focus of industrial manufacturing towards greener industries over time.

The transport sector contributes 9 percent to emissions, which will be addressed through improvements in vehicle efficiency and standards, promotion of public transport, integrated transport planning, potential increase in bio-fuel content in fuel requirements, major expansion in public transport and rail freight infrastructure, promotion of electric and hybrid vehicles through public-sector investment in product development, and non-motorised transport and cycling.



Fugitive emissions make up 9 percent of total emissions, and improvements can be made through capturing coal-mine methane emissions, improvements in the design of petroleum plants, and more stringent fuel storage requirements. Increased bio-fuel production will also be effective.

Agriculture, forestry and land use contribute 6 percent to total emissions, and have significant potential to act as carbon sinks, particularly in the

context of regional sequestration initiatives, which should be incorporated into the regional strategy described in chapter 7. South Africa will seek to expand the forestry sector, and will re-establish natural plant cover in areas such as the thicket biome. Agricultural practices will reduce meat production, reduce the use of nitrogen fertilisers, and promote organic farming methods.

Waste makes up 2 percent of emissions, and South Africa will cut down on solid-waste disposal, promote composting and recycling of organic waste, and run a countrywide programme to capture land-fill gas methane.

The residential emissions make up only 1 percent of total emissions, which will be reduced through greater household energy efficiency, implementing new building design standards (including solar water heaters) and reducing domestic use of fossil fuels through universal electrification.

Given South Africa's dependence on coal, it makes sense to investigate carbon capture and storage that takes into account economic, environmental and technological feasibility.

International experience shows that the most effective way to achieve a just and managed transition to a low-carbon economy and encourage emitters to change their practices is to internalise the social and environmental costs of their behaviour. This can be done through adequately pricing carbon.

Coordination of policy and approaches in government helps to establish a carbon-pricing strategy, and the government has identified two instruments in this respect:

- Carbon pricing
- The carbon budget approach.

A carbon budget sets the amount of carbon that can be emitted in a given amount of time, benchmarked against the national GHG trajectory range. Given the long-term structural implication of limiting emissions, the time-frame for such an approach to be feasible would need to be until 2050. A carbon budget approach would:

- Emerge from a bottom-up sector-by-sector analysis that is sensitive to:
  - The particular dynamics of the South African economy
  - The costs and risks of mitigation in particular sectors of the economy
  - The developmental imperatives of the country in terms of job creation and poverty eradication.

- Cumulative in nature and subject to regular review to allow for flexible adjustment of targets in relation to progress against the national GHG trajectory for the entire period (to 2050), and responsiveness to changing dynamics in the international mitigation regime.

- Implemented incrementally, initially targeting sectors with the greatest mitigation potential.

- Aligned with international standards established in terms of the United Nations Framework Convention on Climate Change for the monitoring, reporting and verification of GHG emissions, and supported by adequate capacity within the government in this respect.

The development of a carbon budget requires a foundation of trustworthy data to support understanding of the socioeconomic implications and strategic options for the structural changes required. The government needs to build capacity to effectively administer the monitoring, reporting and verification systems, supported by the participation of industry and other stakeholders.

While the principle of a carbon tax as a mechanism for establishing a domestic price for carbon is accepted by the government, the National Treasury is still engaged in research and consultation on its implementation. Issues that need to be considered include:

- The desirability of incrementally applying a series of carbon taxes, such as on vehicles, and calibrating such taxes to progress against sectoral targets.

- The impact of a tax on sectors with limited flexibility in terms of emissions, such as the cement industry and SASOL, and energy-intensive industries whose mitigation potential is constrained by the national energy mix, such as the mining and minerals sector.

- The extent to which the impact of a carbon tax will be passed directly on to consumers.

- The need for a conditional exemption of the carbon tax in the electricity sector that can be phased out over time, given the context of a regulated electricity price, effective Eskom monopoly and an IRP that mandates progressively lower carbon intensity in electricity generation.

- The cumulative economic impact of a carbon tax.

The creation of a properly regulated domestic market in carbon offsets will enable industry to identify least-cost approaches to emissions reductions and drive private-sector investment in renewable energy and mitigation.

Proposed interventions and policy imperatives:

- The Department of Energy and the Department of Public Enterprises are to provide leadership in the reform of the electricity sector, establishing an independent systems and market

operator, forming an initial step in promoting diversification within the sector.

- The National Treasury will implement a carbon-pricing strategy, in close consultation with stakeholders such as the Department of Trade and Industry, Department of Energy, Department of Mineral Resources and Department of Environmental Affairs, as well as National Economic Development and Labour Affairs Council, with possible conditional exemptions for specific sectors.

- The National Treasury and the Department of Environmental Affairs are to develop the regulatory framework for a domestic market in carbon offsets, together with the Johannesburg Stock Exchange.

- The National Treasury, the Department of Economic Development and the Department of Energy are to facilitate public- and catalyse private-sector investment in renewable energy, with a particular focus on developing manufacturing capacity across a range of technology options, by means of infrastructure grants to local government, public-private partnerships, and the Green Economy Fund.

- The National Treasury is to use fiscal instruments to subsidise research and development and the Department of Trade and Industry will invest in strengthening the ability of South Africa to support its innovators in the process of product development and marketing, with a particular focus on renewable energy and energy efficiency.

- The Department of Transport must support and incentivise improvements in vehicle efficiency and fuel standards, integrated transport planning and promote public and non-motorised transport.

Responding effectively to climate change: adaptation

Climate change is already having an impact on South Africa. Over the last 50 years, there are clear signs of warming and increased frequency of rainfall extremes. The number of hot days has increased in frequency, while days with cooler temperatures have decreased in frequency. The sea-level has risen around the South African coast.

In the short term, South Africa's capacity to respond to climate change is compromised by factors such as social vulnerability, and dispersed and poorly planned development, rather than inadequate climate-specific policy.

South Africa's primary approach to adapting to climate change is to strengthen the nation's economic and societal resilience. This includes ensuring that all sectors of society are more resilient to the future impacts of climate-change by:

- Decreasing poverty and inequality
- Creating employment
- Increasing levels of education and promoting skills development
- Improving health care
- Maintaining the integrity of ecosystems and the many services that they provide.

The best form of adaptation to climate change will come from strong policies, backed by sound technical understanding and operational capacity to deal with the general development challenges in each sector. Local, provincial and national governments will need to embrace climate adaptation by identifying and putting into effect appropriate policies and measures that are well coordinated and credibly motivated. Where climate is an important factor, as in agriculture, water and infrastructure development, sectoral development must be informed by the best

available climate predictions and coordinated responses promoted through an effective national planning system. South Africa should avoid development of climate-adaptation strategies that run parallel to broader national development strategies.

Further research is needed to inform climate resilient planning and implementation. This must seek to provide more detailed information about the potential impacts on different geographic regions. The high level of uncertainty about possible future climate scenarios over the medium and long term means that:

- Climate resilient development planning has to be flexible enough to respond to a wide range of possible climate futures.
- Investment in scientific research is needed to narrow the possible range of scenarios and guide resilient development planning and strategy.

South Africa's Second National Communication on Climate Change also highlights the many barriers to effective climate- and disaster-risk management and to climate-change adaptation responses. Accessible and reliable information is lacking, with too few social platforms to allow citizens to engage effectively on climate-change issues. Effective communication of the possible impacts and potential responses is therefore a significant adaptation challenge.

Apart from the needs for improved disaster-risk reduction, South Africa's National Climate Change Response White Paper highlights a suite of sectors that need to consider climate change impacts in their planning, namely water, agriculture and commercial forestry, health, biodiversity and ecosystems, and human settlements (urban, coastal and rural).

Proposed intervention and policy imperatives:

- The National Research Foundation is to establish a national facility dedicated to funding research and developing human capacity in climate-change adaptation and climate modelling.
- The Agricultural Research Council should establish a research focus on climate change and food security.
- The Water Research Commission should continue its current programme to understand the potential impacts of climate change on the nation's water resources.
- The National Disaster Management Centre should include climate-change risks in the national disaster management plan and in its communication strategies.

Managing a just transition

The poor and vulnerable continue to be disproportionately affected by climate change. Human health-related risks due to climate change are exacerbated by widespread poverty that includes a unique disease burden, high population mobility, and informal settlement housing characterised by poor sanitation, risks of waterborne disease, fires, flooding and malnutrition. Without adequate adaptation strategies this existing disease burden could worsen through increased vector-borne and emergent diseases.

Similarly, a global failure to mitigate the most dangerous levels of climate change will have a disproportionate effect on the African continent and potentially devastating long-term consequences locally. This knowledge underpins South Africa's commitment to mitigating its own carbon emissions.

At the same time, millions of people are employed in energy-intensive industries, and the mining sector is a major contributor to South Africa's foreign-exchange earnings. An equitable transition must protect the poor and vulnerable from the transitional costs associated with mitigation, such as increased costs of energy, food and transport, job losses in carbon-intensive industries, and the demand for different skills. A growing body of evidence suggests that as income inequality increases within a society, so does its environmental footprint, along with social burdens such as crime and poor health, and that targeting income inequality is one of the most effective strategies for sustainable development.[2]

In managing the transition, South Africa needs to understand that the decisions it takes could lock it into and have long-term environmental and economic consequences. Factors to consider include:

- Public infrastructure investments that need to be recouped over an extended timeframe must take account of the risk of a significantly increased cost of carbon, which will increase the cost of fossil fuels.

- Committing to a particular technology can result in institutions and financial resources becoming committed to suboptimal investments when more efficient, less costly, more labour absorbing or cleaner alternatives become available.

- Any decision about infrastructure involves committing to its emissions profile over its lifespan, and consideration must be given to the ability to incorporate it into a changing energy mix to avoid situations in which infrastructure is prematurely decommissioned (thereby not realising its full economic value).

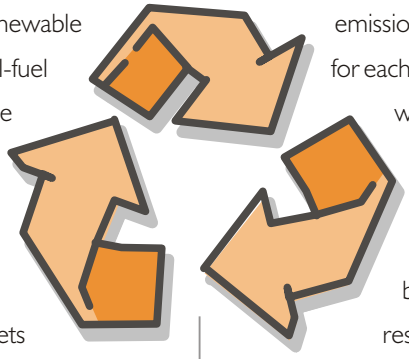
The Commission highlights some examples of decisions that could potentially lock South Africa into an unsustainable and carbon-intensive path, and trade-offs that are needed to move to a low-carbon future. These include:

- The building of two new coal-fired power stations, Medupi and Kusile, with a combined output of 9 600MW. Although these are more efficient than existing coal power stations, they lack flexibility in operation and they will commit the country into significant carbon-dioxide emissions over their projected lifespan. This will limit the available carbon space for the rest of the industry and the economy and society as a whole.

- South Africa has extensive coal resources that have not yet been developed, as well as shale gas resources in the Karoo that, while not fully explored, are believed to be substantial. The exploitation of these resources would contribute to environmental damage and the national carbon

footprint, but could potentially create jobs and be a source of foreign exchange and investment, providing a level of energy security. It could also provide a lower-carbon fuel source that allows the economy to make a transition from its dependence on coal.

The implications of Eskom's current build plans for Medupi and Kusile are not necessarily incompatible with the national GHG emissions trajectory, but will impose corresponding constraints on other industrial sectors, and may constrain future decisions about the extent and timing of decisions to exploit other renewable resources and transitional fossil-fuel resources such as the Karoo shale gas, off-shore gas and liquefied natural gas imports. These decisions will inevitably be informed by developments in global energy and carbon markets and the impacts of global agreements on South Africa's ability to competitively exploit its fossil-fuel resources. Trade-off decisions, based on a set of criteria and indicators that include environmental and socioeconomic factors, will need to be made.



To manage a just transition to a low-carbon economy, it is essential that there is policy alignment at all levels of government in relation to priorities and considerations when investing in infrastructure that has long-term consequences for the environment and national mitigation targets. To this end:

- IRPs for the electricity sector and national mitigation trajectory will need to be aligned, forming part of an integrated energy plan for the country that charts the course to a low-carbon economy.

- The transition to an environmentally sustainable, low-carbon economy will be a cross-cutting objective that will be integrated into the plans of government departments, integrated development plans and future iterations of the Medium Term Strategic Framework.

- Carbon emissions will form part of environmental assessment procedures for infrastructure investment decisions at all levels of government and in all government agencies and parastatals.

- In terms of the carbon budget, quantitative emissions objectives will be developed for each economic sector that are aligned with the mitigation trajectory for the country.

The short-term costs of building a just, low-carbon and resilient economy and society will be far lower than the long-term costs of an unplanned response. South Africa should initially focus on pursuing those mitigation options that are likely to have the least regrets options, particularly around energy efficiency, that improve the competiveness of local industry, create jobs and represent a net saving rather than cost to the economy and gross domestic product.

Proposed initiatives and policy imperatives:

- Parastatals and the Department of Public Enterprises are to include environmental indicators in the criteria for evaluating investment in bulk infrastructure.

- The Commission is to regularly review the alignment of government policies and regulation with progress towards achieving a just transition to an environmentally sustainable, low-carbon economy.

- The Department of Performance Monitoring and Evaluation is to include carbon intensity and emissions reductions, the intensity of water use and critical land use parameters in the national indicators that it uses to monitor and assess government performance.

Enhancing governance systems and capacity

Government will lead the transition to a low-carbon economy. An aspect of this role is creating an enabling environment for the private sector and civil society to contribute to the transition by creating policy frameworks and economic signals that promote appropriate changes in business practice and behaviour.

Managing the transition to a low-carbon economy will require investment in governance systems and capacity. In relation to reducing the carbon intensity of the economy, the following institutional arrangements and actions will be important:

- Ensuring that climate change is effectively addressed and mainstreamed in every department, under the supervision of the Presidency and National Planning Commission, as an essential component of a broader national development strategy.

- Government should, in building capacity in this field, establish and support an independent research body as a repository of information and best practice in the fields of climate change mitigation and adaptation. The Centre should bring together differing perspectives, and provide guidance to government agencies in fulfilling their regulatory mandates, as well as providing a forum for business and civil society. It should also tap into practical knowledge and guidance about low carbon technologies and ways of responding to global climate imperatives.

- Strengthening the Department of Environmental Affairs' capacity to provide mechanisms and oversight for the monitoring, reporting and verification of sectoral carbon emissions.

- Strengthening and reforming regulation of the energy sector, in particular:
  - Ensuring the nuclear regulator has sufficient capacity for proper regulation of the industry, commensurate with the risks involved.
  - Establishing the independent systems and market operator (see chapter 4) for the electricity sector and establishing a policy framework under the National Energy Regulator of South Africa to promote diversification in the electricity sector.

- Aligning the national skills development strategy with the requirements of the green economy.

The government will undertake certain regulatory and legislative interventions to establish the policies and instruments required to effect the transition, including:

- Fiscal interventions and reform in relation to carbon pricing, incentives for the green economy, and promoting performance against environmental indicators by local government.

- Ensuring that environmental impacts of public-sector investment and spending are fully costed to promote the principle of full-cost accounting as a corporate governance standard.

- Establishing a framework for reporting on GHG emissions by industry.

PHASING

To ensure environmental sustainability and an equitable transition to a low-carbon economy requires strategic planning, a sound evidence base and substantial investment. While the aim is to make an immediate impact on emissions and provide support to those already affected by environmental impacts, the socioeconomic trade-offs of the transition will have to be carefully managed.

Attention to phasing and sequencing of investments is an important part of the planning process. The phasing required is outlined below.

By 2015 – planning, piloting and investing

South Africa creates the framework for implementing the transition to an environmentally sustainable, low-carbon economy as a core element of its strategy for sustainable development as proposed in the plan as a whole.

- The roles and institutional arrangements indicated by the Climate Change Response White Paper have been reviewed and implemented, as appropriate, and processes and systems have been developed to enable their mandate to be delivered.

- An independant Climate Change Centre, in partnership with academic institutions and other appropriate institutions, is established by government to support the actions of government, business and civil society.

- A regulatory framework for land use is in place, to assess the environmental and social costs of new developments and ensure the conservation and restoration of protected areas.

- There is a comprehensive, trusted and expanding evidence base in relation to South Africa's emissions profile to inform climate-change policy-making.

- South Africa's mitigation commitment is defined and actions are being taken to achieve it. A process to understand the implications of mitigation efforts by sectors within a limited carbon space has been established through the carbon-budget approach. This guides sectoral and company mitigation targets and infrastructure spending.

- Carbon-pricing mechanisms have been put in place (with appropriate exemptions). These are supported by a wider suite of mitigation policy instruments that target specific mitigation opportunities.

- Strategic environmental assessments are used to reduce regulatory obstacles in environmental impact assessments and provide incentives for green economic activities.

- In global negotiations, South Africa takes strong action to promote a just transition to a low-carbon economy and seeks to ensure that national and regional interests are not undermined by protectionist economic policies elsewhere.

- Significant investment and international assistance programmes are in place for climate-related research and development, and the roll-out of mitigation and adaptation projects, especially for key vulnerable sectors.

- There has been substantial development of technical skills and policy capacity to facilitate the transition to a low-carbon economy, and for adaptation research and implementation in particular.

- The national recycling strategy is delivering absolute reductions in the total volume of waste disposed to landfill each year.

- Environmental sustainability, climate-change issues and opportunities for regional responses are addressed at forums for regional cooperation.

- Two further integrated resource plans for electricity are complete and aligned with an integrated energy plan, including carbon constraints appropriate to South Africa's overall mitigation effort.

- Land, agriculture and water policies and strategies are reviewed at regular intervals to ensure that they continue to contribute to sustainable development approaches.

By 2020 – implementing programmes of sustainable development and targeting the emissions peak

As socioeconomic development begins to make significant inroads into reducing poverty and unemployment, emissions are in the process of peaking.

- Land, agriculture and water development strategies have provided the basis for programmes of environmentally sustainable rural regeneration.

- Public investment is being channelled into new agricultural technologies for commercial farming, as well as for the development of adaptation strategies and support services for small-scale and rural farmers.

- The development and marketing of niche products and services is encouraging the domestic manufacture of green technologies.

- The introduction of carbon pricing has been completed and assessed, and proposals have been finalised for its economy-wide extension.

- The carbon-budget approach has evolved, informing ongoing policy development and implementation, in support of South Africa's international commitments. State capacity for long-range adaptation and mitigation planning is at an advanced level.

- Medium-term adaptation strategies are being piloted and implemented, including for disaster preparedness, encouraging investment in adaptation technologies and research into the conservation and rehabilitation of ecosystems and biodiversity assets.

- Comprehensive reporting on carbon emissions and environmental performance by the government and business is under way, and annual data on emissions levels and climate impact feeds into policy and regulatory processes.

- Regional cooperation frameworks are in place to assist countries in becoming more resilient to climate change and to foster cooperation.

- A culture of energy efficiency in society is well established.

By 2030 – An environmentally sustainable society, expanded low-carbon economy and reducing emissions

South Africa has reduced poverty and unemployment to socially sustainable levels, as emissions reach a plateau. Thriving rural communities are providing an economic and social base for a significant number of people. Urban development is more compact and energy efficient. Growing public awareness of the consequences of climate change and unconstrained consumption of our natural resources leads to a refocusing of political priorities towards the protection and rehabilitation of the region's natural assets.

- Investment in low-carbon and climate-resilient infrastructure has enabled South Africa to export and profit from its technologies and skills, and benefit sectors that deliver enhanced energy, food and water security, new high-quality job opportunities, and improved quality of life.

- The state is well capacitated and comfortably manages its policy, regulatory and support functions.

- The transition has been aligned with South Africa's efforts to address poverty and inequality. The benefits of building resilience are evident in the strides towards a flourishing and prosperous nation.

- Various incentive frameworks and a suite of comprehensive carbon-pricing policies have catalysed high levels of private investment in mitigation and adaptation activities, and generated public resources for reducing emissions.

Notes

1. Draft National Greenhouse Gas Inventory for Republic of South Africa, Government Gazette Notice 1104 of 2009. Available at http://www.info.gov.za/view/DownloadFileAction?id=106775 (accessed 05/06/2012).

2. Research on the relationship between inequality and various social and environmental indicators is extensive, however the pathways and mechanisms underlying these linkages are yet to be established. Inequality is shown to increase consumerism and can lead to greater environmental damage by undermining the collective action required for environmental protection. A full discussion may be viewed in the article *Unexpected connections: Income inequality and environmental degradation* by Haupt and Lawrence, available at http://www.shapingtomorrowsworld.org/hauptInequality.html.

CHAPTER SIX

An integrated and inclusive rural economy

KEY POINTS

- Rural communities require greater social, economic and political opportunities to overcome poverty.
- To achieve this, agricultural development should introduce a land-reform and job-creation/livelihood strategy that ensures rural communities have jobs.
- Ensure quality access to basic services, health care, education and food security
- Plans for rural towns should be tailor-made according to the varying opportunities in each area. Intergovernmental relations should be addressed to improve rural governance.

INTRODUCTION

Since 1994, the main challenge for rural development has been marginalisation of the poor. Combating this required changes in access to resources (land, water, education and skills), and improved rural infrastructure and other government services.

Some progress has been made, with significant shifts in the extent and degree of poverty. The National Income Dynamics Study[1] revealed that the rural share of poverty fell from 70 percent in 1993 to 57 percent in 2008. The improvement in household welfare is generally ascribed to the large increase in social-grant expenditure and migration to urban areas. Farm workers also enjoy greater rights, both as workers and tenants, and receive better wages.

Access to basic services has increased, although at a slower pace than in urban areas, and is not fully realised. Since 1994, about 7.2 million hectares[2] of agricultural land have been redistributed through both land redistribution and restitution process. Of 79 696 land claims lodged since 1994, 95 percent have been settled.

Rural areas, however, are still characterised by great poverty and inequality, with many households trapped in a vicious cycle of poverty.

VISION 2030

By 2030, South Africa's rural communities must have better opportunities to participate fully in the economic, social and political life of the country. People should be able to access high-quality basic services that enable them to be well nourished, healthy and increasingly skilled. Rural economies will be supported by agriculture and, where possible, by mining, tourism, agro-processing and fisheries.

The vision includes better integration of the country's rural areas, achieved through successful land reform, infrastructure development, job creation and poverty alleviation. The driving force behind this will be an expansion of irrigated agriculture, supplemented by dry-land production where feasible. In areas with low economic potential, quality education, health care, basic services and social security will support the development of human capital. In areas with some economic potential, non-agricultural activities (such as agro-industry, tourism, small enterprises and fisheries) will boost development. Under-development in the former homelands must be confronted through agricultural development, improved land management, infrastructure and targeted support to rural women.

Access to basic social and infrastructural services is a high priority for many rural households, and these are addressed in the chapters on human settlements (chapter 8) and social protection (chapter 11). This chapter focuses on developing rural economic opportunities, without which services are unlikely to be sustained in the long term.

WHAT NEEDS TO BE DONE

The Commission proposes a differentiated rural development strategy that focuses on:

- **Agricultural development based on successful land reform, employment creation and strong environmental safeguards.** To achieve this, irrigated agriculture and dry-land production should be expanded, with emphasis on smallholder farmers where possible. To this end, established agricultural industries must be enabling partners.
- **Quality basic services, particularly education, health care and public transport.** Well-functioning and supported communities enable people to seek economic opportunities. This allows them to develop their communities further through remittances and the transfer of skills, which will contribute to the local economy.
- **In areas with greater economic potential, industries such as agro-processing, tourism, fisheries (in coastal areas) and small enterprise development should be developed with market support**. Special focus to enhance skills and capabilities of rural women entrepreneurs with access to land and finance.

The strategy should ensure access to basic services, food security and the empowerment of farm workers. It should also recognise the wide range of opportunities present in rural areas and develop strategies tailored to local conditions. Institutional capacity is integral to success, especially in the reforms required to resolve contested relationships between traditional and constitutional institutions.

AGRICULTURE

As the primary economic activity in rural areas, agriculture has the potential to create close to 1 million new jobs by 2030, a significant contribution to the overall employment target. To achieve this, South Africa needs to:

- Expand irrigated agriculture. Evidence shows that the 1.5 million hectares under irrigation (which produce virtually all South Africa's horticultural harvest and some field crops) can be expanded by at least 500 000 hectares through the better use of existing water resources and developing new water schemes.
- Use some underused land in communal areas and land-reform projects for commercial production.
- Pick and support commercial agriculture sectors and regions that have the highest potential for growth and employment.
- Support job creation in the upstream and downstream industries. Potential employment will come from the growth in output resulting from the first three strategies.

- Find creative combinations between opportunities. For example, emphasis should be placed on land that has the potential to benefit from irrigation infrastructure; priority should be given to successful farmers in communal areas, which would support further improvement of the area; and industries and areas with high potential to create jobs should receive the most support. All these will increase collaboration between existing farmers and the beneficiaries of land reform.
- Develop strategies that give new entrants access to product value chains and support from better-resourced players.

The table below depicts how this can be achieved.

FIG 6.1 THE EMPLOYMENT CREATION POTENTIAL OF SOUTH AFRICAN AGRICULTURE

Target group	Primary jobs created	Secondary jobs created	Assumption
Subsistence farmers with <0.5 hectares	83 000	41 500	The livelihoods of one in 10 of the farmers in this category are improved.
Small-scale farmers with between 0.5 and 5 hectares of land	165 000	82 500	The livelihoods of half the farmers in this category are improved.
Small-scale farmers with >5 hectares of land	75 000	37 500	These farmers employ themselves and two others.
Better use of redistributed land	70 000	35 000	Redistribution beneficiaries employ themselves and two others; one in 10 restitution beneficiaries become self-sufficient.
Labour-intensive winners	200 000	100 000	Critically, this requires investment in irrigation, support to smallholder farmers and their ability to grow their businesses.
Labour-extensive field crops	10 000	5 000	This reflects a "high road" or optimistic scenario and assumes that the current decline in employment in commercial farming is halted.
Labour-extensive livestock	40 000	25 000	This reflects a "high road" or optimistic scenario and assumes that the current decline in employment in commercial farming is halted.
Total	**643 000**	**326 500**	**969 500**

Note: The employment multiplier between agriculture and its upstream and downstream industries has been taken at a conservative estimate of 0.5 for small-scale farmers.

Creating jobs in agriculture will not be easy. It will require credible programmes, sound implementation, significant resources and stronger institutions, such as agriculture departments in local and provincial government. The effectiveness of extension officers depends on performance, capacity and level of priority given by provincial agricultural departments. Whether this service is effectively located should also be considered.

Despite these challenges, with the right approach it is possible to reverse the decline in the agriculture sector, promote food production and raise rural income and employment. White commercial farmers, agribusinesses and organised agricultural industry bodies can help bring these objectives to fruition. A significant effort and resurgence in agricultural training is required.

Jobs and livelihoods in communal areas

Traditionally, agriculture was a livelihood asset for the rural poor when other sources of income fell away. This role was always underdeveloped because of apartheid, but it is diminishing further due to increases in social grants and employment opportunities elsewhere. Agriculture, however, has the potential to expand if the necessary environment is created. Better land use in communal areas could improve the livelihoods of at least 370 000 people.

The table below shows South African households with access to land. About 300 000 jobs are available, based on the following assumptions. First, assume that 831 871 plots of less than half a hectare are largely vegetable gardens and that the 34 546 farmers with more than 20 hectares farm in commercial areas. This leaves some 440 000 households who farm on some scale. Of these, about 373 500 have access to between half a hectare and five hectares; while about 50 000 have access to between five and 10 hectares. Some farmers with more than five hectares already have access to irrigation infrastructure. Others farm in areas where irrigation is possible. There must be at least 25 000 small-scale farmers in communal areas with access to more than five hectares of dry land, and who do not farm in areas that can be irrigated. If each of these employ two workers, about 50 000 jobs will be created. If half the farmers on between half a hectare and five hectares benefit from better livelihoods a further 165 000 job opportunities will be created. If the livelihoods of one in every 10 of those with access to less than half a hectare improve, a total of at least 300 000 potential new job opportunities will come directly from agriculture.

A further 70 000 livelihood opportunities are created if land-reform beneficiaries are properly supported. By 2009, the land redistribution and restitution programmes had transferred land to 185 858 beneficiaries (about 40 000 households) and 1.6 million beneficiaries (270 000 households) respectively.

If one in three beneficiaries of the redistribution programme farms on a small scale and employs at least two workers, 40 000 jobs are created. Assuming that at least one in 10 beneficiaries of the restitution programme improves their livelihood, this provides a further 27 000 jobs.

A large number of the beneficiaries, mainly of the restitution programme, have not been able to settle on the land or use it productively. In part, they have lacked infrastructure, inputs and technical support.

To realise opportunities, security of tenure is

FIG 6.2 SOUTH AFRICAN HOUSEHOLDS' ACCESS TO AGRICULTURAL LAND

Hectares	Number (weighted)	%
< 0.5	831 871	64.5
0.5-1	235 454	18.3
1-5	138 196	10.7
5-10	38 146	3
10-20	11 940	0.9
20 +	34 546	2.7
Unknown	17 556	–
Total 1	1 307 710	100

Source: Statistics South Africa, 2006.[3]

required. Investment by farmers will occur if they believe income streams are secure. This requires infrastructure and functioning market institutions, including insurance markets.

Land-reform beneficiaries in commercial farming areas have to fund their land purchase upfront, making it almost impossible to farm profitably because of the high debt burden. Alternatively, if the land is given as a grant, the state has to provide the funding through the fiscus. Since the state has limited means to provide post-settlement support, a possible solution would be to use the Land Bank, established to address the difficulty of entry into commercial farming. The bank has used explicit and, later, implicit subsidies from government to provide mortgage loans for up to 40 years.

A stepped programme of financing would address most of the financing problems of land-reform beneficiaries. This can be achieved through giving successful applicants a rent-free probation for two or three years. If farmers prove capable, they will move to a long-term lease of about 40 years with the full commercial rental phased in over four years. Part of the rental fee applied to a sinking fund held at the Land Bank will eventually give them full title.

Land access in communal areas is treated as though land rights and the right to use land for different purposes are the same thing. In practice, land rights differ depending on how people use the land. Securing tenure is important when land is used to grow crops. The focus should be on cooperating with traditional leaders to secure tenured irrigable land supported by fully defined property rights. This will allow for development and give prospective financiers and investors the security they require.

Expand commercial agriculture

Expanding commercial agriculture has the potential to create 250 000 direct jobs and a further 130 000 indirect jobs. This can be achieved by supporting agricultural subsectors with potential for long-term, sustainable expansion in production and value-adding processes. Expansion is driven not only by higher levels of productivity, but also by foreign and domestic demand. Without an increase in demand, increased production will depress domestic prices, which is bad for employment creation in the sector.

The section below deals with the agricultural subsectors that show the most promise for development, grouped into the following categories: large labour-intensive industries, smaller labour-intensive industries, and large existing industries with significant value-chain linkages. The figure below presents an overview of the industries by mapping the relationship between current growth rates and dependence on labour.

Large labour-intensive agriculture

Citrus

There are about 60 000 hectares of citrus trees in South Africa. The employment requirement to produce citrus fruit is estimated at one worker per hectare, about 60 000 workers are employed on citrus farms. Direct downstream labour requirements for citrus are estimated at one labourer per 2 500 cartons packed: with about 100 million cartons packed per year, some 40 000 jobs are created in packing plants for a period of six months, or 20 000 full-time equivalents. In addition, there are labour requirements for transportation, warehousing, port handling, research and development, and processing.

From 2000 to 2010, the citrus-farming area increased by 28 percent, from 47 000 to 60 000 hectares. Almost 10 000 hectares of citrus have been redistributed by the land reform programme, but 70 percent of these orchards are in distress. Rehabilitated, they would provide about 7 000 additional on-farm jobs.

Table and dried grapes

There are about 23 500 hectares of table and dried grapes planted in the country, with an employment requirement of 1.6 workers per hectare, so about 38 000 workers are employed on these farms. This represents an expansion of 4 200 hectares since 2000, indicating that 6 720 additional jobs were created.

Total exports of fresh grapes increased from 37.2 million cartons of 4.5 kilograms (kg) each in 2000 to 51 million cartons in 2010. If this output can be repeated over the next 10 years, it holds significant potential to expand the industry. The single greatest challenge in penetrating new markets remains market access through trade negotiations and sanitary and phytosanitary agreements. As with the citrus industry, South Africa needs to remain internationally competitive to create and maintain its market share.

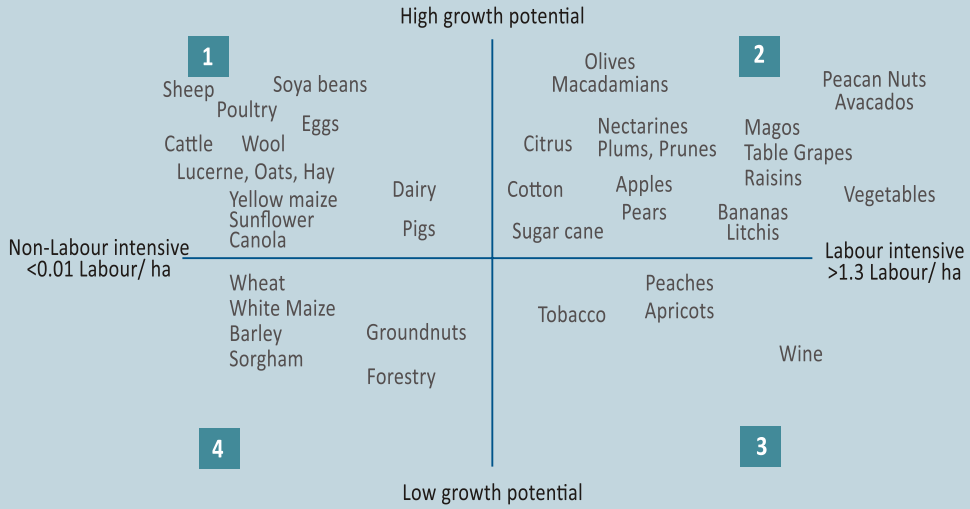
The opportunity to expand table and dried-grape vineyards lies mainly in the Orange River region. At present water rights are available for an extra 8 000 hectares, of which about 4 700 are expected to be planted for table and dried grapes over the next decade.

Subtropical fruit

Land reform is expected to determine the expansion of subtropical fruit production. The banana industry is an example. The area under production has declined from 18 000 to 12 000 hectares over the past decade. Farms have either become unproductive or producers are not willing to reinvest, choosing to move production to better locations in other African countries. With a labour multiplier of two workers per hectare, this industry can create a significant number of jobs if the necessary technical and financial support is injected into just one third of the underused area.

Similarly, the avocado industry has a lot to offer in employment creation. While the hectares under banana production have been declining over the past decade, the area under avocado production has expanded rapidly. The industry argues that production could expand by a further 70 percent (9 275 hectares) over the next decade. With a labour multiplier of almost two labourers per hectare and upstream and downstream linkages of about 1.3 jobs per hectare, roughly 30 000 jobs can be created over the next 10 years. About 90 000 tons of avocados are now produced, of which more than 50 percent is exported, 10 percent processed and the rest sold into the fresh market.

FIG 6.3 AGRICULTURAL GROWTH AND EMPLOYMENT POTENTIAL



Source: Bureau for Agricultural Policy, 2011[5]

Vegetables

The vegetable industry could be one of the largest contributors to job creation and the improvement of livelihoods if the potential growth in demand in South Africa and the southern African region is considered. The demand for vegetables has grown consistently (about 30 percent over the past decade) and as per capita income rises, this trend will continue. However, the rate of increase in demand could be much faster and the production of vegetables could expand significantly if access to rural markets is established, transparent electronic trading platforms are put in place and markets in neighbouring countries are accessible. It is estimated that, apart from potatoes, the demand for vegetables is 25 percent below its potential. This figure can be added to the increasing demand trend of 3 percent a year, which implies that expansion of commodities such as tomatoes, onions and carrots could reach roughly 60 percent over the next 10 years.

Small-scale, labour-intensive agriculture

This category includes industries such as macadamias, pecan nuts, rooibos tea, olives, figs, cherries and berries.

In sheer size, these industries do not compete with existing labour-intensive ones. However, their potential for expansion is by far the highest. Relative to South Africa's production potential, the size of the export market is vast, assuming that market access can be established in some of the key growing markets. This implies that market size or demand growth is often a lesser factor.

Despite the huge market potential, the realities of expanding production need to be considered since these products demand very specific growing conditions. The quality of the fruit is the key issue in export markets.

Roughly 80 000 jobs could be created in these smaller, labour-intensive industries. Smaller or niche industries are attractive because economies of scale, which are found in the big established industries, may not be present. As a result, producers might be more inclined to use labour than invest in machinery.

Large, non-labour intensive industries with significant value-chain linkages

The grain, oilseed and livestock industries can be classified as large and non-labour-intensive, yet they have significant upstream and downstream linkages due to their sheer size. Despite their lack of labour-absorption capacity, these industries are considered strategic given their role in food security and the vulnerabilities derived from potential distortions in global markets.

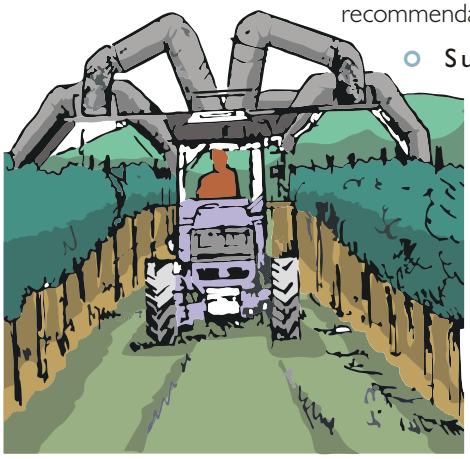
A number of these industries have significant growth potential, particularly poultry. Over the past five years, South Africa has imported on average 235 000 tons of chicken meat, or about 15 percent of local consumption. Over the past decade, production has increased by 45 percent. Industry experts argue that over the next 10 years, production could grow by a further 40 percent. The demand for chicken will continue to grow rapidly. Over the past decade, demand has increased by 68 percent and currently stands at about 32kg per person per year. Industry experts argue that demand could grow to 45kg per person by 2020, bringing the total demand for chicken to about 2.3 million tons.

The demand for animal feed will grow rapidly over

the next decade as more animal protein is consumed. The area under soybeans is projected to at least double from current production levels. Market potential is ample in the animal-feed industry and significant expansion in processing facilities provides the downstream linkages to create sustainable jobs. Using soybeans in the food chain also shows potential for expansion. Yellow maize has room to expand given the increased demand for animal feed, followed by sunflower and canola oils. Only a marginal increase in the area under white maize and wheat production is expected over the long term, largely because, in the competition for arable land, the expansion of grain and oilseed production will take place where the fastest growth in demand is anticipated, namely animal feed.

Trade-offs and risks for agricultural expansion

Failing to adequately address tenure security for black farmers in the communal areas and under the land-reform programme would pose a major risk to agricultural expansion. As long as these farmers (especially women farmers) do not have secure tenure they will not invest in the land and agricultural production will not grow at the rate and pattern required for growth in employment.



Failure to increase government investment into infrastructure and support services that target small-scale farmers would also pose a risk. At the same time, attention must be given to ensuring that the systems are in place for all farmers in South Africa to access domestic and foreign markets with food that is fresh, safe and socially and environmentally friendly. Bio-security risks and mitigation measures must be given priority.

In most areas, additional water can only be made available if there is a concerted programme to improve the efficiency of existing irrigation, reallocate water and ensure that new entrants use the water effectively. This will require a substantial support programme that would best be introduced in partnership with existing farmers.

Finally, if the expansion of agricultural production envisaged in this plan takes place within the current structure of farming by merely expanding large-scale commercial farming. The potential to create additional jobs is limited.

Recommendations

To expand agriculture and create 1 million jobs in the sector, the Commission makes the following recommendations:

- **Substantially increase investment in water resource and irrigation infrastructure.** This should happen where the natural resource base allows. The efficiency of existing irrigation should also be improved to make more water available.
- **Provide innovative market linkages.** Make provisions to link small-scale farmers in the communal and land-reform areas to markets in South Africa and further afield on the subcontinent. This will require improved road and rail infrastructure to usher farm products to and through the value chain and to markets, and improved communications infrastructure to inform agricultural role-players about buying and selling prices and supply-and-demand trends. Linking farmers to markets will also require infrastructure for processing and value addition and new forms of intermediaries, such as cooperatives, to help small producers achieve economies of scale in processing. Farmers also need cold-chain

- infrastructure if they are to access markets for high-value produce and rural consumers.
- **Linking farmers to existing markets is not enough.** A substantial proportion of agricultural output is consumed in the "food away from home" market in South Africa. While this includes restaurants and take-away outlets, which are hardly relevant in most rural areas, it also includes school feeding schemes, other forms of institutionalised catering such as in hospitals and correctional facilities, and emergency food packages, where the state is the main purchaser. Preferential procurement mechanisms should be put in place to ensure that new entrants into agriculture can access these markets while still supporting existing farmers.
- **Create tenure security for communal farmers.** Tenure security is vital to secure an income for existing farmers and new entrants. The possibility of flexible systems of land use for different kinds of farming on communal land needs to be investigated.
- **Investigate different forms of financing.** Look into financing alternatives and vesting private-property rights to land-reform beneficiaries in a way that does not hamper beneficiaries with a high debt burden.
- There should be **greater support for innovative public-private partnerships.** South Africa's commercial farming sector is full of examples of major investments that have resulted in growth and job opportunities. These include the expansion of the table grape industry along the Orange River, expanding the sugar industry into Mpumalanga, and other strategic industries. More opportunities exist. Examples of regions with untapped potential include the Eastern Cape and the Makatini Flats in KwaZulu-Natal, while new initiatives such as agriculture in the green economy and conservation efforts in general can potentially create new employment opportunities. Climate change will affect what investments will pay off best and where they should be made.
- **Increase and refocus investment in research and development for the agricultural sector.** Growth in agricultural production in South Africa has always been fuelled by technology and the returns on investment in agricultural research and development have been high, partly because South Africa has adapted technology from all over the world to its circumstances. This should again become the focus of agricultural research by research councils, universities and the private sector for all scales of farming. The industrialisation of agriculture and the country's unique ecosystems also demand that attention be paid to advances in ecological approaches to sustainable agriculture. This includes greater attention to alternative energy, soil quality, minimum tillage and other forms of conservation farming.
- **Improve and extend skills development in the agricultural sector, including entrepreneurship training.** This should include training a new cadre of extension officers to respond to the needs of smallholding farmers and contribute to their integration into the food value chain. Farmer-to-farmer skills transfer must be encouraged to help develop a new generation of farmers. Every effort must be made to deracialise the agricultural sector.
- **Investigate whether extension and other agricultural services are appropriately located at provincial level.** Innovative means for agricultural extension and training by the state, in partnership with industry, should be sought.

MAKING LAND REFORM WORK

Land reform will unlock the potential for a dynamic, growing and employment-creating agricultural sector. In the submission on the draft National Development Plan a call is made to allow for the evaluation of the Green Paper on Land Reform currently in progress and for enough time to evaluate the particular proposal of the Commission. The Green Paper deals with various structures

including a Valuer General (management), Land Management Commission and a Land Management Board which will also impact on the kinds of land reform models to be contemplated. The Commission agrees with this call as we believe that our proposed model is only one of many that should be considered.

The National Planning Commissioner's proposed model for a workable and pragmatic land reform is based on the following principles:

- Enable a more rapid transfer of agricultural land to black beneficiaries without distorting land markets or business confidence in the agribusiness sector.
- Ensure sustainable production on transferred land by making sure that human capabilities precede land transfer through incubators, learnerships, mentoring, apprenticeships and accelerated training in agricultural sciences.
- Establish monitoring institutions to protect land markets from opportunism, corruption and speculation.
- Bring land-transfer targets in line with fiscal and economic realities to ensure that land is successfully transferred.
- Offer white commercial farmers and organised industry bodies the opportunity to significantly contribute to the success of black farmers through mentorships, chain integration, preferential procurement and meaningful skills transfer.

Proposed model

Each district municipality with commercial farming land in South Africa should convene a committee (the District Lands Committee) with all agricultural landowners in the district as well as key stakeholders such as the private sector (commercial banks, agribusiness), the government (the national Department of Water Affairs and provincial departments that deal with rural development, land reform and agriculture) and government agencies (the Land Bank and the Agricultural Research Council).

This committee will be responsible for identifying 20 percent of the commercial agricultural land in the district and giving commercial farmers the option of assisting its transfer to black farmers. This can be done as follows:

- Identify land readily available from the following categories: land already in the market; land where the farmer is under severe financial pressure; land held by an absentee landlord willing to exit; and land in a deceased estate. In this way, land can be found without distorting markets.
- After being identified, the land would be bought by the state at 50 percent of market value (which is closer to its fair productive value) The shortfall of the current owner will be made up by cash or in-kind contributions from the commercial farmers in the district who volunteer to participate.
- In exchange, commercial farmers will be protected from losing their land and gain black economic empowerment status. This should remove the uncertainty and mistrust that surrounds land reform and the related loss of investor confidence.
- A stepped programme of financing should be created. This would include the involvement of the National Treasury, the Land Bank as well as established white farmers. The model envisages that the cost of land reform be spread between all stakeholders. It also envisages new financial instruments being designed for the purpose of facilitating land reform. These could include 40-year mortgages at preferential rates for new entrants into the markets, as well as land bonds that white farmers and others could invest in.

DEVELOPING NON-AGRICULTURAL ACTIVITIES

While mining is more geographically concentrated, it is vital for job creation. The secondary benefits of mine-related products and services and how they can be used to develop local economies needs to be investigated as little is known of mining value chains or how they can address spatial developmental inequality. However, as the experience of the Free State goldfields and some Northern Cape mining areas show, long-term investments should be carefully scrutinised for closure risks.

Mining workers are better paid than agricultural workers. The companies are required to participate in local development, and have resources to do so as their surplus is greater than in agriculture. There is an opportunity to influence the role of mining in rural development through the Mining Charter. The emphasis of the charter needs to be increasingly on human resource development, local economic development and procurement.

The traditional approach to rural development and improving agricultural income in poor countries is to help farmers move up the value chain by supporting agro-processing. In South Africa, however, a highly centralised, vertically integrated agro-processing sector already exists for staple foods such as maize, wheat, sugar, sunflower oil, tea, flour, peanut butter, cigarettes, beer, fruit juices and canned goods. These value chains tend to exclude small, new or black farmers, but there is no point setting up parallel agro-processing initiatives and ignoring the industry giants. The scope for small-scale manufacturing and agro-processing targeting local consumers in poor communities is limited. The opportunities that do exist tend to take the form of niche opportunities on a small scale rather than the kind of scale that can create many jobs or sustain group projects or cooperatives. One option may be to engage with businesses, as part of a broader social compact, to gain their cooperation for long-term smallholding development. This has already been done in the sugar and brewing industries with some positive results.

Opportunities exist in higher-value, higher-volume external markets, both national and beyond. To take full advantage of these opportunities, smaller and poorer producers need to adopt cooperative strategies that give them greater collective market power in accessing value chains and regarding minimum supply volumes. Together, smaller producers can negotiate improved levels of market access and better terms of participation. They can also gather and share information for the benefit of the collective. Developing partnerships with other commercial players in the value chain is another potential strategy.

In certain rural areas (for example, the Wild Coast, Port St John's, Tzaneen, fishing villages and the Waterberg) tourism offers opportunities to enhance people's livelihoods. These benefits depend on institutional support and the level of involvement of local communities. Another interesting option is the arts and crafts market. Globally and in South Africa, the size of the creative-arts industry is projected to grow.

For coastal areas, marine fishing is important for subsistence and employment. Subsistence fishers rely on marine resources as a basic source of food. They are largely dependent on low-cost resources that are important to the social fabric of their societies and have a long history of dependency on these resources. There are about 29 000 subsistence fishers, concentrated on the east and south coasts.

Small-scale and artisanal fishers have relatively small, low-cost operations, but often fish high-value resources. Industrial fisheries target large-scale harvesting of mainly offshore resources that are caught using expensive, high-tech boats and equipment. There are very few large-scale industrial fisheries in South Africa, but they employ about 27 000 people on better terms than in many other industries.

A number of fundamental issues need to be resolved in the fishing industry. Firstly, while the industry is relatively transformed in terms of black economic empowerment, those historically involved in fishing have frequently been ignored.

Secondly, the trend in awarding fishing licences has been to favour allocating many rights of small value, rather than fewer rights of substantial value. This increases the number of participants, but also decreases the average gain per participant and increases the difficulty of enforcement. Since most fishing resources are harvested to their limit or over-exploited, increasing the allowable catch of most resources is not viable.

It is fundamental that fishing rights are economically viable and not allocated in a way that threatens compliance. If sustainability is not maintained, the entire fishing industry will collapse and everyone will be affected.

Small-scale fisheries cannot be regarded as a way to boost employment. Capital-intensive industrial fisheries offer better salaries and better conditions of employment than small-scale low-capital fisheries. Reducing the rights allocated to industrial fisheries to award them small-scale operations simply cuts jobs.

To retain a viable fishery it is paramount that the resource is protected and managed sustainably. A sophisticated scientific research and monitoring system is essential to this. Traditional fishers must be afforded better opportunities and support. All role players must be subjected to stringent compliance measures that are effectively enforced. Expanded or new fisheries must be sought where ecologically possible. Other economic opportunities must be developed to supplement the livelihoods of fishing communities.

Recommendations

To expand non-agricultural activities in rural areas, the Commission recommends the following:

- Develop strategies for economic cooperation that give poor producers greater collective market power in value chains and improved access to information. Such economic cooperation will also allow them to achieve the minimum supply volumes required for participation and empower them to negotiate improved terms of participation.
- Identify other potential partners in the agro-processing value chain to support smallholding development.
- As a specific example, encourage supermarkets to open up value chains by partnering with local producers in rural areas.
- Develop and incentivise the development of niche markets to promote smaller producers.
- Allocate economically viable fishing rights.
- Review fisheries' policies to determine the best way to allocate rights to maximise employment.

HUMAN CAPITAL, SOCIAL SECURITY, FOOD SECURITY AND BASIC SERVICES

While the primary goal of the rural strategy is to uplift South Africa's rural areas, it also aims to enable the poor to relocate to cities, which usually offer easier access to services and secure employment. To achieve this, specific attention should be paid to improving the human capital of residents in rural areas. This section deals mainly with household food security. The sections on human settlement (chapter 8), education (chapter 9), health (chapter 10) and social security (chapter 11) contain recommendations regarding those aspects of development.

Food security

Malnutrition is the direct outcome of food insecurity. In South Africa, many infants and one in five young children experience stunted growth. Micronutrient malnutrition – particularly deficiencies of vitamin A, iron and zinc – affects the health, growth and learning abilities of young children and the productivity of the adult population. At the same time, and often in the same communities and households, obesity contributes significantly to the incidence of chronic diseases, including type 2 diabetes, cancer and coronary artery disease.

Food security exists when everyone has access to sufficient, nutritious and safe food at all times. This implies that food must be available and that people must have the means to access it.

It is necessary to make a distinction in policy discourse between "national food self-sufficiency", "food security" and "access to food by poor people". South Africa is food-secure and has been for a number of decades. This means that it earns a trade surplus from agricultural exports and is able to cover the cost of food imports from those exports. The country has also produced enough of the staple cereal (maize) for all but three of the past 50 years (the exceptions being the droughts of 1984, 1992 and 2007). The composition of the maize harvest is changing, however, with more yellow than white maize planted. This reflects the trend towards higher consumption of animal proteins and the fact that wheat, rice and potatoes are becoming the preferred staples as the population urbanises and becomes more affluent. In this regard, the national food-security goal should be to maintain a positive trade balance for primary and processed agricultural products, and not to achieve food self-sufficiency in staple foods at all costs.

Region-based approaches to food security should be investigated. As South Africa's agriculture becomes more specialised and efficient, there may be a trend away from the production of staples to higher-value crops. As there is only limited correlation between climatic events in South Africa and countries to the north of the Zambezi, regional cooperation may offer greater supply stability and resilience to droughts. Regional economic integration is best served when there are complementary interests and advantages between the parties, which may be the case in food production. Regional expansion of production, as seen in recent years, is favourable. South Africa should benefit from the opportunities this brings for trade, food stability and value-chain consolidation.

Household food security is determined by the ability to access food rather than its availability. Food insecurity at household and individual level in rural areas is best addressed by job creation and agricultural productivity. Other strategies include helping poor households cope with food price increases, using and expanding existing public works programmes for rural infrastructure development, and ensuring that all eligible households have access to social grants. Vulnerable groups, particularly the elderly and chronically ill, should have access to

nutritional services. Public works programmes and social grants are addressed in other sections of the plan.

Poor households feel the effects of food-price increases much more severely than more affluent households. It is estimated that low-income households spend about 35 percent of their money on food, compared to the 3 percent spent on food in upper-income households. Furthermore, rural households pay more for a basic food basket than their urban counterparts because of the low volume of sales, limited competition, high transport costs and lack of adequate storage facilities in rural areas.

Research shows that it is possible to have increased agricultural productivity without a corresponding improvement in nutritional status. This is partly due to less nutritious crops being planted and a lack of nutrition knowledge, especially among pregnant women and caregivers. The food security strategy must therefore ensure that increased agricultural employment and rural incomes translate into improved nutrition. This is particularly important where women of child-bearing age participate in agricultural production and in upstream and downstream economic activities.

Special nutritional services may also be required for households with a shortage of able-bodied persons, child-headed households or households with chronically ill or elderly members. Supplying nutritional services during natural disasters or other emergencies also needs attention.

In some rural areas, community organisations have implemented basic food-support activities with the support of non-governmental organisations. However, services are uncoordinated and uneven, and the demand is high.

Recommendations

- The national food security goal should be to maintain a positive trade balance and not to strive for food self-sufficiency in staple foods at all costs.
- Opportunities for regional food security strategies that contribute to greater stability of supply and price should be investigated.
- Household food security strategies should include using and expanding existing public works programmes. In particular, the Community Works Programme for rural infrastructure development should be used. All eligible households should have access to social grants and the most vulnerable groups should have access to nutritional services.
- Investigate measures to close the urban/rural food-price gap. This will contribute substantially to ensuring greater food security for people in rural areas. Measures that should be investigated include: solutions to improve efficiencies, including better access to price information for farmers; effective communication between transport companies and wholesalers; educating packers and retailers on safe food handling; and cost-effective packaging to lessen losses after harvesting.
- Suitable arrangements to ensure safe pregnancy and child birth and to enable working mothers to breastfeed exclusively for the first six months must be put in place for farm workers.
- Effective nutrition education for health workers, mothers and other caregivers should be a national priority.
- Food fortification should include foods for young children. Fortified mixes and low-cost fortified spreads or powders should be widely available.
- Links between agriculture and nutrition can be strengthened, particularly regarding producing and processing nutrient-rich foods such as legumes and other vegetables.
- Policy measures to increase intake of fruits and vegetables and reduce intake of saturated fats, sugar and salt, as recommended in the South African

- dietary guidelines, should accompany strategies to increase vegetable and fruit production.
- Special nutritional services may be required for households with a shortage of able-bodied persons, child-headed households or those with chronically ill or elderly members. Provision for nutritional services during natural disasters or other emergencies needs more attention.
- Innovative measures, such as procurement from small-scale farmers to create local buffer stocks and community-owned emergency services, could be explored.

RURAL TOWNS

Chapter 8 dealing with human settlements argues for the need to recognise the extreme differentiation within "rural South Africa". The chapter argues that it is useful to differentiate between the small market towns, agri-villages, informal settlements, farm villages and scattered homesteads in commercial farming areas, and the displaced townships, peri-urban informal settlements, villages and scattered homesteads in former homelands.

There are other dimensions of differentiation that need to be considered. This includes rural areas with declining or stagnant economies, while others have local economies that are growing even faster than those of large urban centres. Some areas are receiving migrants and densifying, while others are sources of out-migration and have declining or static populations. Some rural areas are well positioned in relation to nodes and corridors of development across Southern Africa while others are extremely marginal. There are also huge differences in terms of the types of economic activity and the levels of poverty across each area. The Commission believes that because of this South Africa requires different and specific strategies to address each of these settlement types.

Recommendations

- Given the differentiated characteristic of rural towns, specifically in former homelands, plans should be developed for each area based on their economic potential.
- The high cost of providing services and infrastructure in rural areas, and especially in places that are remote and have low population densities require innovative solutions. For example off-grid provision of electricity, dry sanitation and so on.
- Many rural municipalities lack the financial and technical capacity to manage water services adequately. Some flexibility in approach is recommended, which could include the use of regional utilities and community management of franchise arrangements as long as municipalities retain their role as the political authority responsible for service oversight.
- Provide subsidised scheduled public transport services to provide easy access for basic needs and state support (for example, service points for public health care and grant support).
- In some rural areas (for example, around Sekhukhune and Bushbuckridge), reliable water supplies can only be made available through large and costly distribution works. Decisions about such schemes must recognise that they are unlikely to be viable without substantial ongoing operating subsidies.

RURAL GOVERNANCE

The performance of local government in rural areas has been highly uneven and is weakest in historically deprived areas, where it has an important developmental role to play. Chapter 13 contains a set of proposals on how to strengthen local government. The core objective is to ensure that there is a better fit between the capacity and responsibilities of municipalities. This requires greater differentiation in the allocation of functions so that municipalities with limited capacity can focus on a core set of tasks. It also requires a long-term

approach to building capacity by promoting local government as a career path in its own right. For rural municipalities, it will not always be appropriate or feasible to recruit the full range of expertise they need to succeed. In these instances, it may be beneficial for municipalities to consider using existing utilities such as water boards as regional service providers.

Chapter 13 highlights the need for national government to engage in resolving coordination problems between district and local municipalities. Particular problems arise where there is disagreement about which tier is responsible for delivering municipal services. This can lead to duplication of work or funding not going to the tier that is providing the service. In such cases, the relevant national department needs to broker agreements on the divisions of service jurisdictions and funding.

Agriculture is a concurrent function of national and provincial government, but it is also dependent on basic infrastructure and planning decisions that are functions of local government. It is therefore important to improve intergovernmental coordination around these issues. Integrated development plans provide an opportunity to promote coordination in these areas on a case-by-case basis.

A layer of complexity comes from the role assigned to traditional leadership. Traditional leadership plays an important role in facilitating communication with South Africa's citizens to improve the effectiveness of developmental local government. However, confusion emerges when traditional forms of authority are legislated, as traditional leadership structures may then displace or duplicate the role of the state. This has potential to create disjuncture between the traditional authorities' land-usage rights and the responsibilities of municipalities to deliver services to that land.

FARM-WORKER EMPOWERMENT AND LABOUR RELATIONS

The relationship between farmers and farm workers is difficult and needs to be far better to achieve agricultural expansion, higher employment and better living conditions. The link between housing and employment on farms is a threat to normalising labour relations. As a result of this connection, farm workers are vulnerable to eviction if they demand better wages and working conditions, or try to get supplementary part-time work away from the farm.

Soon after 1994, the government introduced legislation to protect farm workers from unfair evictions. The legislation failed to slow down evictions, largely because it required workers to go to court to challenge them and because evictions linked to dismissals are permitted. Farm workers did not have the resources to challenge unfair dismissals or illegal evictions. In 2009, the Department of Rural Development and Land Reform embarked on a three-year programme to monitor evictions, provide legal assistance to farm workers and mediate solutions.

Labour laws depend mainly on unions to monitor and report violations. Labour inspectors cannot maintain an overview of all places of employment and some farm owners in South Africa refuse to allow them access to farms. Only 13 percent of farm workers belong to a union, compared to 40 percent for the rest of the formal sector.

Options should be investigated to empower farm-worker organisations to negotiate on an equal footing with farmer organisations. The government should investigate the possibility of using the proposed wage subsidy to increase employment on farms and improve working and living conditions for farm workers.

Impartial research into on-farm relations could form the basis for joint solutions between farmers, farm workers, their representatives and relevant authorities.

INCLUSIVE RURAL DEVELOPMENT BY 2030

By 2030 there should be integrated rural areas where residents will be economically active, have food security and access to basic services, health care and quality education.

Achieving this vision will require leadership on land reform, communal tenure security, infrastructure and financial and technical support to farmers, and capacity building to enable state institutions and private industries to implement these interventions.

NOTES

1. The Presidency (2009). National Income Dynamics Study.
2. Minister of Rural Development and Land Reform budget Speech (2012)
3. StatsSA, 2006 General Household Survey. Pretoria, Statistic South Africa.
4. In this and subsequent subsections it is important to recall that there are few single-commodity (monoculture) farms in South Africa, hence these employment numbers cannot be aggregated. For example, citrus farms also produce other types of fruit and livestock products, wine farms often also produce wheat or deciduous fruit, and so on.
5. Bureau for Agricultural Policy (BFAP) (2011). The contribution of the agro-industrial complex to employment in South Africa. Unpublished report prepared for the National Planning Commission.

CHAPTER SEVEN

Positioning South Africa in the World

KEY POINTS

- In global terms, South Africa's foreign policy must be shaped by the interplay between diplomatic, political, security, environmental, economic and regional co-operative dynamics that define early 21st century international relations. In particular, our foreign policy-making should remain cognisant of global shifts in hard, soft and smart or mental power from West to East; the stratification of regional groupings in the world; the proliferation of threats to human and state security; to internal and external sovereignty, and to natural resources.

- On the basis of our identity as an African country, South Africa's foreign policy should be driven by a clear and critical understanding of our national, regional and continental priorities in a multi-polar world where the geo-strategic politics of the continent is, once again, becoming increasingly central to global political economic competition for natural resources and market share. As such, we need to have a clear strategy of South Africa's place in the region, on the continent and in the world over the next 20 – 30 years, and the political space the country will occupy.

- On the continent, South Africa should improve collaboration and co-operation, through deeper integration and increased trade with its regional trade partners in Africa, and the global south, in general, particular emphasis should be placed on the role that South Africa can play in mediating the role and influence of the BRICS group and African countries. The impending Tripartite Free Trade Area is a significant step towards improved African integration and should be a priority in South Africa's foreign policies.

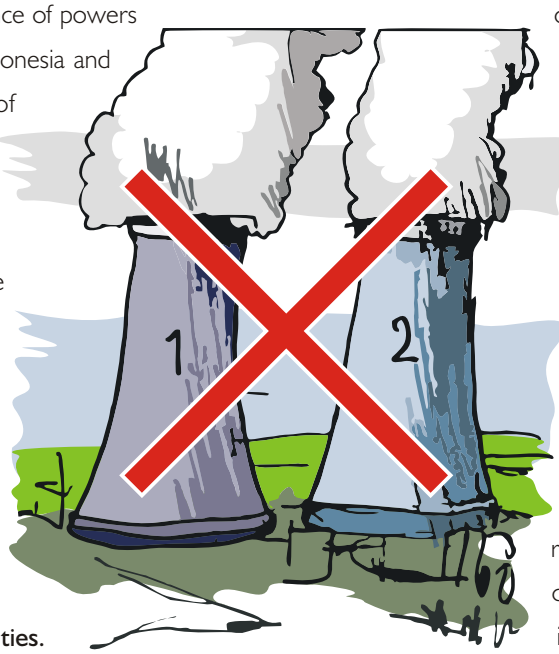
In the sub-region, policy-makers must identify regional synergies with South Africa's immediate SADC neighbours in investment, production and in specific market sectors such as energy and agro-processing.

The NPC submits that the Department of International Relations and Cooperation should focus on organisational transformation to make the department more efficient and effective in its operations abroad, internally and domestically. The NPC recommends that the department's research capabilities be strengthened, and that it works in collaboration with South Africa's research, business and academic institutions and with epistemic communities to develop the country's foreign policies.

South Africa's business community must be drawn more closely into our foreign policy making. It is an incontestable reality of late capitalist international relations that it may be states that secure international trade or financial relations, but it is, ultimately, private companies that do business across borders. This reality places a high burden of expectations on South African companies to act ethically and responsibly in the region, on the continent and in the world.

INTRODUCTION

In order for South Africa to achieve its national goals of eradicating poverty, lowering inequality, creating jobs and making the transition to a resilient low-carbon economy, foreign relations must be driven by the country's domestic economic, political and social demands, as well as our regional, continental and global obligations. Meeting these expectations and obligations can be achieved through a clear understanding of global shifts in power and influence from West to East, regional formations in Africa, and the emergence of powers like Mexico, Turkey, Indonesia and Columbia – some of which are vying for a voice in early 21st century international relations. In these present and emergent global contexts, much of which is presented in Chapter 1, South Africa should set the following five goals:



1. Define national priorities. This should include:

- Articulating South Africa's national interest and the country's obligations to the global community in relation to the sustainability of the natural environment, the global economy, the international flow of migrants, human freedom and international co-operation. This will serve as the basis for foreign relations.
- Building a common understanding of these interests between key government and private-sector actors, but also within the wider society.
- Reviewing the geopolitics of the region, the continent and the world, in the context of increased pressure on African states as well as political economic and institutional obstacles and lethargy that may prevent deep regional integration and back-of-the-border harmonisation of policies.
- Reviewing South Africa's foreign representation to determine efficacy and efficiency.
- Reviewing training of foreign-service officers, starting by studying global best practice on economic diplomacy and international negotiations. These issues are addressed more fully below.
- Enhancing research capabilities and cooperation among vital state institutions that deal with cross-border issues, including the Department of International Relations and Cooperation, the Department of Trade and Industry, the Department of Home Affairs, Customs, and the international trade division of the Department of Agriculture, Forestry and Fisheries together with the representatives of the relevant private sector organisations. Where issues of development policy and human rights are concerned, it is important to engage with social formations and civil society groups within South Africa and on the continent.

2. Aggressively expand trade and investment in the region, on the continent and globally. This will require developing hard infrastructure (like road and rail networks) and soft infrastructure (trade-facilitation systems, supply-chain management, and customs controls and administration). South Africa should identify specific trade, manufacturing and industrial niches, where the country enjoys competitive advantages to make full use of the strong growth in East Asian economies and their interests on the African continent.

3. Harmonise border policies between South Africa's regional trading partners, especially in the emerging Tripartite Free Trade Area[1], starting with immediate consultation on greater financial integration

4. Integrate national institutions responsible for foreign policy, international negotiations and monitoring. In particular, South Africa's business community and research institutions should be called on to strengthen the country's bargaining powers and enhance competitiveness abroad and in the region. This may mean that institutional capacity has to be strengthened to meet regional and international obligations in the region, in Africa and in the BRICS countries.[2] For instance, President Jacob Zuma has mandated the Development Bank of Southern Africa as South Africa's development financing mechanism, and partnered the institution with development financial institutions from each of the BRICS countries. To fulfil South Africa's obligations in the BRICS and in the region, the Development Bank of South Africa should be strengthened institutionally.

5. Improve human security through effective transnational natural-resource management – especially when it comes to water and energy – **and knowledge-sharing** on vital issues such as communicable diseases, most notably HIV/AIDS, malaria and tuberculosis, and transnational crime and maritime piracy.

Human security interventions in the region should focus on improving livelihoods in countries that are dependent on agriculture and agro-processing by supporting efforts to improve productivity and include an increasing proportion of African producers in global value chains.

South Africa must institute aggressive trade and foreign investment policies to place the country on a more competitive global path, and retain an influential space for the country in key multilateral institutions like the African Union, the World Trade Organisation, and the Group of Twenty Finance Ministers and Central Bank Governors. This chapter offers a short-to-medium-term guide for achieving this and protecting long-term national interests.

South Africa's status in the World

As a middle-income country, South Africa is overstretching itself diplomatically. With more than 150 embassies, consulates and offices around the world and an apparent drive under way to open more embassies, the question of whether South Africa can actually afford more international representation – and whether existing operations are cost-effective – has been raised. It is not necessary to have representation in every country in the world. Countries like Britain, France, Russia, Brazil, the US and China place diplomats who are skilled in international negotiations and finance in key strategic and economic positions and institutions. Furthermore, democratic South Africa has enjoyed significant permutations of power and influence in international relations that have not always been associated with diplomatic or consular representation. The country has, however, experienced a relative decline in power and influence in world affairs.

South Africa lost a great deal of the moral authority – as a power resource[3] – that the country enjoyed in the period immediately after the 1994 election. The most significant achievement in South Africa's post-1994 international relations has been our accession to the Group of Twenty Finance Ministers and Central Bank Governors. Membership to the Group of Twenty Finance Ministers and Central Bank Governors affirmed that while South Africa was not one of the biggest economic powers in the world, we were a significant player in the system of international financial and political economic governance. One highly significant outcome of our

membership to the Group of Twenty Finance Ministers and Central Bank Governors was that South Africa was invited, almost regularly, to the Group of 7 meetings of the world's most powerful elite; the political leadership that effectively decides on the direction of world affairs. In recent years, however, South Africa has played an increasingly smaller role in the elite Group of 7 to the extent that the country may well be losing an important voice in decisive world affairs. When all of these issues are considered, South Africa's foreign relations are becoming increasingly ineffective and the country is sliding down the scale of global competitiveness and overall moral standing. This apparent decline is part of the overall demise of the "golden decade" of African diplomacy, spanning 1998 to 2008.[4]

Within the southern African region, there is the perception that South Africa is acting as a bully, a self-interested hegemon that acts in bad faith among neighbouring countries.[5] As such, South Africa enjoys less support in the region than it did in the period immediately after 1994, when the country held pride of place among world leaders. This lack of influence is reflected in the difficulty the country faced in securing the top leadership position in the African Union. While the issue of the African Union leadership has been resolved, a significant effort is required to increase South Africa's role and space that promotes and protects the comparative advantages of all countries on the continent towards mutual gain.

South Africa's relative decline in global standing has led to material losses in regional and continental bargaining, and in trade and investment opportunities. Despite playing a key role in peace settlements on the continent, South Africa has gained little by way of expanded trade and investment opportunities. South African diplomats have great skill in drafting memoranda of understanding, policy statements and agreements, but lose momentum when it comes to implementing agreement terms or following up on promises of benefits. There is a marked dislocation between the efforts of South Africa's business leaders and its government leaders and officials. Governments may negotiate trade deals, but it is private companies that actually trade across borders. South African foreign policy needs to draw on the leadership and capabilities of its business community if it is to strengthen collaboration and co-operation on the continent as a reliable partner in Africa, and as part of BRICS.

South Africa's role in the BRICS Group

Joining the BRICS alliance is an important development in the recent history of South Africa's international relations. South Africa has been admitted as a full member of BRICS, which is an important opportunity to and recognition of its role in the economically emerging African continent. However, South Africa's economy is smaller than that of the BRICS economies and this has led to some questioning of the country's membership. However, it can play a leading role in BRICS by helping to facilitate deeper integration of relations between African states and other BRICS member-countries and by focusing on other niche advantages. The country has several strengths that can be used both when negotiating within BRICS and in broader global negotiations between BRICS and the world, including:

- Considerable natural resources
- Highly developed banking, financial, communications and transportation networks
- Established and relatively successful business, industrial, mining and research institutions.

South Africa's foreign relations must reflect its role as an equal member and strategic African partner in the BRICS group and in world affairs, in general. The country's diplomats should work closely with business and industry leaders, with research and

academic institutions and with epistemic communities, to facilitate relationships with counterparts in BRICS.

South Africa's role within BRICS should be informed as much by geo-political movements in the world, the Global South and in Africa, with reference, in particular, to the rise of new economic and political powers in Africa, with which we should establish strategic partnerships. Within BRICS, and in Africa, South Africa's relations with China and India are particularly important. China is fast becoming the most active and important foreign actor in Africa. While the European Union and the United States

may well continue to be significant economic partners for African states for at least the next decade, the Commission believes South Africa can play an important role in facilitating exchange between Africa and Asia – especially since China and India's main interest is the continent's minerals. South Africa has considerable mineral resources, skill in mining and capacity for related research, as well as a highly-developed financial system that could play an important role in facilitating Asian trade and investment on the continent on a mutually beneficial basis. It is important that policy-making remains in touch with South Africa's domestic capabilities and regional objectives. On this basis, and given the pressing needs for food security in the region, international bargaining must include securing investment, diversification and continued progressive development in agriculture and agro-processing.

The Department of International Relations and Cooperation, in collaboration with South Africa's research institutions and professional bodies, should lead a strategic drive to engage China on minerals, mining, research and development and infrastructure expansion on the continent. This collaboration must include maintaining sanitary and phyto-sanitary standards to ensure that South Africa's products can continue to gain access to European markets.

Cooperation and integration in Africa

In six months of consultations, the NPC encountered, alongside the perception of the country as a regional bully, and that South African policy-makers tend to have a weak grasp of African geopolitics. Because of this, foreign relations with African states are often tentative, with policy-makers vacillating between leading and muddling-through on issues of integration and cooperation. To be sure, as the economies of African countries grow, sub-Saharan Africa will become less unipolar, economically at least. This is necessarily a good prospect. South Africa's approach to the region should therefore not be considered a zero-sum game; its policies on African integration must be based on positioning South Africa as one of the continent's powerhouses that would lead African development and influence in world affairs. At current growth rates, South Africa could lose its status as the continent's largest economy by 2030. Countries like Nigeria and Kenya will expand their

existing roles as sub-regional nodes of a continental network of which South Africa as well as Egypt and Angola will be important part centres. Policy research should start to engage this issue urgently and critically, with closer cooperation and deeper integration being the main objectives. Growth of African economies must be a priority, and any achievements in this regard must be promoted and protected.

Some projections state that Nigeria's economy will overtake South Africa's within the next two or three decades.[6] The Nigerian government aims to increase the country's gross domestic product (GDP) to US$900 billion by 2020, which would require at least 13 percent annual growth on average. South Africa's strength lies in its diversified economy, whereas Nigeria's economy is increasingly dependent on oil exports. Crude oil became dominant in the Nigerian economy in the 1970s and currently accounts for about 40 percent of GDP, over 95 percent of foreign-exchange earnings, more than 70 percent of federal government's revenue source and over 90 percent of all new investments. The country's trade-to-GDP ratio is high, making its economy highly susceptible to external shocks.[7] Nigeria's current economic surge may take time to fully unsettle South Africa as the continent's economic powerhouse, but it may become an important node for Asian investment and trade into Africa. The same is true for Kenya which, while economically smaller than both South Africa and Nigeria, has also started to register growth in key areas, and is part of a rapidly growing and integrating sub-region. World Bank data shows that Kenya is the richest country in East Africa. With almost US$800 income per capita, Kenya is the closest to meeting the international middle-income threshold of US$1 000.

Given its relatively stable macroeconomic policies and geostrategic proximity to the emerging Asian powers (it is closer to India and China than South Africa, and has access to a vast East African market), Kenya could join South Africa in the creation of more effective and efficient regional production and supply chains across the continent. South Africa's long-term policies should, therefore, take into account and promote the growth trajectories of both Nigeria and Kenya as economic powerhouses on the continent, and their join these countries in shaping the political economy of the continent and its international relations over the next 20 to 30 years.

PROPOSALS TO REPOSITION SOUTH AFRICA IN THE REGION AND THE WORLD

The Commission believes that South Africa needs clarity on its national interests. The main objectives in terms of foreign policy-making should be to expand regional, continental and African trade based on an informed understanding of the geopolitics of Africa; to develop a healthy consultative and practical relationship with South Africa's research and corporate institutions in order to deploy its foreign service more effectively in the pursuit of expanded trade and investment; and to improve the country's leadership role in regional and global affairs. While our regional priorities are important, South African policy-making should not lose sight of the emergence and increased influence of countries like Turkey, Indonesia, Mexico, Columbia and Venezuela in global political economic affairs. As it goes, Turkey is expanding its presence in Africa at a rapid pace. It is also important to bear in mind that the tilt from West to East described in chapter 1 will necessarily be a long-term process in the sense that Europe, North America and Japan may continue to be powerful political economic forces in the world for at least the next 20 to 30 years.

Clarity on national interests

The Commission recommends urgently convening a high-level, high-impact task team to investigate South Africa's foreign relations. The task team should produce definitive studies on:

- South Africa's national interest
- South Africa in the context of African geopolitics
- South Africa's role in the world, especially in BRICS and in multilateral relations.

The studies should each do the following:

- **Analyse.** A clear and trenchant analysis of South Africa's current role and standing in the world, as well as its short-, medium- and long-term objectives in terms of foreign relations. An important aspect would be to produce a critical scenario of the world in 2030 and beyond.

- **Identify the obstacles South Africa faces in reaching its objectives and how to overcome them.** A clear-sighted understanding of the challenges South Africa faces is crucial for knowing which alliances to establish and maintain over the next 20 to 30 years.

- **Outline an implementation programme to reach these objectives.** This programme should be based on the country's realistic capabilities and should include feedback mechanisms to continually assess the impact and real outcomes of South Africa's foreign relations. Particularly important are the outcomes related to food security, water, energy, education, health, transport and common infrastructure, national defence, adjustment to climate change and economic growth.

With particular reference to defining and articulating South Africa's national interest, the NPC believes that research should be guided by the following macro-structural guidelines:

- A high-level discussion about the nature of the national interest that is practical, honest and principled.

- A deep reflection on the country's global position, in the specific context of the drivers of change described in chapter 1, nested in a structured way in the southern African region, Africa, the global south – especially BRICS – and the world.

- Identification of a set of strategic thrusts, including:
  - Cooperation within BRICS in identified areas of mutual and measureable benefit.
  - Promoting deeper regional integration in southern Africa that builds on regional synergies with the objective to make southern Africa more competitive and faster growing, while strengthening South Africa's voice in international bargaining and negotiations for power in Africa and the world.
  - Promote greater trade integration throughout Africa, working in collaboration with the country's partners in North, West and East Africa, while maintaining the pace of the Tripartite Free Trade Area negotiations.
  - Strengthen economic diplomacy and build effective partnerships with the private sector and state-owned enterprises. In areas such as science, culture, higher education, sport and environmental protection, there is a need to showcase South Africa and promote its presence and leadership on strategic issues as part of its "soft power" in international relations, without losing sight of the increased value of mental power - the ability of countries to show restraint on emotional impulses and maintain a relatively stable mind-set in getting along with each other during international negotiations, and in general.[8]

South Africa urgently needs recommendations on how to take these forward. While much of it is already in place within the Department of International Relations and Cooperation, the NPC can take the matter forward at the southern Africa level. The NPC will engage with its counterpart national planning agencies in southern Africa to improve policy coordination and programme cooperation and consider how regional development planning can be improved. It will also seek to identify potential synergies between countries and support programmes that take advantage of complementary human and natural endowments to promote development and build resilience to natural disasters.

Expand regional, african and international trade

Evidence suggests that growth in trade between countries dramatically increases prosperity in the world, although lowering trade barriers between countries may create challenges in the medium term. There is a strong correlation between overall wealth gains in trade and poverty alleviation, with a generally positive causal effect on the internal distribution of that wealth. Although these relationships may differ from country to country, it is generally accepted that trade has a positive effect on wealth creation.[8] In other words, an overall increase in a country's wealth has the potential to reduce income inequality; although any process of integration must include measures to manage the short-term negative impacts. To expand South Africa's wealth and distribute it equitably, the country needs to expand trade into the southern African region as a short-term priority. This can be done by focusing on the following:

- **Reassess existing regional cooperation and organisation** and play a more active role in the tripartite arrangement.
- **Lead South African businesses into the region and the continen**t to capitalise on Chinese (and South African) investment in, and manufacturing on, the continent, especially in minerals mining and in agro-processing.
- **Invest in hard and soft infrastructure** to facilitate cross-border trade.
- **Expand and diversify trade in agriculture** and agro-processing - which should include a purposeful strategy on food security.

Move from regionalisation to regionalism

In order to advance regional cooperation, South Africa needs to purposefully shift from regionalisation, which allows for transnational activity without formal political cooperation, to regionalism, which involves conscious political planning and possibly the creation of formal institutions.

Where institutions already exist, the Commission recommends a thorough and urgent review of standing agreements – especially those with the Southern African Customer Union (SACU) and the Southern African Development Community (SADC) – to align South Africa's regional foreign engagements more closely with our national priorities in a manner that is mutually beneficial to neighbouring states. Such a review should also aim to strengthen southern African integration into the Tripartite Free Trade Area.

The free-trade area has the potential to significantly increase South Africa's trade and investment, but the country has to remain in full political control of its destiny in Africa. If, as recommended above, South Africa's interests are well defined and there is a reliable understanding of the geostrategic politics of Africa, South Africa will have clarity on the important differences between cooperation and integration, on the different types of institutions and organisations it wants to be part of[10] and on how the country should position itself over the next two to three decades. Simply put, South Africa's alignments, affiliations and strategic partnerships

must be consistent with its geostrategic political and economic priorities. Policy-making should therefore be guided by the following objectives:

- **Focus on what is practically achievable without over-committing to regional and continental integration**, and with a full understanding of the measureable contribution that policy-making can make to secure and promote its national interests.

- **Remain an influential member of the international community** and stay at the forefront of political and economic developments.

- **Deepen integration with Brazil, Russia, India and China as part of the BRICS group,**[11] while still promoting regional and global cooperation (see the next section for details).

- **Stabilise the regional political economy through increased integration and cooperation.** This requires effective communication of the benefits of deeper regional and global integration to the South and southern African public. Although foreign policy is rarely made on the basis of public opinion, informing the public about the benefits of foreign collaboration might help alleviate the xenophobia that countries often experience when their borders are opened.

Deepening integration

To achieve maximum benefits for the people of South Africa, policy-makers need to remain cognisant of the differences between African geopolitical ambitions, notions of solidarity and domestic realities. With these broad principles in mind, South Africa should aim to deepen integration on three fronts simultaneously:

- Regionally, in southern and sub-Saharan Africa
- Continentally, in the context of Africa's progression towards political and/or economic union, of which the Tripartite Free Trade Area is an important building block
- Globally, by strengthening relations with BRICS countries and ensuring that Africa remains an important part of global production and value chains, so preventing re-marginalisation of the continent.

Deepening South Africa's role in the region starts with a pragmatic appraisal of existing agreements on the continent and how regional affiliations overlap. Assessing these entanglements should help the government better manage the dynamics of national interests and global realities in a fast-changing international environment. Policy-makers would have a clearer sense of the country's international commitments, enabling them to identify areas of responsibility and accountability while also understanding how South Africa can play a political, economic and intellectual leadership role in Africa. This will help them adjust the country's diplomatic footprint accordingly, possibly starting with a review of some of the original Abuja Treaty proposals, especially the envisaged priorities and stages of integration.

STEPS TO REPOSITION SOUTH AFRICA IN THE REGION AND THE WORLD

The Commission proposes that South Africa's integration in southern and sub-Saharan Africa, as well as the continent in general, be a staged process shaped by three strategic objectives:

- **Include civil society in integration planning.** The government should include civil society – especially labour and community organisations from regions that share borders with neighbouring countries – in all planning relating to integration.

- **Involve the business community in foreign relations.** South Africa's sophisticated business community needs to be intimately involved in

foreign relations. Diplomats may strike foreign cooperation deals, but it is private companies that actually trade across borders. They are, therefore, central to wealth creation. The local business community is willing and able to provide managerial, administrative and general capacity-building services to South Africa's regional institutions. It is a resource that needs to be fully explored.

- **Obtain clarity regarding what types of regional agreements are preferable** to serve South Africa's long-term interests. Policy-makers should be cognisant of the implications of all aspects of foreign policy, from customs unions and a common market to free-trade and regional trade agreements.

Based on these strategic objectives, three concrete policy proposals can be implemented immediately. The Commission proposes that high-level task teams are established to address each of these issues:

- The joint/separate futures of SADC and SACU
- The Tripartite Free Trade Area along the eastern seaboard of the continent with particular focus on and integration through trade facilitation frameworks and infrastructure development
- Greater macroeconomic and financial co-ordination in the region and on the continent.

These task teams should include South Africa's business and scientific community, and experts in agriculture and related fields. This approach to regional and African cooperation – and possible union – would significantly strengthen South Africa's macroeconomic and financial integration, and harmonise behind-the-border policies.

SADC and SACU

A critical review of the progress on and effectiveness of SADC policies is required. As urgent as this review is, it should not include a stand-still of exchange in the region; our main priorities in the region is to grow our economy and encourage the expansion o neighbouring countries. One specific area with room for immediate action is representation. South Africa is critically underrepresented in organisations like the African Development Bank and SADC. The latter is critical as South Africa is a major funder of the group.

The Commission recommends that an urgent review of SADC and SACU be conducted to iron out inefficiencies, remove overlaps and assess whether the two organisations should be collapsed into one. There is also a need to look at the internal organisational structures and cultures of SADC and SACU as these will affect the policies that emanate from them. These issues must be considered in light of the emerging Tripartite Free Trade Area.

The tripartite free trade area

The Tripartite Free Trade Area has gained significant momentum in technical terms, but it still needs to be managed politically. The initial phase is nearing completion and will result in an increase in free movement of businesses across national boundaries. The subsequent stages, however, will be more difficult to negotiate and implement, and will require strong political leadership and highly skilled technical intervention.

Liberalising trade and opening South Africa's borders will come at a cost. South Africa's economy is significantly stronger and more diverse than that of its immediate neighbours. As such, once the country's borders are opened further, it may face increased pressure from inward migration. Chapter 2 briefly addresses the question of inward migration and how it influences domestic planning. Other consequences of increased inward migration are discussed later in this chapter.

Under the provisions of the Tripartite Free Trade Area, countries in the region that rely heavily on trade taxes for revenue – about 25 percent of Malawi and Zambia's revenues come from trade taxes – could face significant declines in revenue. Certain industries in some countries could lose market share due to their relative inefficiency. In the short term these issues need to be managed through countervailing fiscal measures and social policies to mitigate the likely influx of people from these regions. Some countries will also lose employment opportunities to neighbours in the short term, but inefficiencies should be shaken from the system and employment should increase over time.

South Africa cannot simply wait for these events to unfold; it needs to plan ahead. The following questions need to be addressed through public debate and purposeful government engagement:

- What will South Africa gain from a more integrated region? What sacrifices will have to be made to support integration?
- How relevant are South Africa's current regional affiliations? To what extent do they further the country's national interest?
- What would be a more appropriate relationship between SACU and the SADC? How do the two overlap? How would integrating the two benefit South Africa and its neighbours?
- Although greater regional integration is a goal, is there sufficient support in South Africa (and in the other countries) for regional integration, as implemented through SADC and similar organisations?
- What is the most appropriate sequence to follow in planning for trade, sectoral cooperation, and macroeconomic and currency integration? There is no avoiding the fact that South Africa will have to make strategic trade-offs to implement regional cooperation and integration. It may be necessary, for instance, to cede certain national opportunities for regional benefit on the assumption that regional growth will benefit the South African economy. However, regional growth may benefit only some sectors of the domestic economy (such as financial and professional services) to the detriment of other sectors (especially labour-intensive lower-wage sectors like mining). Similarly, freer trade within the region may benefit South African business at the expense of its neighbours.

Deepening South Africa's relations with its direct neighbours and the rest of the continent requires pragmatism concerning macroeconomic coordination and integration, infrastructure development, the voluntary and involuntary movement of people, and effective management of natural resources. The movement of people and effective management of natural resources are cross-cutting issues in regional integration narratives and will be addressed later in this chapter. However, there are also undisputed benefits of cross-border trade in goods and services.

Trade facilitation frameworks

Infrastructure and cross-border procedures

Regional trade is best facilitated by a framework that includes physical transportation networks and standardised procedures and process of warehousing, customs and clearing processes and safety of transportation. A good road cannot facilitate trade if there are disruptions at border posts and in customs procedures; these need to be made more efficient and all blockages need to be opened. Functionally integrating South Africa into regional and global production and supply chains necessarily includes:

- Creating adequate warehousing and logistic facilities
- Instituting efficient procedures at customs and border posts

- Standardising government policies and regulations to avoid duplicated processes and delays.

These factors contribute significantly to creating and managing efficient supply chains. Efforts to strengthen regional trade can draw on international best practice. For instance, in the Asia-Pacific Economic Cooperation region, the Australian Treasury created a standard business report programme to reduce regulatory burdens in member countries by eliminating duplicated data entry and maximising the use and reuse of information across government agencies. South Africa, drawing on international and regional experience, should encourage better cross-border integration and cooperation by harmonising and standardising policies and regulations, as well as facilitating cooperative arrangements between customs administrations and other state agencies.

The Maputo corridor, a trade route connecting north-eastern South Africa, Swaziland and south-western Mozambique with the port of Maputo, is an example of relatively successful integration and coordination that has involved the public and private sectors. Its direct benefits include:

- Stimulating trade through adequate infrastructure and reliable, transparent practices and procedures.
- Opening up South African markets to Mozambican producers and improving South Africa's access to global markets by improving the Maputo port.
- Creating jobs through increased economic activity in Maputo and along the corridor, with the ability to shift to higher value-added industry sectors.
- Increasing access to international tourism.
- Improving income generation by encouraging private investment.
- Improved public-sector savings by using private investment in infrastructure development.

Such practical transnational cooperation has become a defining feature of globalisation. The Maputo corridor confirms that the ability to compete in the world economy depends not only on transport systems, but also on trade facilitation frameworks. Such frameworks need to:

- Ensure the physical capacity to support trade and its underlying supply chains.
- Provide appropriate regulations, including customs procedures, to ensure that trade flows abide by the rules and regulations of different jurisdictions.
- Enable accounts to be settled and mitigate risks through a network of banking, finance, legal and insurance arrangements.
- Above all, a trade facilitation framework has to be durable, building traders' trust in its long-term stability and viability.

Currency integration

The pace of globalisation has increased simultaneously with regionalisation over the last four to five decades. The best developed example of regional integration is the European Union. A lesson that can be learned from the European experience is that trade between countries can be significantly enhanced by currency integration. While South Africa should be fully aware of the potential benefits for trade and investment, policy-makers should also remain aware of the trade-offs and challenges that come with monetary union.

Nonetheless, selective expansion of existing regional monetary unions could serve as useful building blocks towards a continental common currency. However, given the widespread lack of fiscal stability evident in many African countries, no such steps are likely in the immediate future. South Africa's financial system is highly developed,

Weighting individual gains against costs of a united African currency

FIG 7.1 **WEIGHTING INDIVIDUAL GAINS AGAINST COSTS**

Some economics would gain and others would lose from the proposed African egional and subregional monetary unions. Full monetary union among either West African Monetary Zone or Economic Community for West African States' members would be undesirable for most members.

	Gainers	Significant losers
Common Market for Eastern and Southern Africa	Angola, Ethiopia, Malawi, Seychelles, Sudan, Zambia, Zimbabwe	Egypt, Kenya, Madagascar, Mauritius, Namibia, Swaziland, Uganda
East African Community	Kenya	
Economic Community of West African States	The Gambia, Ghana, Nigeria, Sierra Leone	Benin, Burkina Faso, Cote d'Ivolre, Mali, Niger, Senegal, Togo
Southern African Development Community	Angola, Botswana, Democratic Republic of Congo, Malawi, Mozambique, Seychelles, Tanzania, Zambia, Zimbabwe	Lesotho, Namibia, South Africa, Swaziland
West African Monetary Zone	Nigeria	The Gambia, Ghana, Guinea, Sierra Leone

Source: International Monetary Fund, 2004

especially when compared with its regional neighbours. This disparity, and unevenly developed financial systems, would count against South Africa in a common currency system as suggested by the table above, which lists those countries that would benefit and those that would lose from a joint currency.[12]

Regional trade agreements

Regional trade agreements are typically driven by three basic objectives:

- To promote market integration
- To develop regional infrastructure
- To strengthen stability, predictability and transparency in regional governance.

While the Common Market for Eastern and Southern Africa (COMESA) and the Economic Community of West African States (ECOWAS) have made significant advances in this area, similar progress has yet to be made in the rest of Africa. Policy-making needs to begin with what actually exists, and proceed with a clear understanding of the types of regional formations that South Africa would like to create or be part of. If the objective is to accelerate continental integration as a step towards a united Africa, then discussions about continental diversity are needed – particularly the differences between South Africa and frail, weak or collapsed states. Such a discussion would raise important questions about leadership. The way forward requires consultation and deliberation at all levels.

There has already been significant cooperation in agreements regarding the provision of regional public goods. The African Union and ECOWAS have become important providers of security, and the West Africa Telecommunications Regulatory Agreement has promoted harmonisation and

integration of telecommunications in West Africa. Over the past three decades, several states in Africa and in the Eastern Caribbean have also used forms of outsourcing (to regional organisations) as a way to reduce costs, and increase the quality of public service and the provision of public goods. In sub-Saharan Africa, the Banques des Etats d l'Afrique Centrale and the *Banque Centrale des Etats de l'Afrique de l'Ouest* have pioneered multi-country central banking. The Organisation pour l'Harmonisation en Afrique du Droit des Affairs has harmonised business law among member countries in central and west Africa. These are evidence of growing and successful integration on the African continent.

HUMAN SECURITY

Since the end of the Cold War there has been an increased shift in focus from security as a military issue to considering security as a broader social matter to include job security, social safety nets, access to water and food security, among other. Some of the lessons that have been learned over this period is that greater liberalisation tends to open countries up to external threats. It is well documented that international travel can transfer communicable diseases from Hong Kong to Canada within 24 hours. This is an unavoidable negative externality of international travel. It is also unavoidable as countries open their borders. It follows that greater liberalisation and integration raise a number of issues that extend beyond trade, economic and financial matters, yet have an impact on international amity. The most important of these are:

- Cross-border crime, including piracy and counterfeit goods
- Pressures on natural resources, especially water
- The voluntary and involuntary movement of people
- The spread of communicable disease.

TRANSNATIONAL CRIME

Piracy

Two areas in cross-border crime have a significant effect on South Africa and the region: maritime piracy, which poses a threat to South Africa's trade, and counterfeit drugs, which significantly amplify the humanitarian crisis in communicable diseases, especially HIV/AIDS and waterborne illnesses, and human trafficking. Direct interventions need to be made in both areas.

Maritime piracy is putting the continent's coasts and ports under increasing pressure. Even though piracy has not yet penetrated South Africa's local waters significantly, efforts need to be made to prevent the problem from spreading along the country's coastline. This is especially important in light of the fact that about 95 percent of South Africa's trade volume (about 80 percent by value) is seaborne. Seven commercial ports handle an estimated 200 million tons of freight a year, equivalent to about 3.5 percent of world sea trade volumes. This places South Africa among the top 15 international maritime trading nations.[13]

Maritime piracy costs the global economy between US$7 billion and US$12 billion a year, with the African coastline being the hardest hit. The most significant increase in global maritime piracy has been along the eastern seaboard of Africa where between 1998 and 2008, there was a 19.4 percent increase in piracy and armed robbery at sea.[14] It is possible that maritime piracy along the East African and South African coast will have an impact on the economies of landlocked countries like Malawi, Zambia, Botswana, Zimbabwe and Swaziland. South Africa's approach to maritime piracy should, therefore, be shaped by our own priorities and expectations, as well as those of our regional partners.

The Commission agrees with the national Ministry

of Defence that there is an urgent need to strengthen South Africa's navy. The country and its interests in the region are becoming increasingly vulnerable. In 2006, the global total of hostages at sea was 186; by 2010 the figure for the Indian Ocean alone was 1 016. Of particular concern to South Africa is that, in the 12 months between March 2011 and the February 2012, there were 57 pirate attacks in Tanzanian territorial waters. This marks a distinct move in piracy from the Horn of Africa, south along the coast and into the SADC area.

The Commission recommends that South Africa places particular emphasis on combating maritime piracy along the east coast of Africa. To begin with, as part of Tripartite Free Trade Area negotiations, South Africa should extend the current agreement that allows the South African Navy to undertake operations in Mozambican and Tanzanian waters, to include Kenya. South Africa's anti-piracy operation, which involves the South African Air Force, Special Forces and South African Military Health Services as well as the South African Navy, must be strengthened in order for operations to be sustained.

Given the urgency of the matter, policy-making should address formal legal institutional arrangements such as the United Nations Convention on the Law of the Sea and the Suppression of Unlawful Acts against the Safety of Maritime Navigation Convention. South Africa should also insist that its trading partners harmonise domestic legislation in accordance with global best practice. While significant attention has been focused on the coast of Somalia, there is increased concern over the spread of piracy along the coast of West Africa and specific threats to South African waters. This problem is especially acute in the context of increased port congestion. Africa's shipping volumes have been rising more rapidly than the global average, with increasing direct costs (port congestion penalties or surcharges) and indirect costs (inventory, idle ships and trucks).

Counterfeit goods

Counterfeit goods have resulted in hundreds of millions of US dollars in lost tax revenue across Africa. The East African Community (Burundi, Kenya, Rwanda, Uganda and Tanzania) reports more than US$500 million in unpaid taxes as a result of counterfeit goods. Tanzania in particular reports losing between US$370 million and US$617 million per year due to tax evasion related to counterfeit goods. These countries are part of the emerging Tripartite Free Trade Area.

The sale of counterfeit drugs is a particular problem, both because of the health risks it poses and because it reduces the sale of legitimate drugs. A 2009 United Nations report found sales of 45 million counterfeit anti-malarial medicines generated US$438 million in revenues for criminal syndicates. Another report contended that counterfeit drugs sold in Kenya represent about 30 percent of drugs sold in that country, equalling approximately US$130 million annually.[15] In Angola, the National Department of Intellectual Copyright Crime of the Economic Police reported that approximately 70 percent of medicines used by the Angolan population were forgeries. Nigerian health officials estimated that 70 percent of drugs in circulation in the country are either fake or adulterated.[16]

Counterfeit pharmaceuticals also reduce economic incentives to develop new products and decrease brand value, brand reputation and competitive advantage. Economic analyses by the Organisation for Economic Cooperation and Development show that foreign direct investment from Germany, Japan and the US is higher in economies with lower rates of counterfeiting, and that multinationals are

less likely to invest in countries where they are likely to have their products copied. Rights holders investing in Kenya reportedly lose an estimated US$390 million annually to counterfeiting and piracy.

It is in the interests of all African countries to act aggressively to mobilise awareness and take a lead in the International Medicinal Products Anti-Counterfeiting Taskforce (IMPACT). Domestically, South Africa should focus on five important areas:

- **Legislative and regulatory infrastructure.** Stronger legislation will help empower those who have to deal with counterfeits and counterfeiters in the course of their work, namely, the police, customs officials and the judiciary.

- **Regulatory implementation.** Regulatory oversight of pharmaceuticals – especially of distribution channels – must be strengthened. It is important that there is coordination between health authorities, the South African Police Service, customs and South Africa's judiciary to ensure proper regulation, control, investigation and prosecution.

- **Enforcement must be strengthened.** South Africa should work with regional government officials and with the World Customs Agency and Interpol to identify sources of counterfeit medicines that enter the country and the region.

- **Synchronising technology.** Matching the technology (hardware and software) of countries in the region is essential in order to speed up lengthy legal and administrative processes.

- **Risk communication.** In collaboration with IMPACT, South Africa must institute the mechanisms required to both respond to – and alert stakeholders and the public about – counterfeit medicines entering or leaving the country.

These efforts should be integrated with policing of transnational crime and the creation of a centralised crime database, the creation of specialised organised crime units and widening the scope of joint operations between policy agencies in the region to include pharmaceutical crime.

Regional cooperation to find synergies and address pressure on natural resources

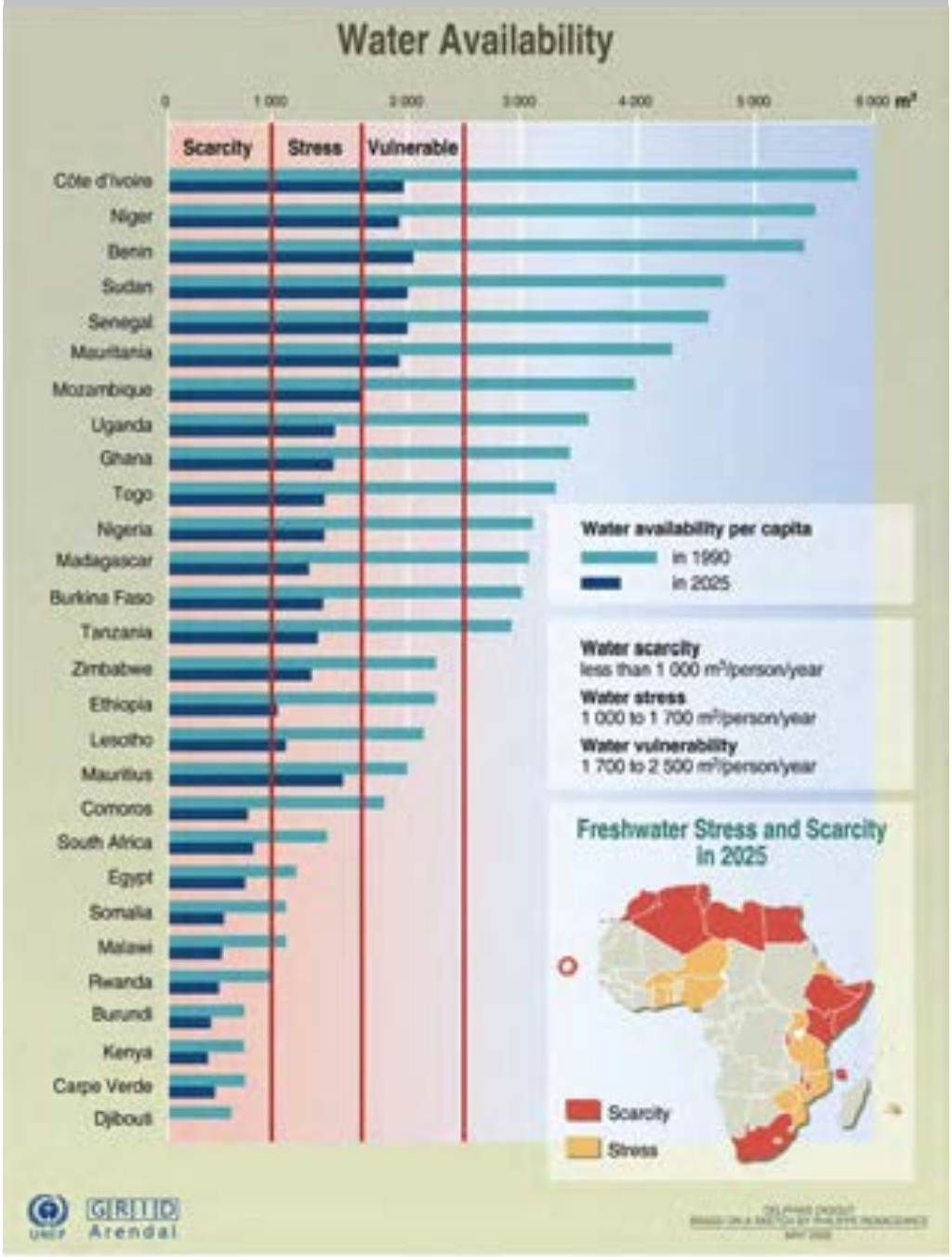
Effective regional integration is predicated on meaningful cooperation in the management of common-pool resources, on burden-sharing and on the creation of institutions to manage these processes. Evidence from international experience has shown that liberalisation – the opening of political economies – creates contagion mechanisms such as the exchange of goods, capital and the movement of people that can place increased pressure on natural, human and institutional resources. These pressures are critical in areas of human security, especially access to water, power in food security and protecting biodiversity. The management of regional integration – from creating effective regimes to establishing institutions for the day-to-day operations of cooperation – should therefore be comprehensive and effective to meet domestic, regional and continental obligations. The NPC recommends that urgent attention be given to water scarcity in the region to promote and protect regional diversity, strengthen regional production and improve resilience.

Most of southern Africa faces critical water shortages, requiring purposeful and urgent transnational interventions. Such interventions should be mutually beneficial for the participating member countries, as is the case with phase 2 of the Lesotho Highlands Water Project and the further development of the Orange-Senqu River to meet Namibia's water needs.

Managing southern Africa's natural resources on a regional, as opposed to a local or national basis, would help countries in the region manage climatic variability and help to maintain food security. A dry spell that reduces agricultural production in one sub-region may be addressed by production from another. Cooperative policy-making and institutional arrangements could help to make the southern African region more resilient to climatic variability and generate other complementarities, allowing countries to specialise in areas where they have the greatest advantage.

Much of Africa's natural-resource scarcity is economic rather than physical. Most of sub-Saharan Africa uses only a small proportion of its available water, suffering from regular droughts primarily because there is no infrastructure to capture and

FIG 7.2 PROJECTED POPULATION GROWTH AND WATER STRESS IN AFRICA, 1990–2025



Source: United Nations Economic Commission for Africa, 1999[17]

store water for use in dry periods. Africa needs investment in water-management infrastructure. Similarly, there are extensive areas of unused arable land that are unlikely to be commercially developed unless there is investment into the infrastructure and institutions needed to transport produce to markets.

Regional integration would address economic scarcity through targeted policy interventions and public investment, as is already occurring under the Comprehensive Africa Agriculture Development Programme of the New Partnership for Africa's Development. An emerging challenge is the extensive interest shown by external investors in acquiring large tracts of land for commercial agriculture. While such investment may reduce economic barriers to the effective use of natural resources and create new market opportunities, capital-intensive agriculture may not address poverty and could result in displacement of poor people, adding to migration pressures.

Migration

The relatively unrestricted movement of labour across the region and the continent can contribute significantly to more inclusive economic growth. Migrants have played an important role in South Africa's economic development and regional integration since the late 19th century and it is likely that this trend will continue. While exact figures on immigration flows are elusive, and unemployment on the continent is much higher than commonly assumed, South Africa's relatively stable economy makes the country highly attractive for immigrants. South Africa should create incentives for highly-skilled workers to take up positions and share our own professional expertise in the region. This approach to immigration and migration, in general, can be managed through established formal organisations like SADC, as well as through institutions like the Southern African Regional Universities Association. A systematic promotion of regional economic growth would create conditions for greater movement of people in the region, with mutually beneficial outcomes for all the countries on the sub-continent.

The United Nations High Commission for Refugees estimates that there are 12 million internally displaced people in Africa as a result of conflict and/or different levels of state failure. In addition, there are many "environmental refugees", who have been forced to leave their homes because of environmental disruption (natural and human) jeopardising their existence. It has been estimated that by 2020, there will be 50 million environmental refugees, the vast majority of these in the developing world, especially in Africa.[18] Over the past several decades, North African migrants have fled to Europe, owing in part to the desertification of the Sahel. Given the weaker economy in Europe and moves to tighten European Union immigration controls, some of these migrants may now move south.

South Africa urgently needs a two-pronged decision on migration: a qualitative and quantitative research project on migration into the country, and clear policies on how to address the additional burden(s) that migration places on national resources. Consultation in both areas must include the Departments of Home Affairs, Labour, Trade and Industry, Human Settlements, the Department of International Relations and Cooperation and provinces that border neighbouring countries.

Increase in communicable disease

Greater openness of South Africa's borders is likely to result in an increase in the transmission of infectious disease. Malaria costs African countries an estimated US$12 billion each year in lost output. In sub-Saharan Africa, the economic cost of tuberculosis-related deaths, including those

resulting from HIV co-infection, is estimated to be around US$50 billion each year.

At the same time, the openness of South Africa's borders will result in improved sharing of knowledge and information, which will help countries in the region deal with their health issues by, for example, helping poor countries that lack medical, technological and financial resources to respond to outbreaks of disease. One of the most important causes of the spread of HIV/AIDS in Africa (and elsewhere, for that matter) is a lack of access to information and knowledge. Poor countries lack the resources to prevent the spread of communicable diseases through surveillance, research and treatment.

Policy-makers can look at global best practice employed by institutions such as the United States Centres for Disease Control, the United Kingdom's Royal Society for Hygiene and Tropical Medicine, and the French *Instituts Pasteur* to find ways of creating early-warning systems about outbreaks of disease.

South africa in the world

South Africa needs to understand the way in which the world will change beyond 2030. The Commission therefore recommends that the Department of International Relations and Cooperation, in collaboration with South Africa's research and corporate institutions, conduct a qualitative scenario-plotting exercise to give policy-makers a sense of the world in which South Africa will operate in 2030 and beyond.

To do this, the Commission recommends that the research capacity of the department be strengthened. This will be addressed more fully below. We believe the department has the human capacity, but is lacking a clear directive to establish or strengthen existing research. Such research capacity is needed if the department is to support the government and local businesses in making policies.

While political economic predictions and projections are notoriously unreliable, the outcome of such an exercise could nonetheless help guide domestic and international decisions for the next 20 or 30 years. To get a sense of the possibilities, the Commission produced, from readily available data, a growth scenario for 147 countries to 2050. This scenario takes into consideration the effects of capital, labour and energy on economies. It found that, accounting for relative price variations:

China will account for 33 percent of the world economy by 2050. By contrast, the US will account for 9 percent of the world economy; India, 8 percent; the European Union, 12 percent; and Japan, 5 percent.

China's economy is expected to overtake that of the US at around 2020 (or 2040 at constant relative prices). However, in terms of standards of living measured by GDP per capita in purchasing power parity, China will still lag 10 percent behind the US by 2050.[19]

The following figures, created from data produced by Goldman Sachs's Global Economics Research Group, provide empirical projections of global economic power based on size of GDP.

Audit of foreign representation

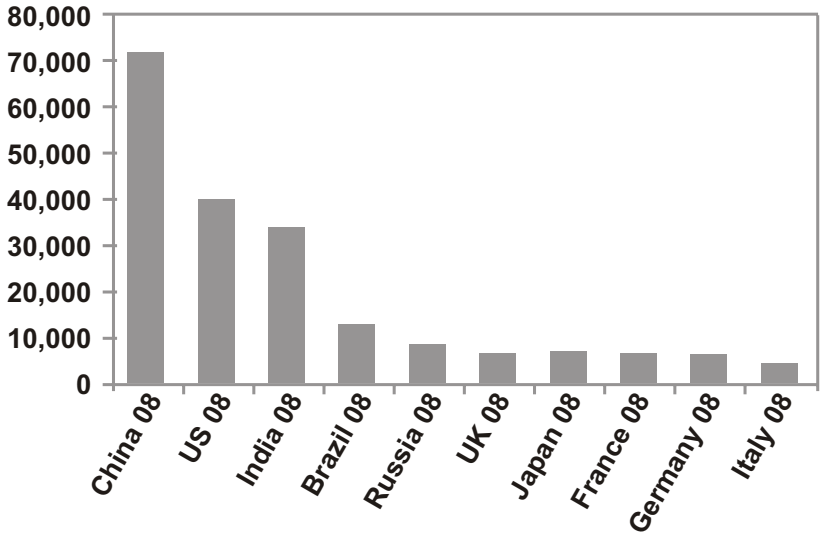
A thorough audit of South Africa's foreign representation is needed in order to understand what it costs South Africa to maintain foreign missions. This audit should include detailed explanations of diplomats' salaries and expenses abroad, compared to those of diplomats from other middle- and high-income states. The Commission believes that it is unacceptable for South Africa's

diplomats to earn the same salaries as their counterparts from the wealthiest countries in the world.

South Africa's diplomatic interactions should include experts from private commercial, banking and scientific institutions. The department should gather knowledge about, and coordinate interactions between, local representatives from these sectors and their international counterparts. This is especially necessary in economic diplomacy, where discussions of technical issues can be undertaken by specialists who tend to share the same background in education and training and are therefore well positioned to reach an agreement on the practical steps that need to be taken. Restoring the role of technical and epistemic expertise in diplomacy is vital for effective regional and international cooperation and integration.[20]

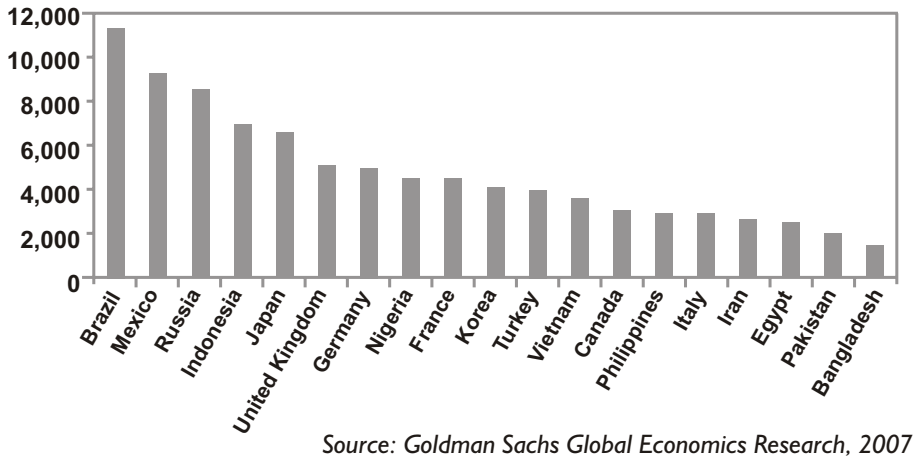
These changes within the Department of International Relations and Cooperation are, essentially, about organisational reform. The NPC believes that the department's organisational capacity should be strengthened considerably, to focus on research and to reflect the changes under way in the global political economy. On this basis, the department should get appropriate training and

FIG 7.3 PROJECTIONS OF ECONOMY SIZES IN 2050 (US$ BILLION)



Source: Goldman Sachs Global Economics Research, 2007

FIG 7.3 PROJECTION OF ECONOMY SIZES IN 2050 (EXCLUDING THE US, CHINA AND INDIA) (US$ BILLION)



Source: Goldman Sachs Global Economics Research, 2007

education, deploy professional diplomats and train or upskill political appointments, improve communication and marketing, and develop an effective interface with civil society and academia in order to build the required capacity.

Public diplomacy is fundamental to South Africa's projection of soft power. It is important to develop a more sophisticated public diplomacy strategy that encompasses more than a communications function. Public diplomacy should use new media and social networking, as well as people-to-people initiatives. The NPC proposes that the Department of International Relations and Cooperation adjusts the country's foreign policy objectives to match South Africa's position as a middle-income country. In this respect, the department may wish to evaluate the suitability of its current structure in terms of its mandate and delivery needs. Such an evaluation should look at the country's diplomatic footprint across the world, and develop a more professional diplomatic service.

The NPC has identified the need for greater resources for research and analysis. It is suggested that the department's research and analysis are autonomous from the operational elements of country-specific desks. The purpose of this unit would be to focus on "big-picture" and "over-the-horizon" issues on international affairs, and provide alternative analyses and options on specific problems and incidents in the international domain. The department should increase its focus on economic diplomacy training and develop officials to be specialists, rather than generalists in areas like climate change, trade negotiations, peace and conflict resolution and mediation, and human security issues.

CONCLUSION

Since its historic elections in 1994, South Africa enjoyed a significant presence in world affairs, regional politics and in Africa. This general standing declined in the region, on the continent and in the world, but some of this decline has been halted by the country's membership of BRICS. In more specific terms, South Africa has declined in areas of global competitiveness and business confidence. Domestically, the historic phase of macroeconomic stability and growth between 2000 and 2008 has lowered poverty marginally, but failed to address the growth of inequality and absorb more labour into the economy. However, the country's infrastructure is crumbling; it faces critical shortages in new energy sources and unpredictable climatic conditions have placed enormous burdens on our agricultural production as much as they have on access to potable water. To address these issues, the NPC recommends that foreign policies be based on immediate domestic demands, and on regional burden-sharing on common resources, like access to water, biodiversity, energy-generation, increased functional integration through trade and investment and efficiencies in the transfer of goods, services and the movement of people in the region, on the continent and globally.

The NPC is of the view that South Africa's foreign relations and diplomacy must be informed by the strategic interplay between political, economic, security, environmental and human dynamics. Positioning South Africa in the world must start with establishing greater efficiency (and effectiveness) in regional regimes and institutions (notably in SACU, SADC and the evolving Tripartite Free Trade Area); in the country's multiple international affiliations, especially in the BRICS and the global south; in multilateral relations; and in the institutions of global governance.

As a middle-income African country, there needs to be a more comfortable fit between critical domestic socioeconomic demands, regional and continental obligations and international cooperation through

BRICS and the world. Foreign policies cannot be disassociated from these demands and obligations. They should be made through engaging with domestic constituents like the business community, the Development Bank of Southern Africa and arts, culture and sporting bodies, which ultimately constitute the relations between countries. In other words, although the South African government may negotiate access to global cultural exchange, it is social movements that interact with their counterparts in other countries. The government must create an environment for businesses, researchers and academics – the main drivers of wealth and knowledge creation – to interact with their foreign counterparts to improve the intellectual resources and economic prosperity of the country and the region.

If South Africa wants to eradicate poverty, reduce inequality, build a capable state and a cohesive society with high levels of trust among the population, it needs to make its economy more inclusive and accessible, and affirm the country's identity as a leading presence in the region, on the continent and in the world.

International relations need to be grounded in realities of the international competition for resources that are, in some cases, scarce and diminishing, and in other cases, unpredictable. Foreign relations must not be approached as a zero-sum game. South Africa has a deep history of alignment and cooperation with countries of the global south. The key is to make foreign relations and multiple transnational affiliations work better for South Africans, first.

NOTES

1. The Tripartite Free Trade Area will join 27 countries in a free trade area from Cape to Cairo. These countries are: Angola, Botswana, Burundi, Comoros, Democratic Republic of Congo, Djibouti, Egypt, Eritrea, Ethiopia, Kenya, Lesotho, Libya, Madagascar, Malawi, Mauritius, Mozambique, Namibia, Rwanda, Seychelles, South Africa, Sudan, Swaziland, Tanzania, Uganda, Zambia and Zimbabwe.

2. An international association of emerging economies comprising Brazil, Russia, India, China and South Africa.

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10. This distinction between institutions and organisations is important. The former may include practices, customs or traditions (the best developed example being diplomacy) and the latter refers to establishments with offices and staff, such as the African Development Bank or SADC.

11. The reference to "deepen" is an acknowledgement that existing agreements on trade in goods and services are at different stages of development.

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CHAPTER EIGHT

Transforming human settlement and the national space economy

KEY POINTS

- Respond systematically, to entrenched spatial patterns across all geographic scales that exacerbate social inequality and economic inefficiency.
- In addressing these patterns we must take account of the unique needs and potentials of different rural and urban areas in the context of emerging development corridors in the southern African subregion.
- The state will review its housing policies to better realise constitutional housing rights, ensure that the delivery of housing is to be used to restructure towns and cities and strengthen the livelihood prospects of households.
- Active citizenship in the field of spatial development will be supported and incentivised through a range of interventions including properly funded, citizen-led neighbourhood vision and planning processes and the introduction of social compacts from neighbourhood to city level.
- Planning in South Africa will be guided by a set of normative principles to create spaces that are liveable, equitable, sustainable, resilient and efficient, and support economic opportunities and social cohesion.
- South Africa will develop a national spatial framework and resolve the current deficiencies with the local system of integrated development planning and progressively develop the governance and administrative capability to undertake planning at all scales.

INTRODUCTION

Where people live and work matters. Apartheid planning consigned the majority of South Africans to places far away from work, where services could not be sustained, and where it was difficult to access the benefits of society and participate in the economy.

A great deal of progress has been made since 1994, but South Africa is far from achieving the Reconstruction and Development Programme (RDP) goals of "breaking down apartheid geography through land reform, more compact cities, decent public transport and the development of industries and services that use local resources and/or meet local needs". Despite reforms to the planning system, colonial and apartheid legacies still structure space across different scales.

For this reason, the Commission proposes a strategy to address the apartheid geography and create the conditions for more humane – and environmentally sustainable – living and working environments. It is a strategy that responds directly to the South African Constitution, and especially to the provisions in the Bill of Rights that affirm the right of all to a healthy environment; access to adequate housing; and access to basic services (Sections 24, 26 & 27).

The strategy is guided by the need to:

- Respond systematically, and over time, to entrenched spatial patterns across all geographic scales that exacerbate social inequality and economic inefficiency.
- Implement strategically chosen catalytic interventions to achieve spatial transformation in a manner that supports locally driven spatial governance.
- Achieve a creative balance between spatial equity, economic competitiveness and environmental sustainability.
- Expand personal freedoms by providing the residents of South Africa with greater choice of where to live.
- Support individuals, communities and the private sector in engaging with the state on the future of the spaces and settlements in which they live and work while streamlining processes to enable local governments to implement strategic spatial interventions.

There are no quick fixes for transforming the functioning of human settlements and the workings of the space economy. There are powerful interests concerned with maintaining the spatial *status quo*, while the massive existing investment in fixed assets means that transformation will invariably be incremental. However, bold measures taken over a sustained period could change the trajectories of spatial development and could mean considerable gains for ordinary citizens and for the national economy. This process must start now to stop and reverse the dysfunctional patterns that have continued since 1994

A fundamental reshaping of the colonial and apartheid geography may take decades, but by 2030 South Africa should observe meaningful and measurable progress in reviving rural areas and in creating more functionally integrated, balanced and vibrant urban settlements. For this to happen the country must:

- Clarify and relentlessly pursue a national vision for spatial development
- Sharpen the instruments for achieving this vision
- Build the required capabilities in the state and among citizens.

Before addressing each of these three elements, the chapter reflects briefly on the spatial challenges confronting South Africa.

Consultation on this chapter included a number of meetings with government departments, a workshop with a cross-section of stakeholders, including government, experts, associations and industry bodies, as well as numerous discussions with experts in the field.

STORYLINES

The spatial challenges are discussed below in terms of five storylines:

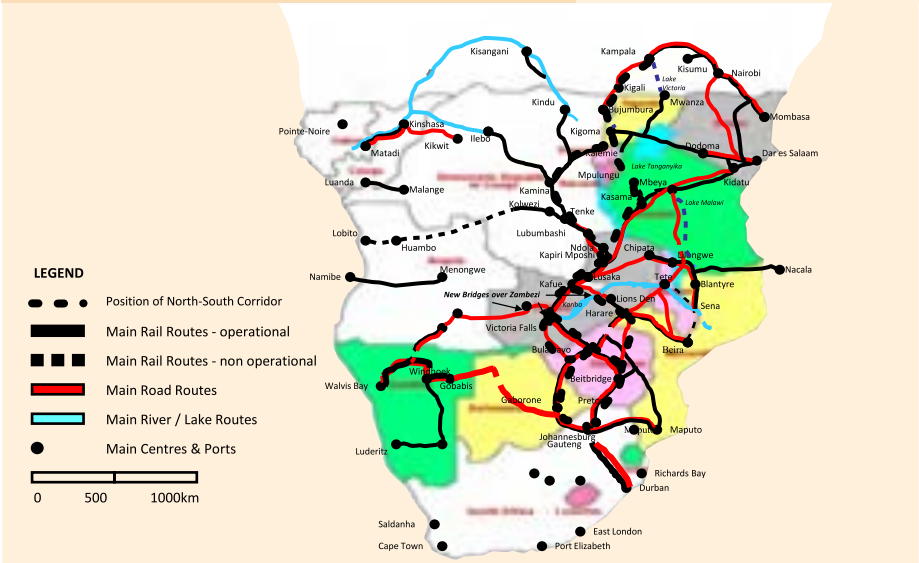
- The transforming national space economy[1]
- Differences and inequalities within rural areas
- Urban inefficiencies
- The accommodation conundrum
- Weak capabilities for spatial governance.

The transforming national space economy

The national space economy needs to be understood in terms of the southern African subregion (see chapter 7, "Positioning South Africa in the World"). Southern Africa is transforming as cross-border trade increases and as infrastructural networks become increasingly integrated. The nature of the settlement system in southern Africa is also transforming, with South Africa's urban growth lagging compared to countries such as Botswana, Zambia, Namibia, Angola and Mozambique[2]. All of this requires a strategic response, including a reorientation of attention to rapidly growing cities in the subregion, and greater attention to cross-border planning issues including environmental protection, water security, energy and transport.

The Spatial Development Initiative programme has been important in supporting transnational corridor development. Corridors in southern Africa have mainly been east-west, linking port cities to resource extraction in the interior, for example, the Maputo corridor, Coast2Coast, the Beira development corridor and the Lobito development corridor. Increasingly important, however, are the north-south corridors, including the recently identified development corridor from Durban to Dar es Salaam, which extends through Gauteng, Limpopo, Zimbabwe and Zambia.

FIG 8.1 THE SOUTH AFRICAN CONTEXT



Source: DBSA North-South Corridor

At a national scale, South Africa's economic activity is distributed across four metropolitan regions and a network of cities, large towns and service centres, all linked by established networks of connecting infrastructure. However, the country also has a dysfunctional and inequitable settlement pattern. The challenges are that:

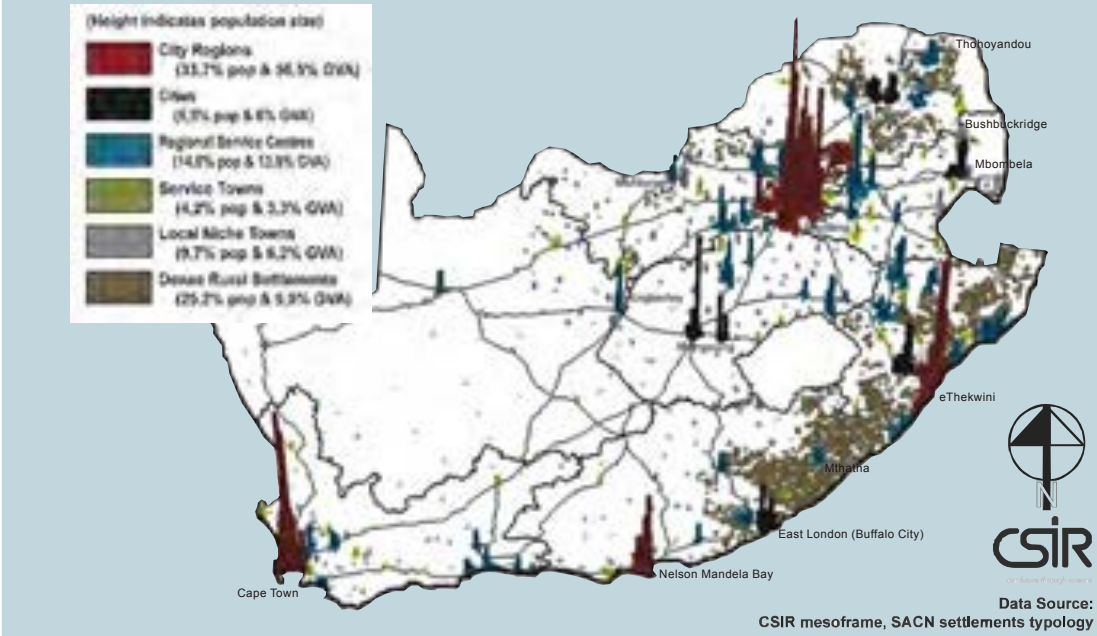
- Many people still live in poverty traps, including the former homelands, where less than 30 percent of adults are employed (compared with 55 percent in the cities).
- One in two households depends on social grants or remittances, compared with one in six in cities.
- Logistics and communication lines are long because of sheer scale, making infrastructure maintenance difficult and movement of goods and people costly.

Interconnected interventions are needed to tackle these issues. These include economic solutions, institutional reforms, changes to land management systems and infrastructure investment. This chapter focuses on the spatial aspects of these interventions.

The landscape has changed since 1994, producing mixed results. The Gauteng city-region has reinforced its national dominance and attracted growing migration. The coastal city-regions have performed less well, especially in terms of job creation, largely because the manufacturing industry has failed to gain traction despite the apparent advantages of their location. The performance of smaller cities has been uneven, depending on their dominant industries. Many small towns and rural areas have stagnated or declined as agriculture and mining have gone through structural changes, while others have developed dramatically as economic activity has increased. Parts of the former homelands are changing their economic structure, supported by increased spending from social grants which raises questions about long term sustainability but does potentially open new opportunities. This is occurring along major transport corridors, in developing tourism areas and along national borders where trade and transport are growing.

By 2030, a perspective on changing settlement patterns must consider the distribution of, and threats to, natural resources, and the spatial implications of the emergence of green technologies and green economies[3]. The Commission has mapped the spatial dimensions of these concerns. These include: biodiversity threats, particularly in the Western Cape; stressed water catchments; areas contributing disproportionately to greenhouse gas emissions and air pollution such as the Mpumalanga Highveld; new areas of resource extraction including the Waterberg; and areas most severely affected by climate change such as the west of the country where rainfall is expected to decline, and the interior of the country where an increase in extreme rainfall events are anticipated. These changes may alter the relative potential of regions, including the Northern Cape, for example, where large-scale investment in solar energy is anticipated.

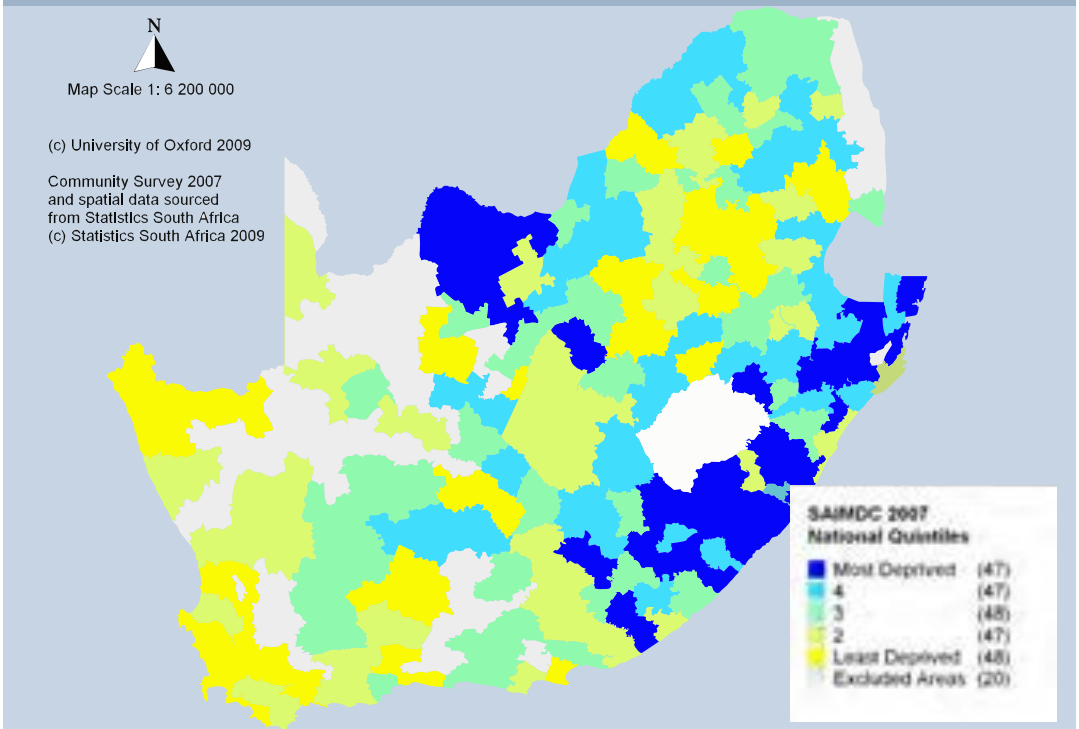
FIG 8.2 POPULATION DENSITY AND SETTLEMENT TYPES IN SOUTH AFRICA



SOURCE: Council for Scientific and Industrial Research, 2011

Although we deal with the rural and the urban in separate subsections, the distinctions between these categories are blurred[4]. This is partly a legacy of apartheid policies, such as forced removals and restrictions on migration, which led to dense settlements in rural areas, while labour controls led to circular migration between rural and urban areas. South Africa needs an integrated approach to this interdependency and national territory issues. The population have responded, and continues to respond to changes in economic opportunity. For a discussion on current and anticipated migration patterns across South Africa, refer to chapter 2 on demographic trends.

FIG 8.3 SOUTH AFRICAN INDEX OF MULTIPLE DEPRIVATION (2007)



SOURCE: Wright and Noble, 2009[5]

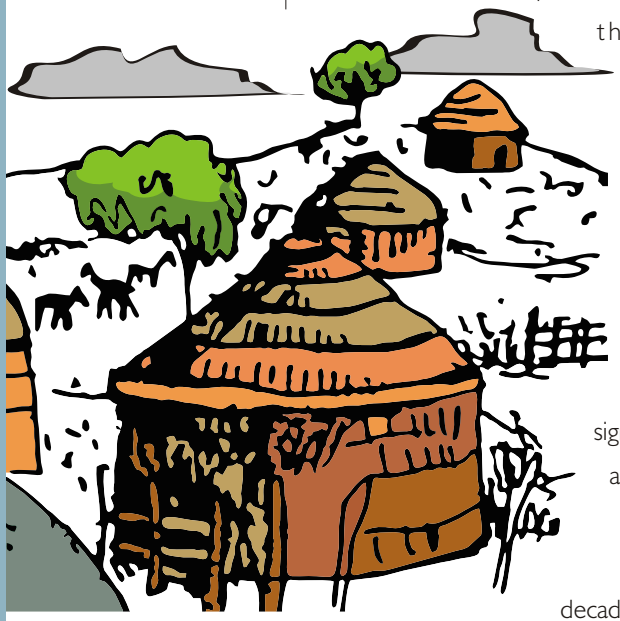
The map above reveals the extent of spatial disparities across South Africa. While rural areas are the most deprived in relative terms, urbanisation of poor households means that there is a growing concentration of poverty in large urban areas in absolute terms.

Differences and inequalities within rural areas

Despite population shifts from rural to urban areas, the health and wellbeing of the entire population still depends on rural goods and services – food, water, minerals, energy, biodiversity, natural and cultural experiences, labour and land – and this will become clear in the next few decades as resources become more constrained.

International experience shows that rural areas play a role in urbanisation. Urban areas are markets for rural products and rural areas demand urban goods. Early on, cities have limited capacity to deal with large inflows of low-skilled migrants, so it is important to provide security and services in rural areas and to support agriculture. As urbanisation grows, rural areas continue to provide the goods, services and markets essential for the national economy, but they also start to provide space for economic activities that cannot survive in expensive urban environments.

These international observations apply to South Africa, although there are also characteristics specific to the country as a result of colonisation and apartheid. Historically, rural populations were able to subsist without support, growing their own food, building their own housing and using local resources for water and energy. As rural people became crowded into reserves and homelands, the productive base of many of these areas was undermined. Today, 40 percent of South Africa's population lives in rural areas, of which a very small proportion is self-sufficient or significantly involved in agriculture.



Over the past two decades, the productive economy of rural areas has declined further, with a sharp drop in agricultural employment. Reasons for agricultural decline in the commercial sector and changes in rural economic activity in the former homelands are discussed in chapter 6 dealing with an integrated and inclusive rural economy. Even where agriculture has the capacity to provide sustainable livelihoods for rural households, out-migration will continue as urbanisation, which is a global trend, increases and there are limits to the ability of agricultural activities to support population growth. However, rural areas cannot be written off indiscriminately as spaces of social reproduction and retirement with no economic prospects. There are rural areas in South Africa that have experienced significant economic growth. In some places, especially near large metropolitan markets or along transportation corridors, agriculture has expanded, and other areas have potential that could be unlocked if policy shifts are implemented. There are also signs of economic vibrancy in parts of the previous homelands, in sectors such as retail, transport and construction, as increased state grants have expanded local circulation of money. These successes need to be built on and new opportunities explored while recognising the danger of continued investment in settlements which are unlikely to be viable without continued financial support.

The economic base of rural areas and how agriculture can be expanded to support more people is examined elsewhere in the plan. This chapter focuses on the spatial aspects of rural development. These cannot be divorced from other critical issues – institutional development, land tenure reform, non-agricultural employment and resource rights. Each needs to be addressed in a comprehensive programme that restores rural areas, and clearly outlines the role of the state and local government, as well as capacity requirements.

The starting point is **recognition of the extreme differentiation within rural South Africa.** Typologies have been developed that differentiate, for example, between the small market towns, agri-villages, informal settlements, farm villages and scattered homesteads in commercial farming areas, and the peri-urban informal settlements, villages, and scattered homesteads in former homelands. This is a useful approach that points to the need for differentiated planning responses in relation to varying settlement types. However, there are other dimensions of differentiation. For example, some rural areas have declining or stagnant economies, while others have local economies that are growing even faster than those of large urban centres. Some areas are receiving migrants and densifying, while others are sources of out-migration and have declining or static populations. Some rural areas are well positioned in relation to nodes and corridors of

development across southern Africa while others are extremely marginal. There are also huge differences in terms of the types of economic activity and the levels of poverty across areas.

More work is required to ensure that there is a sufficiently differentiated understanding of rural areas in South Africa so that interventions in support of rural development will be sensitively attuned to variant developmental conditions[6]. South Africa must, for example, develop a better understanding of the changing demographics of who stays, who leaves and who returns and what impact that has on the nature of the household structure and livelihood opportunities across the typologies.

The spatial concerns in relation to rural development include:

- The high cost of providing services and infrastructure in rural areas, and especially in places that are remote and have low population densities.
- The continued densification of rural settlements where there is access to good transport services. Many of these settlements have population densities approaching that of urban areas but lack the suitable mix of land uses and 'urban' economic activities to support local economies, and the necessary infrastructure and governance arrangements to manage this change. A large proportion of people living in rural areas live with strong urban expectations, further complicating the interventions required.
- The current framework governing land use in traditional areas is not working. In particular, it discriminates against women[7].
- The spatial opportunities in sectors including agriculture, mining, tourism and renewable energy that remain unrealised because of the lack of connecting infrastructure.
- The large areas of high-potential agricultural land that are grossly underutilised, particularly in traditional areas.
- The damage being done to high potential agricultural land and related ecosystems through short-term mining activities.
- The failure of the land-reform programme to take proper account of spatial potentials. Successful agricultural production requires suitable land that is well located in relation to major markets and agro-processing chains. Many land-reform initiatives have been in areas that are marginal to markets with insufficient development, for example, in peri-urban agricultural zones[8].
- A lack of focus on infrastructure that connects producers to markets to protect producers and consumers from external shocks and rising transport costs.
- Weak mediation mechanisms to resolve spatial conflicts involving tourism, agriculture, mining rights, and protection of biodiversity. These are becoming increasingly acute as natural resources are depleted.

Urban inefficiencies

Most South Africans live in a complex network of towns and cities, which generates about 85 percent of all economic activity. Urban areas vary enormously in relation to such factors as spatial form, economic base and institutional strength and, as with rural areas, it is important that a one-size-fits-all approach is not taken. The government and the private sector should understand the distinct challenges and potential of different areas and respond with a location-specific approach.

Towns and cities are connected in varying degrees into wider urban systems and their development reflects global and local forces. Economic activity is becoming consolidated in the largest cities. However, other activities including in highly skilled professional services are decentralising partly as a result of information and communication technology (ICT) and lower transport costs, creating opportunities for smaller urban centres.

A major trend is the development of city-regions that extend beyond individual municipalities. This offers opportunities but also complicates urban planning and management. In particular, decision-making around land-use management and the coordination of development initiatives are greatly affected by the blurring of boundaries. Institutional structures that ensure greater collaboration and harmonisation of plans must be considered. The Gauteng city-region and embryonic city-regions around port cities are cases in point, requiring new collaborative approaches.

Towns and cities are affected by a range of challenges:

- Despite slower urbanisation than in other parts of Africa, another 7.8 million people will be living in South African cities in 2030 and a further 6 million by 2050, putting pressure on municipalities to deliver services. A large proportion of new urban residents will be poor, reflecting a phenomenon referred to as the urbanisation of poverty.
- In particular, the number of young people in cities is growing rapidly. These youth are largely in the working-age category and mainly unemployed or involved in marginal enterprise. This requires a positive response, as disenchanted youth are both a hazard and a lost resource to society.
- South Africa's towns and cities are highly fragmented, imposing high costs on households and the economy. Since 1994, densities have increased in some urban areas and there has also been partial regeneration of inner cities, coupled with the growth of housing ownership[9] but, overall, little progress has been made in reversing apartheid geography.
- The growth of property value has led to an overall average house price that has made housing unaffordable to many South Africans, and has further excluded participation in the property market by historically excluded groups. The growth has largely benefited middle- and higher-income groups.
- There is an insufficient understanding in policy of the informal and adaptive strategies and livelihoods of the poor. The relationship between where people live and how they survive is often overlooked.
- Transportation networks are critical to the spatial transformation of urban areas. There has been progress in some cities in delivering new public transport infrastructure, but the major shift from supporting private cars to incentivising public transport is yet to happen, and insufficient attention has been given to integrating modes of transport and coordination across municipalities.
- Although cities are generally more resource efficient than scattered settlements, their concentration requires the development of

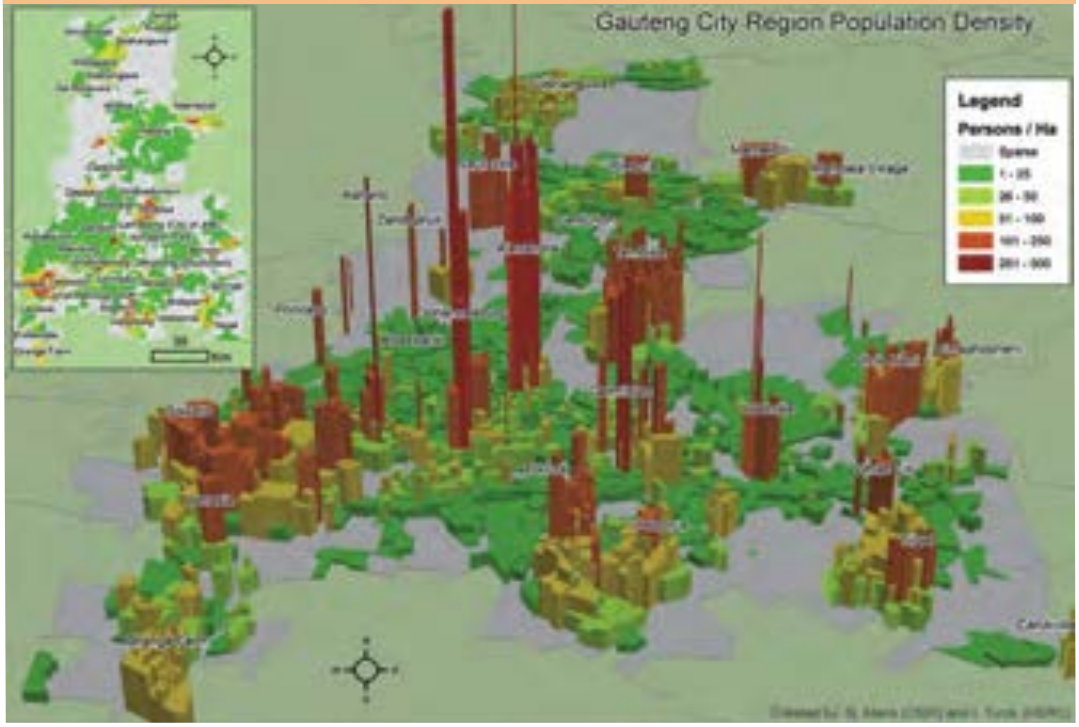
large sources of energy and water and good transport connections which can place strains on the surrounding natural environment. If this is not resolved, cities face varying degrees of water stress, food insecurity and power shortages. Future development depends on the ability of towns and cities to become less resource intensive. The concentration of people, industries and infrastructure in urban areas presents opportunities to use resources more productively. There are also opportunities to create greener urban spaces, even in the densest areas.

- Towns and cities are not productive enough and do not generate sufficient jobs. While most of the larger cities have performed better than smaller cities, their growth has been disappointing. Manufacturing has performed especially poorly. There is also little support for the informal economy, while township economies are unable to retain local spending power or attract productive investment.
- Many of the challenges are not a result of a vacuum in policy, but rather insufficient institutional capacity, a lack of strong instruments for implementation and a lack of coordination. There is also a critical lack of trust between different interest groups which reduces the willingness of economic players to commit to the kind of long term investments which are needed to generate jobs and the economic returns that would support sustainable urban growth.

THE COMMUTING BURDEN

A single mother of four children aged between three and 12 lives in Tembisa with her mother. She spends nearly five hours each day commuting to and from work in the Pretoria suburb of Brummeria, where she is an office cleaner. The journeys cost nearly 40 percent of her monthly salary of R1 900. She leaves home at 05:00 to be at the office at 07:30, starting with a 2 kilometre walk to the taxi stand, which takes her to the train station. In Pretoria, she takes another taxi to Brummeria. After leaving work at 16:00, she may not get home until 19:00, as the trains are often late. She spends over R700 a month on transport and nearly 100 hours on the road.

FIG 8.4. SOUTH AFRICAN INDEX OF MULTIPLE DEPRIVATION (2007)

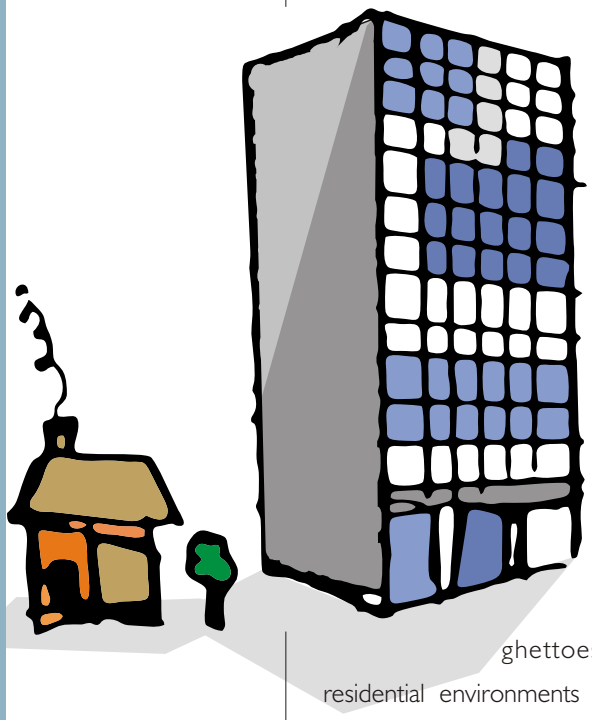


Source: The South African Cities Network[10]

THE ACCOMMODATION CONUNDRUM

South Africa is faced with addressing the accommodation needs of the mass of its population in a way that builds long-term settlement sustainability and strengthens the capabilities and livelihood prospects of its citizens.

In 1994, South Africa's new housing policy was launched, with the housing capital subsidy scheme as its instrument. The Department of Human Settlements estimates that 3.2 million subsidised units have been completed / are in progress for poor families: a considerable achievement. The programme enabled home ownership with title deeds being transferred to the beneficiaries. At the same time, access to basic services expanded – 97.7 percent of households have access to water and 82 percent have access to sanitation and 75.8 percent to electricity[11].



The housing policy has been a learning process. The release of a revised policy in 2004, known as *Breaking New Ground*, followed a growing recognition that the programme often resulted in poor-quality units; uniform and monotonous settlements on the urban edge; the concentration of the very poor in new ghettoes; and poor-quality residential environments without the necessary social facilities and supportive infrastructure. Unwittingly, post-apartheid housing policy had reinforced apartheid geography.

Other shortcomings became apparent as the programme approached its first decade. These included:

- The scale of the housing problem – indicated, for example, by the growth of informal settlements in areas of economic opportunity – was increasing despite the delivery of RDP houses.
- A growing recognition that the programme was a blunt instrument in response to the diverse housing needs of individuals and households. It was unable, for example, to respond to individuals who did not qualify for the subsidy and who were also unable to access the limited range of housing products available in the market. It failed to address the importance of rental accommodation in a context of household mobility and transience. Despite the intention to bring private-sector finance into the lower end of the market, very little was achieved as investment risks remained high.
- The programme gave insufficient attention to the workings of the market, including the rental market. Beyond the state programme, the extension of property finance for the lower end of the housing market was muted, with very limited growth in the secondary market at the lower end. It did not adequately transform the apartheid neighbourhood geographies.

Breaking New Ground attempted to address these concerns by "utilising housing as an instrument for the development of sustainable human settlements, in support of spatial restructuring". In particular, it emphasised:

- The need for better-located mixed-income and mixed-use housing projects by extending the scope of the project-linked subsidy programme.
- More diverse housing forms by structuring new programmes, including tackling informal settlement upgrading as a recognition of entry into the incremental housing-delivery process.

- Greater attention to social and rental housing as mechanisms to revitalise depressed property markets including the lower-end rental market.
- Accrediting municipalities with the housing delivery function to effect improved integrated settlement development; and linking job opportunities and work creation with housing development processes.

This approach was reinforced in 2009 with the creation of a Department of Human Settlements and the adoption in 2010/11 of the President's delivery agreement on "sustainable human settlements and improved quality of household life" (outcome eight). Important elements included:

- The commitment to upgrade 400 000 households in well-located informal settlements with the assistance of the National Upgrading Support Programme by 2015.
- The emphasis on increased social housing delivery and inducements on affordable rental accommodation.
- The unlocking of well-located land, especially state-owned land, for affordable housing.
- Mechanisms to induce improved performance of the lower end of the property market, including those that increase private finance to the bottom end of the affordable market segment.

The Commission acknowledges the positive direction that human settlement policy has taken since the introduction of Breaking New Ground and believes that the full implementation of outcome eight will make a major contribution to housing delivery. There are, however, a number of challenges requiring special attention if the delivery of housing is to be used to restructure towns and cities and to strengthen the livelihood prospects of residents:[12]

- Circular migration and households with more than one house make it difficult to understand the real demand for housing.
- Providing housing could help people earn an income from home. However, there is a lack of clear policy on home-based income generation.

- State-provided houses are not being integrated into the property market because there is a delay in registration and issuing of title deeds, and households are not allowed to sell their subsidised houses for eight years after receiving it.
- Private investment into housing at the lower end of the market is very slow, although there is evidence of effort and resources for beneficiary residents in transforming their homes[13].
- There is a growing gap market as many households with an income above the threshold for receiving a subsidised house have neither access to a private bond nor adequate government support[14].
- Inadequate attention is paid to rental accommodation across income bands. There is not enough incentive for public and private investors to invest in rental housing. The government lacks operational capacity to manage rental stock.
- Despite efforts to transform South Africa's urban areas, many housing projects do not create efficient urban spaces.
- There is a lack of enabling policies and implementing instruments to support the development of an appropriate housing mix in inner cities.

- Despite improvements in state-subsidised housing, projects are not achieving living areas with different types of housing for different income groups, supported by schools, clinics, businesses and job opportunities.
- There are growing housing backlogs in areas of economic growth and in-migration, with a disproportionate number of new houses in areas of little or no growth. This indicates poor spatial targeting of housing projects.
- In general, the focus remains on housing rather than on developing quality environments for low-income communities, supported by the necessary physical, social and environmental services.
- Despite improvements, the existing housing subsidy system continues to fund top structures (houses) rather than producing quality public spaces and infrastructure in the area.
- Breaking New Ground emphasises affordable inner-city housing. However, municipalities continue to focus on providing individual ownership units where it is easy to meet numerical targets. This is largely because policy and funding instruments for affordable inner-city accommodation have not been accessible.
- The National Upgrading Support Programme, which aims to upgrade informal settlements, has made slow progress due to rigid local regulations, ambivalent attitudes towards informal settlements in parts of government, and a lack of capacity to upgrade such settlements (see box below on informal settlements and livelihoods).

Addressing the challenges

The housing issue is complex and needs to be addressed through a cumulative process of reform. There is tension between the need to address housing backlogs quickly and affordably, and the need to provide housing to create well-functioning, high-quality human settlements that will offer greater opportunities for income generation and human development. It is the Commission's view that a long-term perspective on spatial transformation must be kept in mind at all times while addressing short-term needs.

There is a need to find the correct balance between protecting property rights of vulnerable individuals, protecting state investment, allowing integration of state-provided housing into the property market to stimulate the secondary housing market and ensuring locational flexibility for housing beneficiaries.

To achieve this, there is a need to debate the appropriate role for government and other actors in realising the constitutional right to housing and developmental goals, such as improving income through job creation, providing livelihood support and creating environments that facilitate human development. Large amounts of money have been spent on the housing sector but major problems remain. The system of state-provided housing has benefited many poor households but may have undermined the incentive for people to upgrade their own housing circumstances and may have increased a dependency on the state for the supply of private goods[15]. A national discussion is required on the future funding of housing in South Africa, and on the respective roles of the state, the private sector and individual households in providing housing and creating integrated and sustainable human settlements.

ADDRESSING CHALLENGES OF AFFORDABILITY FOR HOUSEHOLDS IN THE 'GAP MARKET'

Fifteen percent of households in South Africa have access to bond finance. Around 60 percent of households qualify for subsidised houses, leaving a group representing approximately 25 percent that does not qualify for a fully subsidised house, yet does not earn enough to qualify for a bond. This segment is known as the gap in the housing market.

The Department of Housing first introduced the Finance Linked Individual Subsidy Scheme (FLISP) in October 2005 to provide assistance to households earning from R3501 to R7000 per month. The programme was revised significantly to take account of lessons learned and expanded to include beneficiaries earning up to R15 000 per month. Under the revised programme, households earning from R3 501 to R7 000 qualify for a serviced stand in a housing project if they are unable to secure mortgage funding to buy a complete product. Households earning from R7 001 to R15 000 per month qualify for financial assistance to be able to repay their bond. A mortgage-guarantee fund was also introduced to reduce the lending risks of banks in this sector. Limited stock is however available in this segment of the market.

A market where only 15 percent of households are able to take care of their housing needs independent of the state, points to market failure. A recent dialogue on housing-infrastructure finance highlighted that there are layers of individual failures that result in unaffordable housing for a large part of the population.

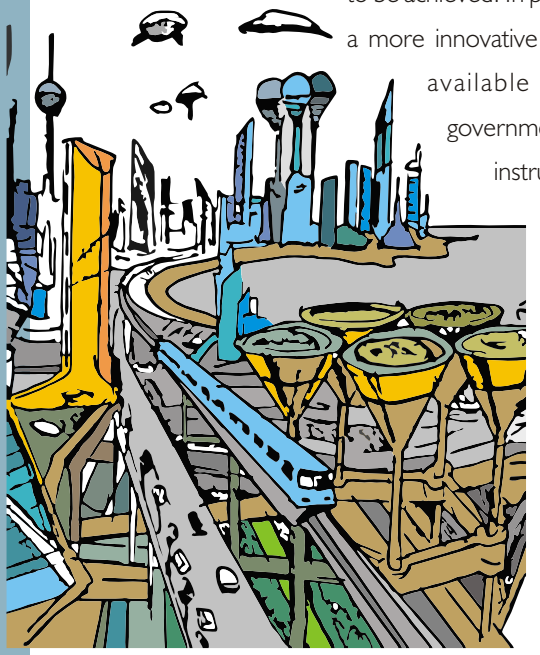
Particular aspects that require unpacking, which affect housing prices, include:

- Bureaucratic delays in approval of new development applications that increase the holding cost of land.
- High demand for well-located land pushes up the price.
- Availability of bulk and link infrastructure often also leads to delays in implementation and present high costs to developers if additional services need to be installed to unlock development.
- Views from private developers that inclusion of products affordable to the gap market will increase their risk and compromise project viability.
- Households falling within the particular income bracket are not necessarily ready to commit to a fixed location for a period of 20 years and the transaction costs associated with sale and transfer of fixed residential property is high. Very limited support is available for this group to access affordable rental to allow a more flexible location until they are ready to invest in property for the long term.

It is important to address all of the above in the medium to long term. In the short term, it will be important for the state to alleviate the symptoms of market failures by supporting households to access shelter affordably.

The current housing programme is costly, with an estimated R300 billion required to address the current 2.1 million backlog in housing units. However, spatial transformation and meeting the settlement needs of the poor is invariably expensive and fiscal concerns cannot be the only issue considered when reviewing the programme. The critical concern is whether the current programme is effectively targeted. More attention must be paid to aspects of human settlement apart from top structures, including public infrastructure and the public environment. Are there other ways to support household shelter while directing attention to the full range of factors that make up sustainable settlement?

The Commission envisions a revised approach to human settlement, in which the state properly fulfils its obligation to providing high-quality public infrastructure and environments, while also supporting and facilitating low-income households in acquiring adequate shelter. How this will be realized requires detailed technical work, led by the Department of Human Settlements, but there is an urgency to the matter as the current trajectory of housing provision must be changed if the overall objectives of human settlement transformation are to be achieved. In part the solution may come from a more innovative application of the instruments available by provincial and local governments, but there is a need for new instruments that will incentivise and complement investment by households, such as housing vouchers that are not spatially tied as well as a need to reorient funding towards public infrastructure and public environments.



The development of new housing stock is severely constrained by the failure of municipalities to provide bulk infrastructure proactively. In part this is due to planning and management failures at municipal level (discussed in more detail in chapter 13) and, in part, due to gaps in the municipal financial framework (addressed in chapter 4). The housing challenge is therefore closely related to the need to provide access to basic services. Despite the achievements in this area since 1994, **access to adequate housing**, reliable electricity, safe water supplies, accessible public transport and hygienic and dignified sanitation facilities remain a daily challenge for many South Africans, particularly in poor rural and peri-urban communities.

These challenges will only be resolved if their underlying causes are addressed. Priority areas include:

- Affordability of services for poor households.
- Poorly managed municipalities, with limited human and financial resources.
- Failure of municipalities to develop bulk capacity to supply all the networks from which households get their services or to develop housing areas where adequate infrastructure is available.
- Uncontrolled use by some households.
- Inadequacies in the maintenance of infrastructure and lack of reliable data.

There are particular problems in the distribution of electricity, the quality of water supply, the integration of new public transport networks, and the reduction of waste-to-landfill, which require urgent attention. Municipal spatial planning is often inadequately linked to investment decisions around bulk infrastructure, and this points to the need to improve the capabilities for spatial governance as well as to revitalise the municipal integrated development planning processes and transform it into a practical instrument to guide municipal investment.

INFORMAL SETTLEMENTS

Informal settlements provide new migrants and the urban poor an affordable point of access into towns and cities, although they are also associated with high degrees of physical and social vulnerability.

Part 4, Volume 5 of the Housing Code (2009) points to the role of informal settlements in including households that did not qualify for housing subsidies by providing funding for area-based upgrades, in addition to household-linked subsidies. Outcome eight recognises that informal settlements provide land and urban opportunities for the poor, but implementation remains slow. The reasons for this are diverse. There is an ambivalence across government towards how to address the upgrading of informal settlements, and the mechanisms for the in situ upgrade of informal settlements have yet to be fully developed. The institutional capabilities to manage processes such as incremental tenure, infrastructure and shelter upgrade and the development of appropriate regulations, in a participatory and empowering way, have yet to be developed.

Wherever possible, upgrades should happen in situ, or at least with minimum disruption to existing communities. In South Africa, many provinces and local authorities still revert to conventional approaches to land development. Decisions on where upgrading should happen is often contentious. In many cases relocations happen where more creative solutions to land rehabilitation could be found.

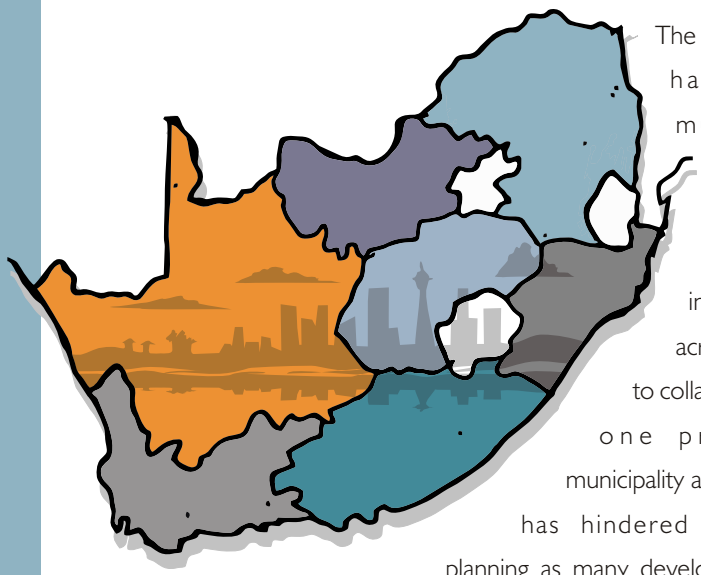
There are local examples of upgrading projects, but results have been uneven and inconsistent and there is a need for a systematic assessment of results.

Informal settlements are highly differentiated in terms of history, location, levels of vulnerability and social structures, and so generalised solutions should be avoided. There is, however, a general lack of adequate information about the nature and conditions of each of the informal settlements, which would allow for tailored solutions, and would enable a more strategic use of resources.

Weak capabilities for spatial governance

Renewed effort is needed to ensure that national, provincial and local government work together in reshaping the built environment to achieve smarter and fairer development.

South Africa's intergovernmental system of spatial planning has been slow to develop and coordination has been poor. The complex division of powers and functions between local, provincial and national government has contributed to the problem and, in addition, ambiguities in the Constitution about who is responsible for spatial planning have created uncertainty.



The planning system has cemented municipal and provincial boundaries, making it almost impossible to plan across borders or to collaborate between one province or municipality and another. This has hindered development planning as many developmental issues, such as environment, transportation and economy issues, straddle political boundaries.

There are added complications within each level of government. Spatial planning is dispersed across national ministries[17], and is subject to parallel and sometimes conflicting legislation. The legislation that regulates land-use management is largely unreformed and dates back to apartheid. Without a guiding framework for national spatial development, ministries and state agencies sometimes operate at cross-purposes. For example, policies on the use of surplus state-owned land are inconsistent.

Provincial land-use management functions overlap with municipalities, creating confusion and conflict. Provinces are largely responsible for overseeing economic activities such as agriculture, tourism and environmental management. However, lack of capacity has delayed development and reduced the quality of the provincial growth, and coordination strategies for development. The divide between managing development and the environment, and promoting economic investment is a design flaw in the planning system, making it difficult to strike a reasonable balance.

Municipal integrated development plans (IDPs) vary in quality. One of the problems with IDPs at municipal level is there is no effective system for them to gain the national and provincial support that they require to be meaningful. IDPs also depend on robust capacity within municipalities for both planning and implementation, which is often lacking. Some municipalities have gone beyond IDPs and related spatial development frameworks by developing long-range strategic plans and more detailed plans, even down to the level of urban design. However, many municipalities are still struggling to produce credible IDPs. A handful of municipalities are ready to introduce new instruments to shape space, such as value-capture instruments, but most require continued support in developing basic plans.

Inefficiencies in processing planning applications have sometimes deterred job-creating investment. The costs associated with long approval processes are carried by the private sector with negative consequences for growth and job creation. The planning system does not distinguish between procedural requirements for small municipalities that receive only a few large applications and big metropolitan authorities that get many.

Municipal planning responsibilities were recently clarified by a Constitutional Court judgment, but urgent action is needed to bolster local government's capacity to fulfil these functions. The proposed Spatial Planning and Land Use Management Act provides a framework for spatial planning and land-use management towards spatial transformation, but more fundamental changes will be required in areas that go beyond the mandates of the department that sponsored the act.

Difficulties for the planning system include:

- Ambiguity and contest around the developmental role of traditional authorities.
- Poor cross-boundary coordination.
- Autonomous transport systems.
- Legal complexities for municipalities to acquire and swap land parcels.
- Disparate funding streams, which complicate integrated development.
- Planners (and other development and built environment professionals) who lack an understanding of economic principles, market forces and commercial realities to negotiate better development outcomes, and also of informal livelihood practices and the challenges these raise for flexible and empowering regulation.

One of the consequences of weak spatial governance is that spatial planning has tended to follow patterns set up by private-sector investment. While the private sector has a role to play, the overall pattern of spatial development should be shaped by the long-term public interest, and so the capability of the state to engage with the private sector must be improved.

The weaknesses in capacity relate to implementation structures and planning. A lack of effective project preparation and project management skills, including thorough pre-feasibility and feasibility work, causes service-delivery backlogs, poorly conceptualised projects, and failure to spend allocated budgets.

Sound spatial governance requires strong professionals and mobilised communities. Many municipalities struggle to appoint qualified planners and urban designers, who are in short supply and are often not considered a priority. As a result, quality standards are sometimes poor, and because opportunities are limited, too few people study planning and urban design. Low capacity aggravates the lack of citizen engagement in neighbourhood planning and development. There are few examples of communities initiating their own planning and problem-solving, and these efforts are often stalled due to the government's inability to engage and respond.

There are pronounced limitations on citizen action at individual and community level. Although IDPs are required to be participatory, engagement in planning processes and joint problem-solving often happens at a superficial level. Participatory processes are often formulaic and compliance-driven, and there are few incentives for citizens to engage in community-building. Citizen dependence on a state with limited capability leads to confrontational protests by individuals who are waiting for the state to provide houses and services. Simply providing the opportunity for local communities to take part in preparing their own plans may create new forms of inequality as better-resourced communities are far more likely to respond to the opportunity. A differentiated approach to spatial planning is required which allows simple approaches to be adopted in uncontested areas but provides for mechanisms to address the conflicts that are likely to emerge in other cases more speedily than at present.

WHY IS TRANSFORMATION SLOW IN SOUTH AFRICA?

There is now wide agreement that spatial transformation in the democratic era has been slower and more ambiguous than initially anticipated. In accelerating spatial transformation towards 2030, South Africa needs a proper understanding of why expectations have not been met to date. Analysis points to the following reasons, amongst others:

- **There are powerful interests at all levels concerned with maintaining the spatial status quo.** Spatial patterns reflect, to a large extent, historical and current power relations. They change gradually over time in response to shifts in political and economic control. Major changes to spatial arrangements are likely to provoke resistance from those who have a vested interest in maintaining the existing pattern. This is apparent at all levels, including at the community level where the so-called NIMBY (not in my backyard) response makes the goal of social and income integration in the built environment very difficult to achieve. Spatial planning interventions that could override some of the NIMBY and private sector objections to developments that could support greater spatial equity are still weak.
- **The diverse (often contradictory) spatial effects of economic and social policies.** Spatial change is the outcome of diverse social, economic, institutional and political processes. In South Africa, policies and programmes in areas including trade and industry, transportation, environment, housing, health, education, infrastructure have not been scrutinised for their spatial implications, and there has been no sustained effort to achieve spatial alignment.
- **The lack of an overarching strategic approach to spatial development.** The responsibilities for spatial planning remain institutionally fragmented across various departments, while spatial planning does not have significant institutional force within the governmental system.

CLARIFYING THE VISION

A vision for spatial futures needs to be inspiring but also believable, and should emerge from a process of consensus-building.

In this section, the Commission proposes:

- A set of overarching principles for spatial development.
- A process of vision-building through the development of a national spatial framework.
- A national discussion on the future of towns, cities and rural settlements.

While we envisage the vision unfolding as a process of creative dialogues, we also suggest elements that we have tested with a range of stakeholders. The Commission provides, for example, a proposed schema for spatial targeting that indicates where investment should be focused, and we identify elements of the existing broad consensus for transforming towns and cities.

Overarching principles for spatial development

All spatial development should conform to the following normative principles and should explicitly indicate how they would meet the requirements of these principles:

- **Spatial justice.** The historic policy of confining particular groups to limited space, as in ghettoisation and segregation, and the unfair allocation of public resources between areas, must be reversed to ensure that the needs of the poor are addressed first rather than last.
- **Spatial sustainability.** Sustainable patterns of consumption and production should be supported, and ways of living promoted that do not damage the natural environment.
- **Spatial resilience.** Vulnerability to environmental degradation, resource scarcity and climatic shocks must be reduced. Ecological systems should be protected and replenished.
- **Spatial quality.** The aesthetic and functional features of housing and the built environment need to be improved to create liveable, vibrant and valued places that allow for access and inclusion of people with disabilities.
- **Spatial efficiency.** Productive activity and jobs should be supported, and burdens on business minimised. Efficient commuting patterns and circulation of goods and services should be encouraged, with regulatory procedures that do not impose unnecessary costs on development.

MAKING THE CASE FOR A NATIONAL SPATIAL FRAMEWORK

South Africa needs a spatial vision to inform development policy, specifically to:

- **Tackle inherited spatial divisions.** South Africa's spatial structure perpetuates exclusion. Distorted growth patterns cannot be ignored. They also worsen economic and logistical inefficiencies.
- **Unlock development potential.** Many places are not growing economically because of a lack of infrastructure, inadequate skills, poor innovation capacity and weak governance. The locked-in potential of these areas could be released through targeted investment in economic and social infrastructure and institutional support.
- **Guide and inform infrastructure investment and prioritisation.** A spatial investment framework is needed to support growth and inform the long-term infrastructure investment strategy.
- **Manage contemporary economic and demographic shifts.** Economic dynamics are produced by concentrating productive activity, entrepreneurs, workers and consumers in a place without congestion.
- **Facilitate coordination between parts of government and other agents.** Spatial policy could be used to bring different actors and interests together to define a common future binding all sectors locally, provincially and nationally.

Develop a national spatial framework

Spatial policy seeks to coordinate and connect the principal decisions that create and shape places to improve how they function. Spatial policy does not operate in isolation – unaided it cannot transform the country's economic geography or promote growth. However, spatial policies can make a difference when they are integrated with plans for tangible public and private investment that are sustained over time, and carefully adapted to the needs and opportunities of specific places. Good spatial planning also builds communities and improves social cohesion.

Spatial policy can be used to strengthen ties with neighbouring states by guiding measures to improve cross-border infrastructure connections, ensure better integration and management of a wider network of human settlements and support the sharing of economic assets to secure economies of scale. To achieve this, a transnational spatial framework for southern Africa should be developed, which might eventually be integrated within an Africa-wide spatial framework. This is, however, likely to be complex, politically and institutionally, and should not delay the concurrent preparation of a national spatial framework for South Africa.

The development of the national spatial framework needs to involve the government, business and civil society to create a shared perspective. In identifying key elements of a common vision, lessons can be learnt from an earlier attempt to address such concerns – the National Spatial Development Perspective. It focused on the tough choices facing costly public investments, but it took a narrow view of the development potential of different places. Recent data has highlighted trends that illustrate the need for an ongoing process of spatial management. Given the complexity of the task, and the need for a fully participatory process that properly involves departments and agencies with a mandate for spatial development, the Commission does not present a national spatial framework in this chapter. Rather, we suggest some elements for inclusion in the framework and propose the institutions and processes necessary for the work to start.

The challenge of spatial disparity is one of the most difficult issues that the framework would have to confront. Economic development is uneven, with some places growing more quickly than others. National spatial policy needs to support the major centres of competitiveness where jobs can be most efficiently produced. However, there are opportunities and growth dynamics to be unlocked within currently lagging regions. South Africa should:

- Develop governance capabilities and creativity in all regions, and in lagging regions in particular.
- South Africa should implement its plans to invest in connective infrastructure that would integrate lagging regions into the economic core.
- Invest in infrastructure and services that enhance labour mobility in search of jobs, such as education, training and transportation.

The development of a national spatial framework, as well as ongoing spatial management, must be supported by integrated national system of spatial data infrastructure. There are a number of initiatives in the public and private sectors to collect and analyse data at national level, but these are not well integrated and there is duplicated effort.

A national spatial framework cannot and should not address the details required within provincial and municipal spatial development frameworks. It can, however, offer broad principles for provincial and local development. An important principle is spatial differentiation. Spatial planning should recognise

and respond to differences between places. Spatial typologies used by the government usefully differentiate between categories of settlement, but they are not sufficiently nuanced within each category. For example, there are considerable differences in informal settlements. Those closer to urban centres often house young unemployed males looking for jobs, while those towards the urban periphery often have a more stable population with a high percentage of women and a greater need for social services[18].

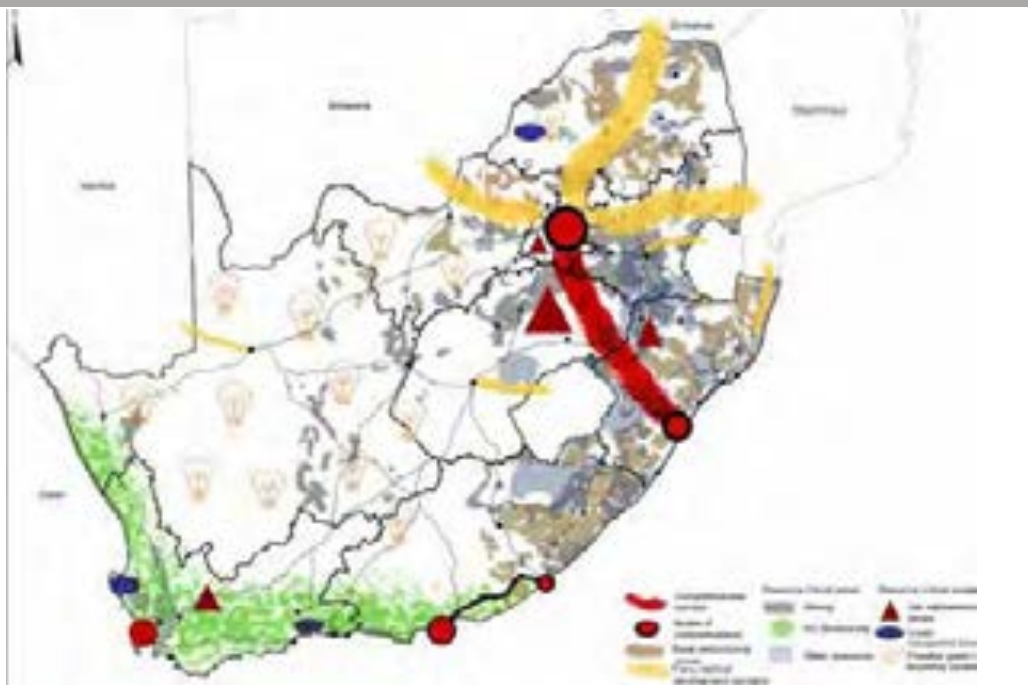
The framework should also deal with areas of national importance and develop specific programmes to support them. Territorial plans of this nature would work best in South Africa if they are supported by a spatial fund that can direct support to specific areas to address specific spatial objectives. The development of such a fund would need to be part of a process that interrogates the fragmented fiscal arrangements for spatial development in housing, infrastructure and neighbourhood development.

The proposed national schema for spatial targeting (provisionally mapped) is illustrated and discussed below.

- **National competitiveness corridor.** The corridor of logistics hubs, road, rail, fuel and other infrastructure, including and connecting Gauteng and Durban, is vital to the future of the national economy, and should be designated as a national competitiveness corridor. It accounts for about 46 percent of gross domestic product (GDP), and would build on the Department of Transport's 2050 Vision for the Durban-Gauteng freight corridor. The corridor should be integrated as part of the anticipated transnational Durban-Dar es Salaam corridor.

- **Nodes of competitiveness.** Clusters of localities that account for at least 5 percent of GDP or jobs have experienced higher than average growth since 1994, or have the potential for high growth in future. Special attention must be given to their efficient development and to creating and retaining economic value. The Cape Metropolitan region, which produces about 11 percent of GDP, and eThekwini, which produces about 9 percent, are obvious candidates, although the latter is

FIG 1.1 PROPOSED NATIONAL SCHEMA FOR SPATIAL TARGETING



Source: National Planning Commission, 2012

already incorporated within the corridor. With their ports and industrial and agro-processing hubs, the Eastern Cape's two metropolitan regions could also enhance national economic prospects. Collectively, these regions contribute about 4 percent of GDP. These regions have not performed optimally since 1994, but with targeted support, their performance and contribution could be improved.

- **Rural restructuring zones.** Some rural areas have large populations that are experiencing change, for example, new settlement formation. Such areas need management, institutional development, land and tenure reform, infrastructure provision and economic stimulus. They include the more densely populated parts of the previous homelands, where there is population dynamism and sufficient numbers to provide the basis for viable markets. There may also be areas with agricultural, tourism or mining potential. Almost all provinces have areas that fall within this category, but the zones should only be designated after careful consideration against a set of criteria.

- **Resource-critical regions.** These regions have natural resources that provide ecosystem lifelines to the country and may require specific policies to ensure their sustainability. They may include areas of highly valued mineral resources (the platinum belt); areas of great importance for biodiversity (the Western Cape); and critical water production areas (various catchments along the Eastern Escarpment). Regions with competition between development and environment, or between competing environmental uses (the Mpumalanga Highveld) may also fall under this category.

- **Transnational development corridors.** These corridors are critical to creating an integrated southern African economy, which require specific interventions around economic stimulus and trade and transport networks. The corridors between Gauteng and Zimbabwe, and Botswana and Mozambique are likely to be recognised as the primary transnational development corridors, and

should be integrated within the corridors supported through the Strategic Development Initiative programme.

- **Special intervention areas.** These areas require particular forms of state support for specified periods. They include:
  - **Job intervention zones.** Areas that have lost more than 20 percent of their jobs over the past decade, with significant losses to the national economy. The state may seek to stimulate the growth of new sectors, develop new skills or, in extreme cases, promote out-migration. Areas of concern include agricultural districts in the Western Cape, the Free State goldfields, the Newcastle-Dannhauser region in KwaZulu-Natal, and the far west Witwatersrand.
  - **Growth management zones.** Areas of rapid anticipated growth that may require special planning and management. For example, rapid new growth is anticipated in the Waterberg region in Limpopo as a result of new mining development and related industry such as petrochemicals, and around Saldanha in the Western Cape due to resource-related port and industrial development.
  - **Green economy zones.** These zones have proven potential to create "green jobs", where short-term state intervention could leverage significant private development. For example, areas in the Northern Cape offer potential for solar and wind energy.

PROPOSED INFRASTRUCTURE PROJECTS IN THE NATIONAL SPATIAL FRAMEWORK

The government recently adopted an infrastructure plan that is intended to transform the economic landscape of South Africa, create a significant number of new jobs, strengthen the delivery of basic services to the people of South Africa and support the integration of African economies. This single common infrastructure plan will be centrally driven and monitored. It will allow for a planning framework that goes beyond a single administration to avoid stop-start patterns through a 20-year project pipeline with five-year priorities. The first set of priorities will include 17 projects. Priority projects will need to catalyse and enable socioeconomic development and cut across development areas, and include all provinces. Particular projects of note for the overall spatial structure include the geographic and spatial projects that include the unlocking of the Northern Mineral Belt with the Waterberg as the catalyst; the Durban-Free State-Gauteng logistics and industrial corridor; south-eastern node and corridor development that improves Eastern Cape access into Kwazulu-Natal; improved rail capacity between the Eastern Cape and Northern Cape; acceleration of investments in road, rail and related infrastructure to unlock economic opportunities in the North West Province; the Saldanha-Northern Cape development corridor; integrated municipal infrastructure projects to assist the 23 least-resourced districts with infrastructure; and a project to transform space and public transport in large urban areas.

The national spatial framework must take account of these proposals, indicating the relationship to overall spatial objectives. It is critical to provide a framework to coordinate across these initiatives, and to link these initiatives to other development processes across South Africa.

Source: Presidential Infrastructure Coordinating Commission, 2012.

Each of these zones should have an integrated programme of actions to help realise potential or deal with problems. Investments will vary in nature and scale between areas, therefore a matrix linking spatial areas with forms of intervention is required. Support is likely to target bulk infrastructure, capital for land assembly, public transport, other connecting infrastructure, business development, skills and capacity building, and programmes to enhance innovation.

The areas for spatial targeting indicated above will be designated by national government. Provincial and municipal authorities should also designate areas for special attention, and integrated funding could allow for this. Municipalities should establish a few transformation zones to act as catalysts and demonstration projects for urban integration and densification. This would build confidence in the government's ability to reshape human settlements. Projects could:

- Regenerate run-down inner city areas.
- Develop growth magnets on large vacant sites that have the potential to accommodate job-creating investment and large residential populations in accessible locations.
- Cement links between peripheral townships and urban cores.

The institutional arrangements for supporting these zones need further consideration, and may involve public-private partnerships and support from national government.

Spatial social compacts

The transformation of space is complex given the diversity across South Africa, the entrenched historical legacies, the multiple interests at stake and the many trade-offs required. The Commission supports developing social compacts as a way of mediating interests and providing the platform for future action. These compacts may be developed in a variety of sectors such as health, education, economy, but can also have a spatial dimension.

Spatial compacts can happen at various scales, from local neighbourhoods to cities or regions. They must deal with matters of direct concern where there are competing interests such as, the development of new public transport systems, the upgrading of informal settlements, the management of informal trading, inner-city regeneration, neighbourhood safety, measures towards environmental sustainability and infrastructure maintenance. Developing compacts should be managed to give voice to all competing interests, and should address the responsibilities of the state, the private sector and the citizenry in spatial development. The government should find means to incentivise developing these compacts.

Developing social/spatial compacts has preconditions, such as a level of trust between participants, high-level mediation capacity, measures to ensure equitable participation, especially where some parties are well resourced and others not, and adequate sanctions and

consequences of non-performance in terms of the contract. Strong capacity is required to initiate the process and draft the compact. Chapter 15, dealing with nation building, explores social compacts in more detail.

There is also a need to stimulate a broad discussion on the future of South Africa's cities, towns and villages. Unleashing citizens' popular imagination, creative thinking and energies are needed to tackle the challenges and opportunities that settlements face. People from diverse sectors of society will be encouraged to present new ideas, creative designs and alternative proposals to restructure their living and working environments. This should include young people in townships, artists in inner cities, the elderly in rural areas, and thought leaders in South African society.[19]

Rural futures

Rural areas present developmental challenges. They generally do not have the economic base that urban areas have, while the low densities and remoteness of many rural areas mean that the capital investment and servicing cost per unit is high.

Our spatial vision for rural South Africa is the development of vibrant, productive rural communities that create and keep wealth in their areas and also provide benefit to the nation. The question is what can be achieved realistically within the time-frame of the National Development Plan given the constraints and trade-offs.

The Constitution guarantees absolute minimum rights, including basic services and a healthy environment. Service backlogs in rural areas must therefore be addressed.

The Commission believes that the most sensible approach to unlocking the potential of rural areas is to accept the reality of rural differentiation. There is an enormous difference between remote rural areas with low densities and marginal economies, and rural areas that have an established or potential economic base, and are well located in relation to urban markets and transport corridors. In the former, the focus may be on the universal access of services and improving connectivity, while in the latter there is a rationale for investment in economic infrastructure.

The first principle underlying a vision for rural areas should therefore be **sensitivity to the differentiated nature of rural areas, recognising that that there is a rationale for varying types and levels of investment.**

Other principles and elements of an elaborated rural spatial vision include:

- Innovative forms of service and infrastructure provision where conventional, fixed infrastructure may be unaffordable. This includes mobile services, renewable energy and ICT.
- Stronger spatial coordination and greater clustering of services in all rural areas, including health, education, transport, welfare and security.
- Strengthened systems of governance and management such as reformed tenure and land management systems, and targeted infrastructure provision in areas of densification along mobility corridors and within previous homelands.
- A land reform programme that is spatially targeted in areas that are most viable in terms of agricultural land and access to markets.
- Prioritised attention to agriculture and rural enterprise development in areas of high market access, especially within peri-urban zones and along major mobility corridors.
- Prioritised attention to connective infrastructure that strengthens the links between the urban and the rural.

- Attention to "soft infrastructure" for rural development, including support for good governance, enterprise and youth development.
- Attention to expanding ICT access in all rural areas.
- Attention to the infrastructure for supporting non-farm activities such as tourism and mining in areas with proven potential.
- A renewed emphasis on the developmental role of small towns in rural areas as job creation centres.
- Targeted investment to support the regional and local food production systems that build local rural economies and reduce national food security risks.
- Attention to developing green economies in rural areas, especially in relation to producing renewable energy, and sustainable tourism, farming and water-usage.

Urban futures

South Africa needs to rethink the urban to face future challenges. We must grapple with this task and deal intelligently with social exclusion, environmental threats, economic inefficiencies, logistical bottlenecks, urban insecurity, decaying infrastructure and the impacts of new technologies.

Over the past few years – supported by the work of organisations such as the South African Cities Network – consensus has begun to emerge around an urban vision for South Africa:

- Towns and cities, as with rural areas, are highly differentiated and solutions and strategies must be tailored to their unique circumstances.
- The main challenge in planning for urban areas is to enable job creation linked to sustainable livelihoods and to establish well-performing human settlements. This should be at the heart of what municipalities do and how they function.
- The state should gradually shift its role from a direct housing provider of last resort to a housing facilitator ensuring adequate shelter and greater access to a wider choice of housing options. It should ensure optimal settlement performances by developing public goods through investment in public transport, other economic and social infrastructure, quality public spaces and jobs.
- Where housing is provided, greater emphasis should be on rental housing as many individuals do not settle permanently in towns and cities, or require interim accommodation before they do so.
- Social diversity should be accommodated in the way that investments are directed and enhanced in the built environment.
- The social and environmental function of land should be properly acknowledged in addition to the value of land as a marketable commodity.
- In the context of economic uncertainty and climate change, towns and cities must be designed for long-term resilience and flexibility, with more attention given to citizen vulnerability and safety.
- In a context of economic scarcity, city government, business and citizens should become efficient in their use of resources.
- The ways in which goods are produced, transported and consumed must be progressively greened.
- South African towns and cities must keep up with international innovation in technology, transport and energy production, while local urban innovation systems should be incentivised.
- Ageing urban infrastructures must be refurbished and core infrastructure like roads, transit, sewers and utilities should be properly maintained. There must be a transition to sustainable infrastructure delivery.
- All new developments should enhance the

ideal of creating vibrant, diverse, safe and valued places.

- Public transport investment should be used for the spatial transformation of towns and cities (see chapter 4 for a full discussion on public transport).
- The housing programme must be aligned with other public investments in transforming the form and functioning of towns and cities. It should ensure overall growth of the property market and a more equitable distribution of its value[20].
- Children and youth should be given special attention in urban development.

These elements are reflected in a substantive spatial vision for towns and cities:

- Urban sprawl should be contained and possibly, reversed as denser forms of development are more efficient in terms of land usage, infrastructure cost and environmental protection. A pragmatic approach is required to ensure that the raised cost of land and housing associated with increased densities does not burden the poor. This may require implementing inclusionary housing policies, using state-owned land for affordable housing and introducing land value-capture instruments.
- Special incentives and subsidies should be designed to make affordable, large-scale high-density housing possible in inner cities, on well-located land parcels, taking into account property markets.
- Retrofit existing, non-sustainable human settlements with the public infrastructure and services required to make the transition to sustainability.
- New urban development and infrastructure investments should be focused around corridors of mass transit and around existing and emergent economic nodes, applying internationally accepted principles of transit-oriented development (see chapter 4)[21].
- The major concentrations of urban poor should be spatially linked into the mainstream of city life through investments in transport infrastructure and the connecting corridors of development.
- Investment strategies in the public environment linked to improved social infrastructure investment, and inducements to get increased levels of private finance to improve the quality and value of properties, must be developed.
- Economic hubs supporting diverse economic activities should be developed within

historically black townships that have sufficient market size and/or mechanisms that integrate townships into wider economic functioning localities.

- Recognise that informal settlements provide the poor with affordable access to urban land and housing markets. Well-located informal settlements should be upgraded in situ.
- New ghetto formation should be avoided by promoting a mix of race and income groups in new housing developments.
- More attention should be given to the design and quality of urban public space.

SHARPENING THE INSTRUMENTS

Many of the elements of the spatial vision outlined above were known and accepted in 1994, although there has been refinement and adaptation. For example, there is more emphasis on environmental sustainability. The real challenge has been to translate the vision into implementation and meaningful spatial outcomes.

Planning and fiscal instruments were developed including IDPs (with spatial development frameworks); the housing subsidy; and infrastructure funding mechanisms. These mechanisms have worked to varying degrees but there is a need to sharpen the instruments. Bolder measures are needed to reconfigure towns and cities towards efficient and equitable urban forms.

The following recommendations are made:

- **Reform the current planning system to:**
  - **Eliminate inefficiencies in administrative procedures** for land development without compromising the need for careful evaluation of proposals. Municipalities should be required to report on turnaround times in decision-making, and procedural requirements should be re-assessed during the proposed review of the planning system.
  - Require all municipal and provincial plans, including IDPs and their spatial development framework components, to be translated into **spatial contracts** that are binding across national, provincial and local government.
  - Actively support the **development of plans that cross municipal, and even provincial boundaries** that would promote collaborative action in fields such as biodiversity protection, climate-change adaptation, tourism and transportation.
  - Ensure that every municipality has an **explicit spatial restructuring strategy** that is linked to instruments for implementation. This includes identifying **priority precincts for spatial restructuring.**
  - If necessary, tools must be developed that empower municipalities to **make critical interventions to redress past social segregation.**
  - Retool the **instruments of land-use management** to achieve spatial objectives by, for example, municipalities introducing land-use zoning, incorporating the social value of land imperatives and the fiscal instruments to achieve spatial objectives.
  - Strengthen the **link between public transportation and land-use management** with the introduction of incentives and regulations to support compact mixed-use development within walking distance of transit stops, and high-density developments along transit routes[22].
  - Encourage the **development of plans or components of plans that address the concerns of children and youth and reflect their voice.**
  - Strengthen the enforcement of **local planning and building control.**

- Urgently **review the existing grant and subsidy regime for housing** with a view to:
  - Ensuring diversity in product and finance options that would allow for more household choice and greater spatial mix and flexibility[23].
  - Ensuring that state funding does not support the further provision of non-strategic housing investments in poorly located areas[24].
  - Prioritising development in inner cities and in other areas of economic opportunity such as around transport hubs and corridors[25].
  - Ensuring that housing provision supports livelihood production and job creation.
  - Progressively shifting state support from only providing top structures to investing in public space and public infrastructure.
  - Leveraging private-sector funding into providing increased levels of finance to the lower end of the market and ensure that this investment is also directed to well-located areas.
  - Ensuring that private housing developments are incentivised to include a proportion of affordable housing[26].
  - Supporting the growth of housing delivery in the gap market by addressing affordability constraints and reducing the cost of products so that they are made more affordable.
  - Supporting municipalities in developing capital and operational financing strategies that will allow them to provide the bulk and link infrastructure required for large development.

- Introduce **mechanisms that would make land markets work more effectively for the poor.**
  - Require municipalities to improve their understanding of local sub-markets by examining how poor people access land, accommodation and business opportunities. They should then develop ways to support and regularise these processes to reduce the costs of accessing and trading land for housing and small enterprises.
  - Municipalities must have clear strategies and allocate budgets to open up well-located, affordable land for new development.
  - Municipalities should identify existing settlements that are not formally recognised, assess the possibility for upgrading the settlements and where appropriate, give legal recognition to, and upgrade these settlements.
  - Ensure that all state-funded houses transferred to beneficiaries have clear property rights attached, whether a title deed delivered to the beneficiary household, or a

clear rental agreement. Assist households in resolving other legal issues constraining their property rights such as the transfer of estates, property disputes and delays in title deed transfer.

- Review the eight year sales restriction on state-provided houses to find the correct balance between protecting property rights of vulnerable individuals and allowing for greater flexibility and locational choice.

- Recognising that funding issues often constrain municipalities from taking the bold steps needed to achieve spatial restructuring, integrate the flow of funding for spatial restructuring into a consolidated **national spatial restructuring fund** that would:[27]
  - Be a primary instrument for the objectives of the national spatial framework by channelling funding into regions and localities according to the framework.
  - Provide national support for catalytic projects aimed at transforming spatial arrangements and providing practical content to the new vision at regional and local level.
  - Incentivise innovations in terms of spatial development.
  - Fund infrastructure that is targeted at spatial transformation and that is consistent with sustainability criteria.
  - Provide support for economic development hubs, nodes and linkages to be developed in historically black townships.
  - Support municipalities with the development of specific urban infrastructure interventions in support of spatial restructuring.
  - As a matter of urgency, a review will be undertaken of the financial implications of spatial restructuring and the design of mechanisms to mitigate them through this fund.

- Introduce a **package of instruments to support the transition to environmental sustainability** that would:
  - Introduce sustainability criteria and environmental ratings that would be applied to all infrastructure investment and all development applications.
  - Introduce measures such as stepped tariffs and targeted penalties that would reduce the demand for electricity and water, cut water leakages, eliminate waste going to landfill, and generally discourage high-consumption lifestyles.
  - Progressively strengthen the energy-efficiency criteria set out in the South African National Standard 204 to achieve a zero-carbon building standard by 2030.
  - Progressively strengthen standards and instruments to deal with environmental hazards, risks and vulnerability.

- Develop a policy framework to respond to the bottlenecks that create food insecurity in both urban and rural areas.

- Develop a clear **enabling legal and institutional framework** across the spheres of government that will allow municipalities with the necessary capacity to introduce value-capture instruments. These would extract a portion of the additional value that accrues to a property as a result of investment by the state for the public benefit.[28]

- Recognise the role played by informal settlements and enhance the existing national programme for **upgrading informal settlements** by developing a range of tailored responses, including:
  - Rapid assessment and appraisal of all informal settlements
  - Mechanisms to recognise rights of residence and allow for incremental upgrade of tenure rights
  - Minimum health and safety standards which would be progressively upgraded as regularised informal settlements are brought into the mainstream urban fabric
  - Funding arrangements and programmes that would channel resources into community facilities, public infrastructure and public spaces, and not just into housing
  - Dedicated capacity at local level for informal settlement upgrading[29].

- Give support to **rural spatial development** by:
  - Developing instruments to address the dense settlement development outside of formal urban areas.
  - Developing a strategy to enhance the developmental role of small towns.
  - Achieving spatial coordination by directing funding for service, infrastructure and settlement development into designated rural development hubs.
  - Revising the land reform programme to incorporate the spatial dimension.
  - Supporting research into the functioning of local and regional food production systems to identify gaps and bottlenecks.

- Give the necessary attention to implementation by:
  - Creating a robust set of indicators as part of a spatial governance evaluation framework.
  - Extending budgeting cycles for large capital investments beyond the three-year term of the Medium Term Expenditure Framework.
  - Making full provision for project-preparation funding and specifications and ensuring that project funding is provided only once convincing project preparation has been concluded.

BUILDING CAPABILITIES

Transforming human settlements is a large and complex agenda requiring far-reaching policy changes and shifts in household, business and government practices. Planning for transformation happens within an uncertain context and requires foresight, resilience and versatility, as well as updated information and continually revised knowledge.

One of the most valuable contributions over the next five years is to build the capabilities for effective spatial decision-making and implementation. These capabilities are required in:

- Local, provincial and national government
- Educational and research institutions
- The spatial professions such as planning, urban design and architecture
- Society at large.

Capability is a broad concept. It includes the

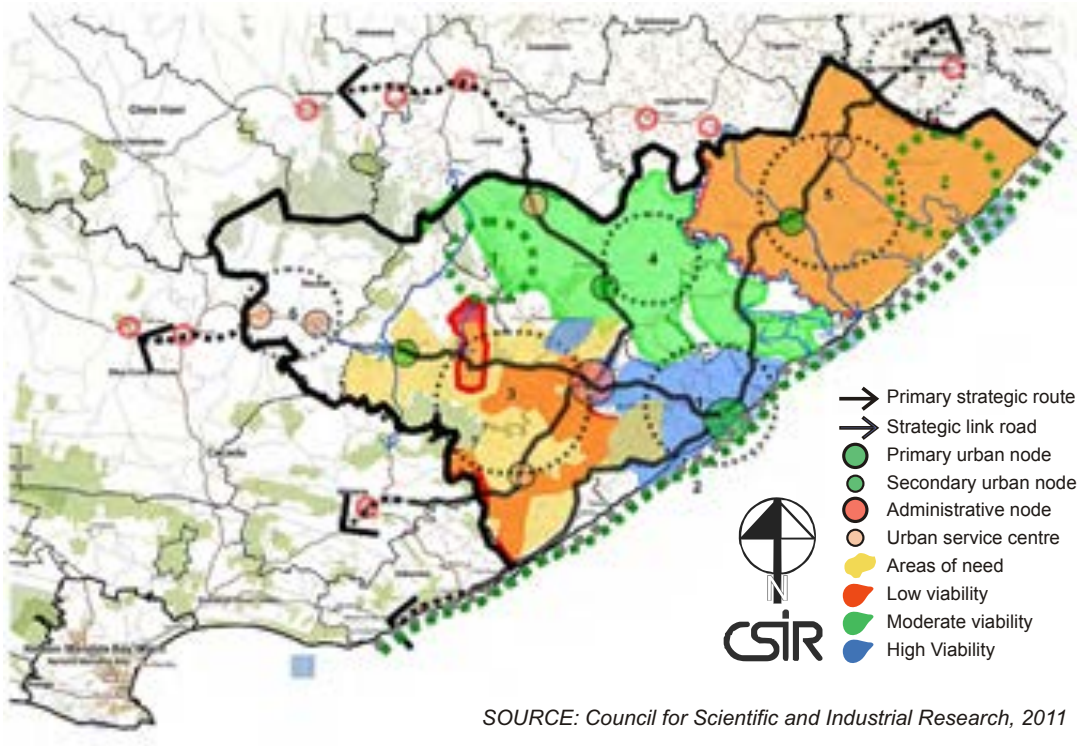
institutional architecture, processes and resources needed for effective spatial governance, as well as the required knowledge sets, skills, learning networks, innovation capacity and leadership.

It will take time to create this capability, drawing on a fuller understanding of the limitations and incorporating the lessons of good international practice. The short-term priority is to make the existing system work better, through capacity building, institutional coordination and legislative changes. But at the same time the state must support the process of building a robust planning system. Accountability systems need to be strengthened to ensure that planning systems are responsive to external pressures for change.

To develop the necessary capabilities, the Commission recommends the following:

- **An urgent and comprehensive review of the national planning system.** The Spatial Planning and Land Use Management Act is a necessary response to the Constitutional Court judgement in the Development Facilitation Act case. However, further legislative and institutional reform will be required if the deficiencies in the national planning system are to be properly addressed, and more comprehensive legislation should be produced within the next five years that should follow the proposed review. This broader reform should, for example, provide the platform for integration between spatial planning, transport planning and environmental management. It should also foster a much tighter integration of spatial planning and long-term infrastructure planning and finance regimes.

- **Improved spatial planning and coordination.** Spatial planning responsibilities in national government are scattered across several departments including Rural Development and Land Reform, Cooperative Governance and Traditional Affairs, Human Settlement, Transport, Environment Affairs and Trade and Industry. Strategic coordination should take place within the cluster system and in the Presidency, as discussed in chapter 13. This framework should also guide spatial planning and coordination. Areas for strategic coordination in this regard include the implementation of the national spatial framework and policy, resolving spatial conflicts and ensuring that the spatial outcomes of policies and programmes across government are aligned to national objectives. The strategic direction needs to



SOURCE: Council for Scientific and Industrial Research, 2011

be followed through with establishment of day-to-day working relationships towards agreed outcomes.

- The creation of a **national observatory for spatial data assembly and analysis.** This observatory would be informed by the success and experience of other observatories internationally, and at provincial and city-region scale in South Africa. It would collect, continually update and analyse data and other information relevant to spatial planning. The observatory could be linked to the proposed ministry or be located in one of the major research institutions in the country. Either way, it will have to be created via a legal framework that enables collecting, integrating and managing information from various sector departments and agencies.

- **Strengthen planning capabilities within local government** through the extension of existing initiatives[30], but also through institutional innovations that may include the regionalisation of planning and service delivery, or at least arrangements that allow for cross-border sharing of planning capacity. Rigorous implementation and monitoring of the Planning Profession Act is required as it would ensure proper capability and standards with regard to designing and interpreting spatial policies and strategies. It also relates to implementing land-use management, and the quality of development applications. Particular attention may need to be paid to land use management processes in areas under traditional governance.

- Develop a **capability framework for spatial governance** together with professional bodies, educational institutions and relevant government agencies. This framework should deal with strengthening the education and training of planners and other spatial professionals, promoting research in the field, effective regulation of the professions, improving the quality of professional work, providing incentives for spatial innovation, continuing professional development, ongoing formative evaluation, expanding scarce skills in urban design, for example, developing communities of practice who develop and exchange knowledge, and enhancing public knowledge.

- Introduce **spatial compacts** from neighbourhood to city level as a means to build consensus over spatial futures and mediate spatial conflicts. Incentivise the development of spatial compacts by linking funding to the successful negotiation of the compacts.

- **Support and incentivise active citizens** in the field of spatial development through a range of interventions including properly funded, citizen-led neighbourhood vision and planning processes[31]; matching local funding with national funding[32]; youth planning processes; public works programmes tailored to community building and local needs[33]; funding support for micro-initiatives at local level; dialogue forums involving people from different national and cultural backgrounds; and renewed attention to the People's Housing Process. The message needs to be sent out that people's own efforts are important, and the state must assist with the resources needed for poor communities and civil society to participate in spatial governance.

- Require municipalities to provide as much information on local areas as possible on an open-access basis and **support citizen training in spatial competencies.**

CONCLUSION

In these proposals, the Commission offers a combination of strategic vision and pragmatic

incremental changes. It gives strong emphasis to developing the instruments and capabilities needed for the effective spatial governance of development. There is an urgent need for the government to get its system, instruments and incentives right. Active citizenship is a critical component of the mix. The government needs to provide the channels for ordinary citizens to influence decision-making and resource allocation for the future of their communities, towns and cities.

Spatial transformation is a long-term project. There is massive investment in fixed assets – in all kinds of infrastructure, as well as housing, factories and offices. Shifts in spatial form may proceed at a glacial pace in areas where development pressures are low, and somewhat faster in areas of economic dynamism and population in-migration. However, while spatial transformation is not a quick fix, it can be effective if supported by strong policies, consistent implementation and political will. Future generations will benefit if development patterns begin to change now. New spatial arrangements could fundamentally transform job and livelihood prospects for the poor. Spatial transformation will reduce travel time and costs between home and work, and increase mobility for households to access better job and education opportunities. This in turn will reduce poverty and inequality.

The outcomes of spatial change may take decades to be realised fully, but a shift in direction can happen relatively quickly. These proposed interventions can be fully implemented in five years. Positive outcomes from these reforms should be evident within the period of the plan, providing the basis for real transformation in the rural and urban landscape over the subsequent decades.

NOTES

1. This refers to the changing distribution of economic activities and the shifting patterns of populations which responds in part to availability of economic opportunity.

2. With South Africa's average annual change in size of urban population (2010-2015) projected as 1.24 percent, compared to 2.34 for Botswana, 3.16 for Zambia, 3.31 for Namibia, 3.99 for Angola and 4.02 for Mozambique (United Nations Habitat's *State of African Cities - 2010* report).

3. This may include sustainable electricity generation and transmission, transporting and storing captured carbon, new transport technologies (networks for charging or fuelling vehicles using electricity, hydrogen or biofuels) and natural systems to handle storm water drainage and water recycling. It will also include more emphasis on the construction of houses and buildings that are more energy and water efficient.

4. For the purposes of presenting national statistics and for developing policy, it is necessary to provide some definition to the terms urban and rural. Currently the terms are used variably across government. Statistics South Africa has commenced a process of refining and clarifying terminology.

5. Wright G and Noble M (2009). *The South African Index of Multiple Deprivation 2007 at Municipal Level*. Report prepared for the Department of Social Development.

6. The Commission notes the valuable work currently being undertaken by the Institute for Poverty, Land and Agrarian Studies at the University of the Western Cape and the Centre for the Analysis of South African Social Policy at the University of Oxford in developing a multi-dimensional area typology that would assist in distinguishing places for the purposes of policy interventions.

7. Although the Traditional Leaders Governance Framework Acts of 2003 and 2009, read with the Municipal Systems Act of 2000, clarifies the responsibility of the Municipal Council in relation to land-use management in traditional areas, this is not reflected in the practice on the ground in many places.

8. Commonages, for example, offer advantages for job creation, farming incubators and welfare safety nets, but many are mismanaged, obsolete or controlled by relatively affluent groups.

9. 62 percent of South Africans own their own dwelling (Community Survey, 2007), although there is a considerable backlog in issuing title deeds (Urban Landmark, 2011).

10. South African Cities Network (2011). T*owards Resilient Cities: 2011 State of the Cities Report*. Johannesburg.

11. The Presidency (2011). *Development Indicators.*

12. The Commission acknowledges the insights provided by the Financial and Fiscal Commission, which has held public hearings on Housing Finance; Urban LandMark; the Monitoring and Evaluation Unit in the Presidency; the Department of Human Settlements; and various individuals.

13. The Mortgage Guarantee Fund and the revised Finance Linked Individual Subsidy Programme are important initial steps to direct further private funding into the lower end of the market.

14. Only 15 percent of households in South Africa have access to bond finance. About 60 percent qualify for subsidised houses, leaving a gap market of about 25 percent.

15. This has been emphasised in the rulings of the Constitutional Court, for example, where six out of the 12 rulings on socioeconomic rights by the Constitutional Court have been housing-related (The Socio-Economic Rights Institute of South Africa, 2011).

16. Financial and Fiscal Commission (2011). *Challenges and opportunities in Housing Finance in South Africa*. Available at http://www.ffc.co.za/index.php/media-a-events/interactive/public-hearings/housing-finance.html (accessed 15 March 2012).

17. These include Rural Development and Land Reform, Human Settlements, Cooperative Governance and Traditional Affairs, Economic Development and Environmental Affairs.

18. Cross, C (2010). Housing Delivery: Interphasing formal and informal. Presentation to the Department of Human Settlement planning workstream on 21 September 2010. Available at http://stepsa.org/resources/shared-documents/dhs-presentation-re-plnn-workstream-v-6-22-sept

19. This national conversation should be a collaborative venture between the Commission and other agents including the relevant government departments; agencies such as the South African Local Government Association and South African Cities Network; the private sector; and organisations of civil society including non-government organisations with a focus on human settlements, and initiatives such as Lead SA.

20. This will allow greater movement of people into spaces that optimise their opportunity for development and growth. It offers greater ownership and consideration of built environments, greater overall spatial efficiency, and with property value growth, an increased rates base that is essential for long-term sustainability.

21. These principles include supporting high-density mixed-use developments within walking distance of public transit stops, with high-quality public environments.

22. Targeted capital improvement budgets in transit-oriented zones could assist with the restructuring.

23. This may require giving consideration to alternatives to fixed-location subsidies such as housing vouchers or grants for purchasing building materials that would allow the beneficiaries to decide on the appropriate location for building.

24. Municipalities and the Department of Human Settlements (National and Provincial level) need to take joint responsibility.

25. A densification or restructuring subsidy or allowance could be considered.

26. The process initiated in 2007 to produce an inclusionary housing act needs to be concluded.

27. All existing funds allocated to built environment functions should be investigated with the view of to consolidating them into the proposed national spatial restructuring funds.

28. Value-capture instruments can create opportunities to fund much needed infrastructure and to increase access by poor communities to well-located sites in the city. For more details, see Urban Landmark, available at: http://www.urbanlandmark.org.za/research/x58.php (accessed 4 May 2012).

29. The National Upgrading Support Programme has made significant progress recently in developing the framework for informal settlement upgrading. These initiatives should be supported and extended.

30. Such as the committee of the Human Settlements Minister and Members of the Executive Council, innovative institutional applications among delivery agencies and new initiatives like the Large Cities Support Programme.

31. Funding will be required to assist local communities in procuring professional planning and facilitation capacity.

32. This could be achieved by introducing a neighbourhood development component to the proposed national spatial fund building on the experience of National Treasury's Neighbourhood Development Partnership Grant.

33. This could happen in at least four areas: a) the economy of social care, b) green infrastructure, c) cultural services, and d) public facilities such as schools, clinics, roads, parks, community centres and libraries.

CHAPTER NINE

Improving education, training and innovation

KEY POINTS

- The South African education system needs urgent action. Building national capabilities requires quality early childhood development, basic education, further and higher education.
- Early childhood development should be broadly defined, taking into account all the development needs of a child, and provided to all children.
- The priorities in basic education are human capacity, school management, district support, infrastructure and results-oriented mutual accountability between schools and communities.
- Further Education and Training colleges, public adult learning centres, sector education and training authorities, professional colleges and Community Education and Training Centres are important elements of the post-school system that provide diverse learning opportunities.
- Further education should expand moderately, and as quality improves/expands rapidly, higher education should incorporate a range of different institutions that work together to serve different priorities, including effective regulatory and advisory institutions.
- Distance education, aided by advanced information communication technology, will play a greater role in expanding learning opportunities for different groups of learners and promote lifelong learning and continuous professional development. Private providers will continue to be important partners in the delivery of education and training at all levels.
- Research and innovation by universities, science councils, departments, NGOs and the private sector has a key role to play in improving South Africa's global competitiveness. Coordination between the different role-payers is important.

INTRODUCTION

This chapter focuses on sub-sectors of the education, training and innovation system:

- Early childhood development
- Basic education
- Post-school
- The national research and innovation system.

It offers a vision, discusses challenges, and presents proposals in each of these sub-sectors. The work done by the Department of Basic Education (DBE) and Department of Higher Education and Training (DHET) in developing plans, strategies, programmes and policy initiatives has informed this chapter.

The chapter draws on the *Action Plan to 2014: Towards the Realisation of Schooling 2025* (DBE, 2011). The proposals in the *Green Paper for Post-School Education and Training* (DHET, 2012) were also taken into account. Many of the proposals in this chapter are already being implemented or under consideration by the relevant departments. Where the commission is making new proposals these will need to be tested before being adopted as policy.

2030 VISION

By 2030, South Africans should have access to education and training of the highest quality, leading to significantly improved learning outcomes. The performance of South African learners in international standardised tests should be comparable to the performance of learners from countries at a similar level of development and with similar levels of access. Education should be compulsory up to Grade 12 or equivalent levels in vocational education and training.

The education, training and innovation system should cater for different needs and produce highly skilled individuals. The graduates of South Africa's universities and colleges should have the skills and knowledge to meet the present and future needs of the economy and society.

Innovation is critical for introducing new products into the market and producing goods and services more efficiently. Research and development should be significantly expanded. Collaboration across the South African education system and with internationally accredited institutions should lead to higher levels of innovation.

The education system will play a greater role in building an inclusive society, providing equal opportunities and helping all South Africans to realise their full potential, in particular those previously disadvantaged by apartheid policies, namely black people, women and people with disabilities.

The different parts of the education system should work together allowing learners to take different pathways that offer high quality learning opportunities. There should be clear linkages between schools, FET colleges, universities of technology, universities and other providers of education and training. There should also be clear linkages between education and training and the world of work.

The single most important investment any country can make is in its people. Education has intrinsic and instrumental value in creating societies that are better able to respond to the challenges of the 21st century. Lifelong learning, continuous professional development and knowledge production alongside innovation are central to building the capabilities of individuals and society as a whole.

South Africa has set itself the goals of eradicating poverty, reducing inequality, growing the economy by an average of 5.4 percent, and cutting the

unemployment rate to 6 percent by 2030. Education, training and innovation are critical to the attainment of these goals.

Higher levels of education, skills, research and innovation capacity are also required for:

- The transition to a low carbon economy and meeting the greenhouse gas emission targets
- Tackling health challenges
- Developing new and utilising existing technologies
- Taking advantage of the opportunities that arise from economic growth.

South Africa needs engineering skills to deliver the massive infrastructure programme announced in the 2012 State of the Nation address. The country also needs enough doctors, nurses and health professionals in different occupational classes to deliver quality healthcare. Critically, the pool of researchers needs to expand and their productivity needs to increase significantly. Innovators are going to play a critical role in creating new products and new ways of producing existing products cheaply and more efficiently, including the delivery of public services.

Building national capabilities requires quality early childhood development, schooling, college, university and adult education and training programmes. Research institutions and the national science and innovation system must be coordinated and collaborative.

FIG 9.1 EDUCATION AND TRAINING PROVIDERS IN SOUTH AFRICA

Early childhood development	Primary education	Secondary education	Post school
• Public centres • Non-profit centres • Private centres • Corporate foundations	• Public schools • Independent schools • Home schools	• Public schools • Technical high schools • Independent schools • Home schools	• Universities • Universities of technology • Private higher education institutions • Public further education and training colleges • Private further education and training colleges • Workplace training providers • Non Profit Organisations • Public & private adult learning centres • Professional colleges

EARLY CHILDHOOD DEVELOPMENT

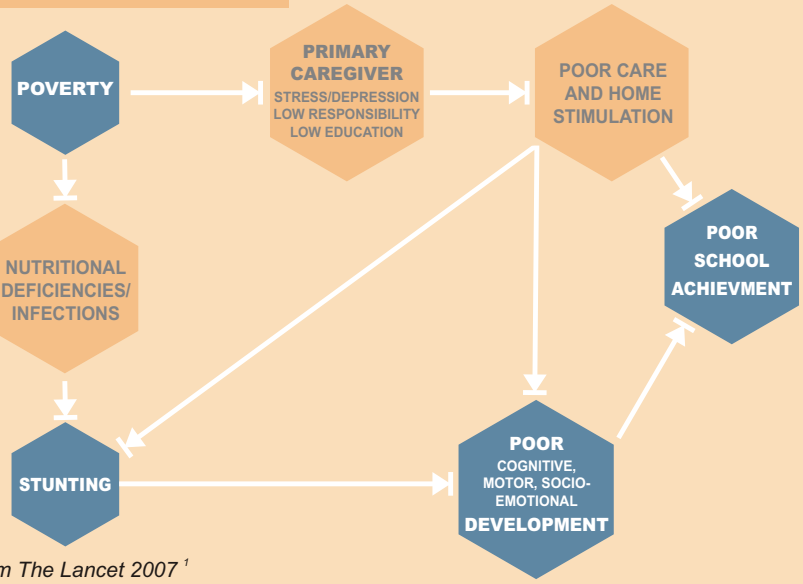
The benefits of intervening early in the lives of children include:

- Better school enrolment rates, retention and academic performance
- Higher rates of high school completion
- Lower levels of antisocial behaviour
- Higher earnings
- Better adult health and longevity.

Improving early nutrition has been shown to increase school attainment by up to one grade and adult earnings by up to 40 percent. Early childhood development is critical for children to reach their full potential.

As envisioned by the 2001 White Paper on Early

FIG 9.2 RELATIONS BETWEEN POVERTY, STUNTING, CHILD DEVELOPMENT AND SCHOOL ACHIEVEMENT



Source: Adapted from The Lancet 2007 [1]

Childhood Education, early childhood development includes:

- Family planning, healthy pregnancies and postnatal care to give children an optimal start in life
- Nutrition support for pregnant and breastfeeding women and young children
- Birth registration, social security and other state provisions for the poorest families
- Support for parenting
- Quality learning by young children at home and in groups, programmes and centres
- Preparation for formal schooling.

PROGRESS IN ASPECTS OF EARLY CHILDHOOD DEVELOPMENT PROVISION

South Africa is doing very well in some spheres:

- 87 percent of households with a young child have access to safe drinking water
- 82 percent of households with a young child are connected to mains electricity
- 97 percent of pregnant women attend at least one antenatal clinic
- 89 percent of children are fully immunised at one year old
- 83 percent of births are registered
- 73 percent of eligible young children receive the child support grant
- 83 percent of children are enrolled in Grade R, remarkable progress over the last decade in expanding access to Grade R.

Source: *Diagnostic Review of Early Childhood Development, 2012* & various DBE reports

For many South African children life is a constant struggle from a very young age. The coverage of quality early childhood development services is uneven. Apart from health services, early childhood development services below Grade R are mainly provided by private for-profit operators, community-based organisations and large non-governmental organisations (NGOs). Through a family income means test, a per-child subsidy is provided to registered centres. This covers over 400 000 children. However, because early childhood development is still privately provided, registered centres are unevenly distributed and do not yet reach the most vulnerable poor children, especially in rural areas. Fees also inhibit the poorest families from using what services are available. Early childhood development programmes need to expand, with government support, to reach all vulnerable children, including children with disabilities.

Life chances are shaped before birth. There are 2.8 million households and 11.5 million people who are vulnerable to hunger, over 72 percent of whom live in rural areas. Poverty affects the health, dietary habits and health care of pregnant women.

Nationally, stunting affects almost one in five children (18 percent), with higher levels of stunting in rural areas (24.5 percent), and urban informal areas (18.5 percent). About one in 10 children (9.3 percent) are underweight, reflecting the severity of child under-nutrition. Children, pregnant and breastfeeding women and those living with tuberculosis (TB) and HIV/AIDS are most at risk.

Micronutrient deficiency is also a problem. One in four women lacks vitamin A and about a third of women and children are iron deficient. A third of preschool children are vitamin A deficient, 21.4 percent are anaemic and 5 percent suffer from iron-deficiency anaemia. About a third of very young children do not get enough food and nutrition, affecting their growth, health, cognitive development and full participation in society. Nowhere is this more evident than in South Africa's poor schooling outcomes and low skills base.

Nutrition programme for mothers and infants

Children entering primary school in 2012 will be working in 2030. How healthy they are, how well they function, how well they do at school and in the labour market depends on the decisions the government and all in society make now.

Bhutta, et al highlighted the 1 000-day window of opportunity from pregnancy to 24 months as a critical period in the development of a child. Essential early measures to give each child a better start in life can be delivered through a two-year programme for mothers and infants including:

- Vulnerable caregivers
- Adequate nutrition including micronutrients
- Immunisation
- Protection from destitution
- Care and stimulation.

The Department of Health interacts with pregnant women, new mothers and young children as part of its antenatal and postnatal services. It is well placed to lead on health care and nutrition, with support from the Department of Social Development through home and community-based services. The primary health care strategy for child health in South Africa, Integrated Management of Childhood Illness (IMCI) has a Care for Child Development (CCD) module that supports mothers and other caregivers to stimulate children's development through age-appropriate language and play. An expansion of IMCI and CCD should be piloted as part of the broader effort to improve early childhood development.

Universal access to early childhood development

In 2030 in South Africa, there will be about 4 million children under 3, nearly 2 million in the 4–5 years age group and just under 1 million 6-year-olds. The majority of these children will be in urban areas, but there will also be a significant number in rural areas. Plans for early childhood development infrastructure and services need to differentiate between the needs of urban and rural areas. There are differences in these areas that require customised approaches.

The interventions should be different for children of different age groups. The youngest (0–3 years) are best served through clinic, home and community-based programmes that focus on working with families. 4–5 year old children benefit from some structured learning in group programmes.

The quality and coverage of early childhood development services for children aged 0–4 is poor. Grade R is currently the strongest element of preschool learning and support. It links early childhood development services to primary schools. This method should be extended to include four and five year olds. But it would have to build on a firmer foundation of child nutrition, health and development from pregnancy to three years of age, without which children will not be able to take advantage of an expanded preschool experience.

Early childhood development services should be flexible, and responsive to the needs of children, families and communities. Some services need to be targeted directly at children, while others provide support to their primary caregivers.

It is also essential that everybody has access to services of a consistently high standard regardless of who they are and where they live. Specific consideration should be given to the most vulnerable children – those who are living in poverty, at a great distance from existing services, or with disabilities.

Universal access to quality early childhood development for children aged 0–3 must be made available and have a strong nutrition and educational focus. Although early childhood development may continue to be provided through the private sector, a stronger role for the government is essential.

The central challenges include:

- Funding for infrastructure and staff
- Training for teachers
- Learner support materials and equipment
- Strengthening of support agencies
- Reaching the most vulnerable children and families
- Ensuring that departments responsible for different aspects of early childhood development work together.

Proposals for early childhood development

- Make early childhood development a top priority among the measures to improve the quality of education and long-term prospects of future generations. Dedicated resources should be channelled towards ensuring that children are well cared for from an early age and receive appropriate emotional, cognitive and physical development stimulation.

- Broaden the definition of early childhood development, taking into account all the development needs of a child. Use the expanded definition as the basis for all strategies.

- Make 2 years of quality preschool enrolment for 4 and 5 year olds compulsory before Grade 1.

- Define and phase in a comprehensive package of services for all young children.

- Address the coordination weaknesses between the different sectors and departments responsible for early childhood development services in order to strengthen collaboration. The Commission will work with the respective departments to find a solution to the perennial coordination challenge in the delivery of early childhood development services.

- Standardise the guidelines, norms and standards for early childhood development programmes. The Department of Basic Education has a set of guidelines for the planning of public schools, which also sets out requirements for Grade R facilities. The Department of Social Development published regulations in 2009 that set out national norms and standards for drop-in centres in terms of the Children's Act of 2005. These guidelines, norms and standards must be standardised and should take into account the needs of children with disabilities in all communities.

- Encourage innovation in the way early childhood development services are delivered. Home and community-based early childhood development interventions should be piloted in selected districts. Financing for this initiative could involve working closely with foreign donors and private sector funders. External finance is useful as a way of piloting new initiatives not for basic funding of early childhood development programmes, which the state must provide.

Improve state funding for early childhood development. Current funding mechanisms are not adequate for the expansive early childhood development programme reflected in this plan. It is important to test and develop funding models that cover the comprehensive package of services.

Strengthen coordination between departments, as well as the private and non-profit sectors. Focus should be on routine day-to-day coordination between units of departments that do similar work. Officials who work on issues that affect children should find effective ways to deliver programmes and resolve problems across departments and sectors rather than wait for coordination at the level of directors general.

Invest in training early childhood development practitioners, upgrading their qualifications and developing clear career paths.

Provide governmental support for training, resource and other intermediary agencies so that they can support community-based programmes.

Institutional architecture

The primary purpose of early childhood development will continue to be comprehensive support for the holistic development of young children and their families. This requires the convergent efforts of several departments and depends on a strong coordinating mechanism. While the departments of health, basic education and social development lead in providing services for young children, poor vulnerable families also depend on the efforts of the Department of Home Affairs for their children's birth registration in order to access state support, the Department of Human Settlements for housing subsidies, and the Departments of Energy and Water Affairs for basic services.

The state is responsible for ensuring that all vulnerable families receive a comprehensive package of early childhood development services. There should be a policy and programme shift to ensure that the Department of Basic Education takes the core responsibility for the provision and monitoring of ECD. Other departments should continue to provide services in a supportive capacity. Resource allocation should gradually reflect the changes in institutional responsibility for early childhood development.

BASIC EDUCATION

South Africa's school education successes over the last 18 years have largely been in:

- Providing universal access to educational opportunities for the majority of learners
- (97% participation for the cohort 7 to 15 years, and 83% for 16 to 18 year olds, including further education institutions)
- Improving infrastructure
- Equalising resource allocation
- Providing free education to learners from poor households through fee exemption and the no-fee policy
- Expanding the nutrition programme to 6 million learners.
- The major shortcoming is the quality of school education outcomes.
- The main contributory factors include:
- Human capacity weaknesses in teaching, management and school support (district offices)
- The language skills of learners
- The lack of cooperation between key stakeholders, particularly unions and the government.

Attempts to address school education challenges have been characterised by blame and a lack of accountability.

The National Development Plan is aligned with the Department of Basic Education's *Action Plan and Vision for Schooling in 2025* in both its diagnosis and proposed solutions. These plans are complementary, not competing. The National Development Plan makes new proposals in some areas and in others it merely outlines general points of departure to frame and guide reforms in education.

Some of the areas that need attention can be grouped into the following categories:

- The role of teachers, principals, other stakeholders, parents and districts.
- Infrastructure and information and communication technology (ICT).
- Curriculum, incentives, inclusivity and language issues.

Sports, school health, arts and culture.

The role of stakeholders in basic education

- The interests of all stakeholders should be aligned to support the common goal of achieving good educational outcomes that are responsive to community needs and economic development.
- Educational institutions should be provided

- with the capacity to implement policy. Where capacity is lacking, this should be addressed as an urgent priority.

- Teachers should be recognised for their efforts and professionalism. Teaching should be a highly valued profession.

- Attention should be given to the continuing development of teachers and promotion of professional standards. Bodies such as the South African Council for Educators and specialist subject associations need to play a greater role in this. Teachers must have a good knowledge of the subjects they teach and cognitive competence in the language in which they are required to teach. Subject knowledge particularly needs strengthening in maths and science.

- The best teachers should be retained and new ones attracted. Bursary programmes for continuing professional development can improve the quality of teaching and help to attract and retain teachers. The pay structure for teachers should encourage them to stay in the profession.

- The core business of schools is learning and teaching, and the core task of principals is to ensure their school ethos is conducive to these priorities. Principals need to provide leadership on the curriculum, as well as administration and management.

- Teaching in schools can be improved through targeted support by district offices. District offices should also ensure communication and information sharing between the education authorities and schools, and also between schools.

- Top performing schools in the public and private sectors must be recognised as national assets. They should be supported and not saddled with unnecessary burdens. Their support should be enlisted to assist underperforming schools. To remain the beacons of our education system, they need to be supported as well as held accountable for performance based on an agreed set of outcomes.

- Providing meaningful information to parents on their children's performance can enable them to hold schools accountable. Performance tends to improve when parents are actively involved and take an interest in the affairs of the school.

School infrastructure

- Ensure that all schools meet minimum standards for infrastructure and commit to progressively upgrading each school's infrastructure to meet optimum standards.

- Target no-fee schools when planning infrastructure to compensate for resource deficits in communities. There should be well-equipped libraries, laboratories, computer and media centres to ensure that learners in no-fee schools have access to similar learning resources to their counterparts in less poor communities.

- Take learner safety into account when planning infrastructure.

- High speed broadband should be readily available and incorporated into the design of schools. This will enable greater use of technology in education and enhance the classroom experience for both teachers and students.

- Explore the use of mobile devices such as

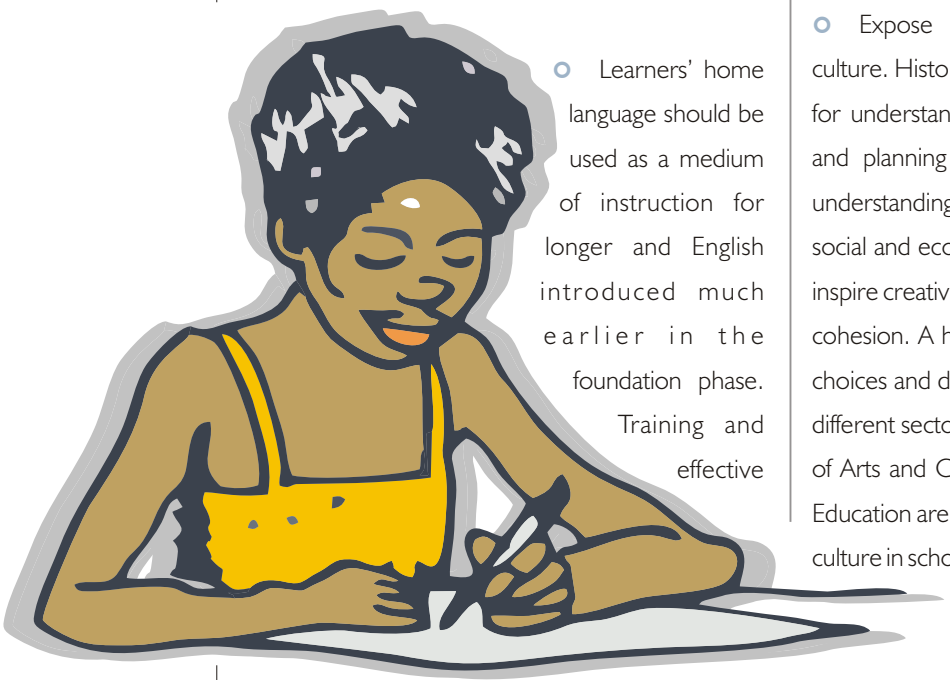
phones and tablets in distributing learning content.

Curriculum, incentives, inclusivity and language issues

- Avoid disruptive changes to the curriculum. Keeping curriculum changes to a minimum will enable teachers to develop the core skills and competence to deliver the curriculum.

- Introduce incentive schemes linked to the annual national assessments to reward schools for consistent improvements. Avoid entrenching historical inequalities by ensuring that the incentives reward schools according to the rate of performance improvements.

- Provide inclusive education that enables everyone to participate effectively in a free society. Education provides knowledge and skills that people with disabilities can use to exercise a range of other human rights, such as the right to political participation, the right to work, the right to live independently and contribute to the community, the right to participate in cultural life, and the right to raise a family. Ensuring that all children with disabilities have access to quality education will help South Africa meet its employment equity goals in the long run.



- Learners' home language should be used as a medium of instruction for longer and English introduced much earlier in the foundation phase. Training and effective support materials should be available for teachers and learners to facilitate the transition to English as the language of learning and teaching.

- Introduce career guidance at the senior phase of primary school to ensure that learners are aware of further educational opportunities and can make informed career choices. Programmes to expose learners at the earliest stages of primary school to different careers also should be supported. Career guidance helps expose learners to opportunities and should be an integral part of the school curriculum. This will help reduce the high number of learners who drop out.

Sports, arts and culture

- Encourage sports and physical education. They are an integral part of the holistic development of a learner. Schools are where talent is identified, career choices made (including careers in sport) and habits learnt. Given the growing problem of obesity, the habit of leading an active life-style can be developed at a young age through participation in sport. Working with the Department of Sport and Recreation, the Department of Basic Education has reintroduced school sport. This positive initiative needs to be expanded.

- Expose learners to history, heritage and culture. History, heritage and culture are important for understanding the past, analysing the present and planning for the future. They foster social understanding and cohesion, which is important for social and economic stability and growth. The arts inspire creativity and innovation and also build social cohesion. A holistic education widens career path choices and develops audiences and consumers in different sectors of the economy. The Department of Arts and Culture and the Department of Basic Education are developing plans to revitalise arts and culture in schools.

Long-term goals for basic education

Improving the performance of the South African education system requires hard work and focus.

The Commission proposes that specific focus over the next 18 years should be on:

- Improving literacy, numeracy/mathematics and science outcomes
- Increasing the number of learners eligible to study maths and science-based degrees at university
- Improving performance in international comparative studies
- Retaining more learners.

These goals will require improvements in other areas as well and will impact on the education system as whole.

Improve literacy, numeracy/mathematics and science outcomes

The Department of Basic Education aims to increase to 90 percent the number of learners in grades 3, 6 and 9 who have mastered the minimum competencies in language and numeracy by the end of each year. The Commission proposes that the required competency levels be defined as 50 percent and above. In other words, 90 percent of learners in grades 3, 6 and 9 must achieve 50 percent or more in the annual national assessments in these subjects.

Increase the number of students eligible to study maths and science at university

In 2011, 120 767 learners were eligible for a bachelor's programme, down from 126 371 in 2010. The Department of Basic Education's plan is to increase the number to 300 000 by 2024, with 350 000 learners passing mathematics and 320 000 learners passing physical science. The Commission proposes a target for 2030 of 450 000 learners being eligible for a bachelor's programme with maths and science. Action is required throughout the education system, but particularly in early childhood development given that the cohort that will enter university in 2030 has not yet started primary school. Consideration should be given to expanding the Dinaledi Schools initiative, which increases access to maths and science in underprivileged schools.

Improve performance in international comparative studies

The Department of Basic Education aims to improve South Africa's average Southern and East African Consortium for Monitoring Education Quality results for grade 6 languages and maths from 495 to 600 points by 2022. And to improve average grade 8 scores in the Trends in Mathematics and Science Study (TIMSS) from 264 to 420 points by 2023. The Commission proposes that grade 8 scores in the round of TIMSS closest to 2030 should reach 500 points.

South Africa needs to develop and strengthen collaboration with other education systems in the English-speaking world and the BRIC countries (Brazil, Russia, India and China) to ensure that students from the South African education system are equipped to be admitted into those systems. International collaboration in education will help South Africa to successfully tackle its education challenges. Stronger educational links with these countries will also help students to become increasingly broadminded in terms of how they look at both South Africa and the wider world.

Retain more learners

South Africa loses half of every cohort that enters the school system by the end of the 12-year schooling period, wasting significant human potential and harming the life-chances of many young people. Secondary school completion rates are 77 percent in the United States, 87 percent (to

the age of 16) in the United Kingdom and 93 percent in Japan. South Africa should aim for a comparable completion rate of between 80–90 percent, including learners in further education and training (FET) colleges. Compulsory education should be extended to successful completion of Grade 12 in basic education or the equivalent level in the post-school sector. FET colleges should provide a meaningful vocational education alternative to secondary schooling. There needs to be alternative post-secondary education of good quality for learners who cannot, or choose not to, go to university.

Proposals to improve human capacity

Human capacity weaknesses are pronounced in teaching, management and district support structures. Over the next 18 years, the following actions will need to be given attention. Some of the actions will be short to medium-term and others will be medium to long-term.

Produce more and better qualified teachers

The number of teachers produced each year has increased noticeably, but there are still shortages of teachers for certain subjects and age-groups. Subjects with teacher shortages include languages, mathematics, science, technology and the arts. The shortages are compounded by the fact that teachers who specialise in these subjects are not always assigned to teach them. There are shortages in the foundation phase and early childhood development. Geographically, shortages are acute in township and rural schools.

One of the main reasons South Africa needs more teachers is to reduce class sizes. Class sizes impact on learner performance. Small classes allow teachers to give more attention to individual learners. In South Africa, for every teacher there are 33 learners, compared to Botswana where the ratio is 1:22, which is one of the lowest teacher/learner ratios in the world. The Department of Basic Education estimates that to achieve the same ratio as Botswana, the public sector has to employ 160 000 more teachers.

The solution to the weaknesses in teacher capacity is not simply to train more teachers or for existing teachers to gain higher qualifications. Teachers certified as qualified increased from 54 percent in 1990 to 94 percent, but outcomes have remained poor.

- South Africa needs to improve the quality of teacher training, and recruit higher calibre candidates. *The Integrated Strategic Planning Framework for Teacher Education and Development in South Africa 2011–2025,* provides a useful framework. It needs to be strengthened and there should be incentives to ensure it is implemented effectively.

- In the short to medium term, recruit foreign teachers in the areas of critical shortages and grant seven-year working permits to foreign students graduating in South African universities.

- Explore non-conventional approaches to attracting and preparing teachers, such as professionals from other areas entering teaching (second-career professionals), on the job training, and fast-track entry systems for experienced professionals.

- Create an institutional environment that allows educators in private schools to move back to the state system.

The availability of teachers in all subjects in all schools requires:

- Expanding training capacity
- Investigating new ways of attracting teachers
- Removing entry difficulties for teachers who have left the profession, foreign teachers, and

professionals from other sectors

- Addressing policy blockages that prevent the deployment of teachers to teach where they are most needed.

Expand the Funza Lushaka bursary scheme

- Strengthen and expand Funza Lushaka, an important new strategy to attract learners into the teaching profession. Full-cost bursaries enable eligible students to complete a full teaching qualification in an area of national priority. Recipients of these bursaries are required to teach at a public school for the same number of years that they receive the bursary.

- Ensure that Funza Lushaka graduates are immediately absorbed into schools. Human resources planning should anticipate the number of Funza Lushaka graduates each year and deploy them to the schools where there are shortages. It should not be left to graduates to find placements in schools.

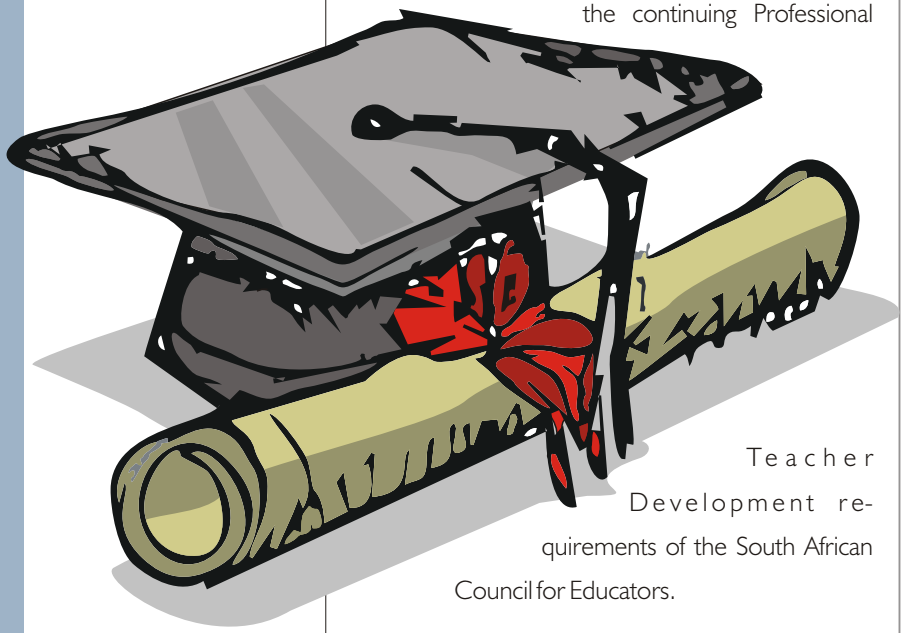
Develop teachers' skills and commitment

- Help teachers develop better ways of delivering the curriculum using the learner workbooks that are provided, including structuring lessons, covering the material in the curriculum and conducting assessments. This should be the short-term focus and directed at in-service teachers. As teachers gain confidence and develop skills to deliver the curriculum, the focus will move to other aspects of teacher development.

- Help teachers improve their knowledge of the subjects they teach. This is of critical importance. Teacher development should build teachers' subject knowledge and provide training in effective teaching methods. Teacher development programmes should be targeted at those areas where teachers' subject knowledge is weakest.

- The department, schools and professional bodies should be involved in organising and delivering teacher development activities. Teachers must also take the initiative to identify the areas in which they need further development and approach the department for assistance to access

training opportunities. Courses that are in line with the requirements of the teacher's job must be fully subsidised by the government and should take place outside term time. On completion of the course or professional development activities, teachers should earn points towards meeting the continuing Professional Teacher Development requirements of the South African Council for Educators.



- Expose teachers to the use of technology in their own training, and train them to use it in their teaching. Greater use of technology backed by high-speed broadband could open new opportunities not currently available for learners in disadvantaged schools.

- Investigate introducing professional certification. Newly qualified teachers would need to demonstrate certain competencies before they are employed in schools, and after that they would be offered preliminary or probationary certification, to be finalised based on demonstrated competence. The professional certification of all teachers would need to be renewed periodically (for example, every five years), serving as an incentive for teachers to undertake continuous professional development.

Professional associations

- Allow a wide range of training providers to offer professional development courses for teachers, subject to approval by the South African Council for Educators.

- Support professional associations working more closely with teachers to provide professional development opportunities, disseminate information about best practices and provide updates on cutting-edge research in particular school subject areas. In subject areas where professional associations do not exist, provide incentives to stimulate their establishment.

Teacher unions

Teacher unions are crucial to improving the education system. Experience in other countries shows that without a good level of professional expertise among union leaders, it is difficult to get unions to move beyond the issue of salary increments to the core professional concern of improving the quality of education.

- Investigate ways of working with unions to reach their members.

- Sponsor advanced studies for union leaders as part of a constructive partnership.

- Assist unions in developing the capacity to implement continuous professional development strategies for their members. Over time, accredit professional development institutes linked to unions so that they can offer continuous professional development that earns points towards meeting the Continuing Professional Teacher Development requirements of the South African Council for Educators.

Remuneration

- Change the pay structure for teachers. Bursaries alone will not attract enough top-

achieving candidates into teaching. The flat wage gradient is a deterrent for highly skilled people. Teacher salaries need to be competitive in comparison to other parts of the public sector. The wage structure should recognise qualifications, experience and the scarcity of skills in specific subjects or geographic areas.

- Link the pay structure to career paths and reward good teachers.

Improving performance

Many education experts are critical of the idea of linking teacher pay to the performance of learners because it ignores other factors affecting learner performance, such as the socioeconomic status of learners, parent involvement, learning backlogs, and school infrastructure and resources. Teachers in poor areas would be penalised for factors they have no control over, and teachers in rich schools would be more likely to benefit. The Commission therefore proposes that incentives be directed at schools rather than at individual teachers to focus on those areas where teachers working collectively can make a difference.

- Reward schools that show continuous improvements in their annual national assessments. To target incentives at where they are most needed, design the incentives to prescribe that schools should improve their results by 10 percent or more to qualify. Many of the schools in affluent areas are already performing at high level with pass rates above 80 percent and are unlikely to improve their results by 10 percent.

- Ensure that improvements are sustainable by prescribing that schools must show improvement over three consecutive years to qualify for rewards.

- Maintain a careful balance between making the conditions too difficult so that it is not worthwhile for schools to work towards them, or so easy that they make no difference to performance.

Proposals for improving school management

The core business of schools is learning and teaching. The main responsibility of a school principal should be to lead the core business of the school.

Appropriately qualified and competent principals

- Change the appointment process to ensure that competent individuals are attracted to become school principals. As in other senior management positions, candidates should undergo a competency assessment to determine their suitability and identify the areas in which they would need development and support.

- Eliminate union influence in promoting or appointing principals. Unions play an important role in recruitment to ensure that proper procedures are followed, but not in deciding who gets promoted or appointed. Most of the undue influence by unions is possible because the district officials responsible for recruitment and human resources management have a limited understanding of labour laws. The Department of Basic Education and provincial departments of education must ensure that human resources management capacity is improved.

- Implement an entry qualification for principals. In 2007, the Department of Education introduced an entry qualification for aspiring principals with a view to improving educational outcomes. The Advanced Certificate in Education (ACE) was

piloted nationally. The External Evaluation Research Report of the Advanced Certificate in Education did not find clear evidence of short-term gains in matric results at the schools where principals had undergone ACE training. The fact that the evaluation was done only two years after the qualification was introduced may explain its limited impact and the evaluation results should not be used to discredit and discontinue the implementation of an entry qualification for principals. The results of the evaluation must be used to improve and strengthen this programme. The qualification (or its adaptation) should continue to be offered as in-service training for incumbent principals.

Performance management

- Introduce performance contracts for principals and deputy principals, in line with Department of Basic Education policy. Use these contracts to help principals find ways to improve their performance every year, including identifying their training needs. Over time performance contracts should also be introduced for other members of school senior management teams (SMT).

- Replace principals who repeatedly fail to meet performance targets, based on monitoring information and interviews with school stakeholders.

- Use data from the performance management systems to identify areas where principals need more training and possibly to update the ACE curriculum.

Powers of principals

- Gradually give principals more administrative powers as the quality of school leadership improves, including in financial management, the procurement of textbooks and other educational material, and human resources management. These delegations ensure that principals are held accountable for their schools. Provincial departments will remain the employer of educators, and wages will continue to be centrally determined.

Proposals for improving district support

- Create capacity in districts so that they can support schools to deliver the curriculum. Districts require skills and expertise in curriculum management, project management, data analysis, monitoring, planning, reporting, accounting and problem solving in order to provide effective support. Many of the weaknesses in schools are a reflection of weaknesses at the district level. Curriculum experts at district level should support teachers, and managers should support principals and heads of departments. Districts should also be responsible for planning for the academic year in each school, making sure that each school has all the necessary materials, and designing interventions to support underperforming schools.

- Deploy multidisciplinary support teams to work with districts in the short to medium term.

Proposals for results oriented mutual accountability

Schools can be intimidating for many parents of learners. In poor communities in particular, there is an imbalance in power relations. Parents often feel ill equipped to engage with teachers and school management about the performance of their children and the school as a whole. The absence of accessible performance indicators and the lack of feedback from teachers makes it difficult for parents to monitor their child's progress and engage with the school.

This breakdown in the relationship between schools and parents also makes it more difficult for teachers to maintain discipline and hold learners accountable for regular, punctual attendance.

- Construct a results-oriented framework of mutual accountability where districts are accountable for supporting schools, including the nature of the support they provide, the number of times they have visited each school and what they did during the visits. Schools also need to be accountable to education authorities for their overall performance on key indicators. More importantly, schools should be accountable to the school community for the performance of the school in relation to the annual school plan. Finally, parents should be accountable for the behaviour, attitude, attendance and work ethic of their children.

- Provide all stakeholders with clear information on accountability measures. Accountability measures are likely to be met with resistance because they change the balance of power. At first, they will add to the workload of teachers and principals and put new obligations on parents. Once systems and routines are established, the workload will lessen and the system will deliver benefits for everyone.

- Each school should have a plan that maps out its goals for the academic year. Performance indicators, such as the rate of improvement on annual national assessment (ANA) results, curriculum coverage and teacher and learner attendance, should be monitored and regular reports provided to parents. The ANA results should be made accessible to parents and the community in a way that makes the data easy to interpret.

Reliable measures

- Externally administer and mark the ANA for at least one primary school grade to ensure that there is a reliable, system-wide measure of quality for all primary schools. This will serve as a snapshot of the health of the system and help authorities to develop targeted interventions.

Community ownership

- Give additional support to governing bodies. School governing bodies have a clear legal mandate to oversee the governance of schools. This includes extensive responsibility for finances and internal school policies. Many governing bodies are significantly hampered by parents' lack of expertise and social status relative to school staff.

- Develop a strong sense of community ownership. This encourages community members to assist with a range of tasks, such as helping to deliver the school nutrition programme, growing and supplying the school with vegetables and preparing meals, monitoring learner safety, and preventing vandalism and theft. School management will have to work with communities on an on-going basis to develop and maintain such a sense of ownership.

Proposals to improve school infrastructure

School infrastructure backlogs have been considerably reduced over the past 10 years. But many school environments are still not conducive to learning.

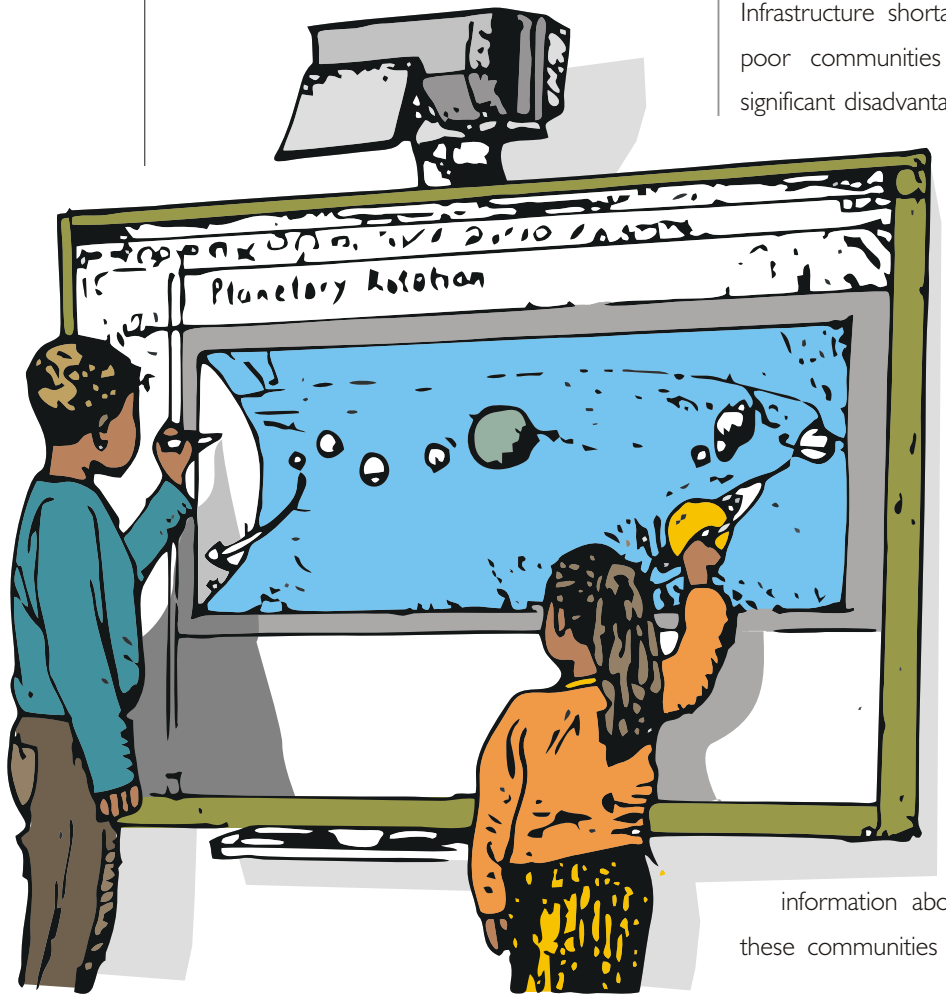
The Department of Basic Education has committed itself to eradicating 496 inappropriate structures, providing basic water to 1 257 schools, providing basic sanitation to 868 schools and providing electricity to 878 schools in the 2012/13 financial year. To meet these commitments, the department will have to:

- Find ways to deliver infrastructure and services more efficiently and cost-effectively
- Improve the quality of information used for planning.

Factors affecting the continued backlogs:

- Vandalism and theft of equipment
- Natural disasters such as storms, floods and fires
- Migration to urban areas puts pressure on infrastructure in those areas, while other schools are underused
- Escalating building costs even as the school infrastructure budget has increased
- Lack of capacity in planning, procurement, project management, financial management and construction management.

In addition to suitable buildings, schools need access to services such as water, sanitation and electricity. The rollout of infrastructure for these services is bedevilled by poor coordination between different state agencies and local authorities, who are responsible for providing infrastructure services.



Infrastructure shortages are particularly acute in poor communities where learners are at a significant disadvantage. The no-fee school policy and school nutrition programme are important interventions to mitigate the negative effects of poverty on learning.

In many rural areas schools are the only public institution communities have access to. No-fee schools are typically located in areas with low levels of education, fragile social networks, largely dysfunctional community structures, no community libraries, limited access to media, and few sources of information about opportunities. Schools in these communities should be strengthened and

equipped with the best infrastructure, equipment and resources (especially ICT infrastructure) to strengthen their role in countering historical disadvantage. No-fee schools should be targeted for significant infrastructure upgrading.

The Department of Basic Education has guidelines for planning public school infrastructure. These guidelines classify primary and secondary schools into four categories based on the number of learners: small, medium, large and mega schools. The school environment is further graded according to basic safety, minimum functionality, optimum functionality and possibilities for enrichment. The guidelines are sound and should be legislated to ensure that they are adhered to. Legislated guidelines will help to ensure they are not deliberately ignored by officials involved in planning, constructing and improving school infrastructure.

Goals

- Eradicate infrastructure backlogs. All schools should meet the minimum standards by 2016.
- Undertake an infrastructure audit to enable proper planning. By 2030, all schools should have high quality infrastructure.

Actions

- Investigate the spiralling costs of building schools. Chapter 13 sets out principles for ensuring that procurement delivers value for money
- Develop measures to build schools at a reasonable cost without compromising quality.
- Expand infrastructure delivery capacity.
- To avoid construction delays clarify and streamline the responsibilities of different institutions including the Departments of Basic Education and Public Works, the Independent Development Trust, provincial departments of education, and local authorities.
- Reverse the decision to centralise the delivery of school infrastructure and develop capacity at the appropriate levels. Procurement decision making should remain decentralised but there's a central role in providing enabling structures (in this case guidelines on price, materials and construction firms) as well as differentiated oversight.
- Plan new schools according to population trends and settlement patterns to avoid constructing schools where demand is declining. This will require closer coordination with local authorities.
- The Department of Basic Education, Department of Communications, Department of Public Enterprises and INFRACO must draw up a joint plan to roll out broadband ICT infrastructure to schools. ICT will play an increasing role in education over the next 18 years, and the most crucial enabler of ICT is high-speed broadband. Corporate foundations, NGOs and international donors should be invited to work with the government to develop open source educational software and content.

The education pact

It is generally accepted that South Africa's education system needs far-reaching reforms. Many corporate foundations, NGOs, faith-based organisations, and individuals have offered their expertise as part of a national initiative to support schools to improve learning outcomes.

The Department of Basic Education's plan, the Basic Education Accord, the Quality Learning and Teaching Campaign (QLTC) and the National Development Plan all point to the need for:

- More focused approaches
- Intersectoral cooperation.

There are many interventions by the public sector, private corporations, universities, unions and

NGOs. The Department of Basic Education has established a delivery unit to work with schools in underperforming districts throughout the country. The current level of consensus among stakeholders and the will to work together constitute an important moment in South African society and an opportunity that we need to build on.

It is difficult to get different groups to agree to work together, even if it is in their collective interests. In divided societies like South Africa, levels of trust are low and groups tend to prioritise their immediate sectoral interests. When parties do agree, it can be difficult to keep to the terms of the agreement.

The QLTC Code for Quality Education pledge and the Basic Education Accord set out what each party should do to improve the quality of education, but implementation has been patchy. A new agreement will not lead to improvements unless we focus on the obstacles to implementing existing agreements.

The public signing of an agreement represents an important symbolic commitment by leadership and a public statement of what is important. This should not be a once-off event. Leaders must engage with each other on a continuous basis and repeatedly reaffirm their commitment to the pact.

- Build consensus on the education pact. The pact must be meaningful to all education stakeholders and to all South Africans.

- Monitor the pact at the school level. Provide the school community with regular information so that local solutions can be found.

The Commission is proposing a painstaking process of mobilisation and continued engagement with the education pact. All political leaders, inside and outside of parliament, in provincial legislatures and councils, should commit to the education pact and use it when they do their constituency work. Leaders of sports and faith-based organisations, unions, NGOs, corporations, cooperatives, student organisations, governing bodies, traditional leaders and traditional healers should discuss the pact and address obstacles to implementation.

The importance of education to the future of South Africa demands a non-partisan approach. South Africans should agree that differences and grievances should never be allowed to disrupt education.

A national initiative to improve learning outcomes

Drawing on the existing consensus on the need to work together, the Commission proposes a national initiative involving all stakeholders to drive efforts to improve learning outcomes in schools, starting with the worst performers. The focus should be on schools and districts and address weaknesses in teaching, management, administrative support and accountability.

As a short to medium-term intervention, it should:

- Use strategies that compensate for weaknesses in schools and district
- Provide intervention tools that do not require high levels of capacity
- Help build capacity.

Each of the broad elements of the initiative will have detailed plans and realistic implementation strategies.

- Ensure that districts have the capacity to support curriculum delivery. Each district should have a team that ensures that each school has the required material and the knowledge and skills to use it. Districts should
- help to develop the leadership and

management capacity of principals and heads of departments. At a minimum, this development should cover training in the key responsibilities of principals and members of school senior management teams.

- Teacher development should include training on curriculum pacing and the subject content that teachers find difficult to teach. Given the large numbers of teachers, ICT should be used as one of the ways of delivering teacher development.

- Different stakeholders should collaborate under a single national initiative to pool resources. Many international donors, private companies, corporate foundations, charitable organisations, NGOs, faith-based organisations and individuals have initiatives under way or are willing to be part of a national initiative. The national initiative should provide a framework that gives direction to these individual efforts.

- Work with communities to address socioeconomic factors like nutrition and safety that impact on learning.

The national initiative should be under the auspices of the Department of Basic Education, but draw on expertise in institutions that are already working on school improvement as well as those that have the potential to make a contribution.

The initiative should be piloted in a sample of schools and expanded over time. Interventions should be inversely proportional to school performance. Schools performing well will not be expected to do tasks designed for poorly performing schools. And schools with the lowest performance will receive the closest attention.

POST-SCHOOL

The post-school system comprises a wide range of institutions with different objectives and meeting different needs. These institutions can be developed to accommodate more learners. Institutions should collaborate to build on each others' strengths.

The current post-school system comprises:

- Further education and training colleges, which focus mainly on vocational education and training
- Private providers at colleges and universities
- Adult education institutions
- Universities
- Sectoral education and training authorities, generally called the skills development sector
- The regulatory and quality assurance framework.

The goal is to have a post-school system that provides quality-learning opportunities to young people, adults who want to change careers or upgrade skills, people who have left school before completing their secondary education and unemployed people who wish to start a career. Post-school institutions should provide programmes and services that meet the range of needs.

Vision for the post-school system

The Commission is in agreement with the vision for South Africa's post-school system set out in the Green Paper for Post-School Education and Training (DHET, 2012). The Green Paper promotes higher education as an expanded, effective, coherent and integrated system. Higher education institutions should be supported by effective regulatory and advisory institutions.

The Commission would add to DHET's vision the need to build national institutions for science, technology and innovation to develop intellectual

capital and spur economic growth and development. This system needs to be supported by effective governance and funding mechanisms to promote coordination and collaboration.

South Africa needs a post-school system that provides a range of accessible options for younger and older people. The system should be capable of adapting to changes in technology, industry, population dynamics and global trends. Accelerating economic growth requires science, technology, vocational and technical skills, and they need to be produced quickly. To promote lifelong learning, post-school institutions should accept students who are academically less prepared and provide them with targeted support.

Role of the post-school sector

- Contribute towards quality learning and teaching in the entire education system from pre-school through to higher education. Teachers in schools, ECD centres and colleges are trained in universities.
- Respond to the skills needs of all sectors of society including business, industry and the government.
- Raise education and training levels to produce highly skilled professionals and technicians.
- Provide lifelong learning opportunities for a wide range of candidates.
- Develop partnerships to play a strong role in national and regional initiatives.
- Conduct and disseminate research.
- Promote technology transfer through research studies done in collaboration with local and foreign firms.
- Enhance research, development and technology infrastructure.
- Strengthen the foundations for good governance by enabling citizens to participate meaningfully in the social, economic and political life of the country.

Overview of the current post-school system

The South African post-school system is not well designed to meet the skills development needs of either the youth or the economy. Approximately three times as many students enter universities each year compared to those entering colleges. In 2010, universities enrolled around 950 000 students while colleges enrolled about 300 000. Public adult learning centres enrol approximately 300 000 learners who are studying part-time for Grade 12 and adult basic education training learners. Private providers are playing an increasingly important role in the post-school sector. Enrolments in private higher education institutions are estimated to range from 80 000 to 120 000 learners. A large number of private providers offer FET courses funded through the skills levy.

Though some institutions perform well and have the academic expertise and infrastructure to be internationally competitive, many lack adequate capacity, are under-resourced and inefficient. Access and opportunities are inequitably distributed. The growth of enrolments in private institutions also indicates that the public system is not responsive to the needs of all students.

Universities

In 2030, South Africa will have over 10 million university graduates with a minimum of a bachelor's degree. This takes into account the current number of graduates and the targets proposed in this plan. This will be a 300 percent increase over a 30-year period (2001 – 2030). There will be roughly

INDICATORS OF PROGRESS IN HIGHER EDUCATION

- Enrolment in HE institution increased from 490 494 students in 1994 to 837 644 in 2009 i.e. 71% increase.
- Significant demographic changes in student population: two thirds of university students were African in 2009 compared to 32% in 1990.
- Student financial aid increased from 10.3 million in 1994 to R2.7 billion in 2010.
- University research output increased from about 5 500 in 2003 to 9 600 in 2010.

400 000 new university graduates each year. In 2001, South Africa had 2.6 million graduates (Statistics South Africa) or one in every 17 people. In 2030 one in six people will be a university graduate. This is one of the strongest indicators of expanding access to university education.

For the increase in the number of graduates to be meaningful, the quality of education needs to improve. Many of the new graduates between now and 2030 must be in the critical skills categories, such as engineering, actuarial science, medicine, financial management, and chartered accountancy. The downward trend in the number of learners who pass matric with mathematics must be reversed.

The data on the quality of university education is disturbing. South African universities are mid-level performers in terms of knowledge production, with low participation, high attrition rates and insufficient capacity to produce the required levels of skills. They are still characterised by historical inequities and distortions. The university sector is under considerable strain. Enrolments have almost doubled in 18 years yet the funding has not kept up, resulting in slow growth in the number of university lecturers, inadequate student accommodation, creaking university infrastructure and equipment shortages. The number of institutions that have recently been put under administration is an indication of the leadership and governance challenges.

The need to improve quality is demonstrated by the reports of graduates who are unable to find employment and the low conversion rate from graduation to achieving professional status in engineering science. The Engineering Council of South Africa reports that only 10 percent of graduates who had been registered as candidate engineers for more than three years attained registration as professional engineers in the last two years. The legal profession is facing similar challenges.

The academic profession requires renewal if South African universities are to expand, compete and drive the knowledge society and economy. There is a shortage of academics, especially in the human, natural, engineering and actuarial sciences. The problem of graduate unemployment in the face of skills shortages is an indication that universities produce graduates who do not meet the needs of industry and society.

Higher education is the major driver of information and knowledge systems that contribute to economic development. However, higher education is also important for good citizenship and for enriching and diversifying people's lives. Quality higher education needs excellence in science and

technology, just as quality science and technology needs excellent higher education. The most important factor that determines quality is the qualifications of staff.

Universities are key to developing a nation. They play three main functions in society:

- Firstly, they educate and train people with high-level skills for the employment needs of the public and private sectors.
- Secondly, universities are the dominant producers of new knowledge, and they critique information and find new local and global applications for existing knowledge. South Africa needs knowledge that equips people for a changing society and economy.
- Thirdly, given the country's apartheid history, higher education provides opportunities for social mobility. It can strengthen equity, social justice and democracy. In today's knowledge society, higher education is increasingly important for opening up people's opportunities.

To increase the output of professionals, all parts of the education system have to perform well. This is why the Commission has identified improving the quality of education outcomes throughout the education system as one of the highest priorities.

Differentiation

South Africa has a differentiated system of university education, but the system does not have enough capacity to meet the needs of learners. Universities of technology and comprehensive universities have more than half their students enrolled on vocational programmes, while traditional universities have an almost equal spread of enrolments between vocational, professional and general qualifications. Traditional universities have a higher percentage (14 percent) of enrolments at masters and PhD level compared to the other two (2 percent and 3 percent respectively). Indicators such as doctoral degree output, research output and the proportion of staff with PhDs also show that research capacity is concentrated in a few institutions.

A detailed analysis of the nature and extent of differentiation in the university sector has been done. Such analysis enables policymakers to make sober decisions about funding, support and performance targets for the different kinds of institutions.

Universities must:

- Define their niches to enhance their ability to contribute to national objectives
- Provide a diversity of programme offerings to learners
- Develop capacity to provide quality undergraduate teaching
- Some must develop the capacity for cutting-edge research training
- Provide for flexibility and innovation throughout the system.

Building an expanded, differentiated university system requires that other post-school institutions function optimally. If the college sector functions

optimally, the pressure on universities to offer lower level diplomas and certificates will be reduced. This will allow universities to focus on their niche.

Proposals for universities

- Improve the qualifications of higher education academic staff. South Africa needs to increase the percentage of PhD qualified staff in the higher education sector from the current 34 percent to over 75 percent by 2030. Higher Education South Africa (HESA) has developed a detailed proposal for a National Programme to develop the Next Generation of Academics for South African Higher Education. The proposal seeks to address the challenge of developing future academics and deserves to be implemented.

- Improve the quality of teaching and learning. University lecturers should be recognised teachers.

- Increase the participation rate at universities by at least 70 percent by 2030 so that enrolments increase to about 1.62 million from 950 000 in 2010.

- Increase the throughput rate for degree programmes to more than 75 percent. The number of graduates will increase from the combined total of 167 469 for private and public higher education institutions to 425 000 by 2030. As part of this target, the number of science, technology, engineering and mathematics graduates should increase significantly.

- Increase the number of masters and PhD students, including by supporting partnerships for research. By 2030 over 25 percent of university enrolments should be at postgraduate level. International exchange partnerships should be pursued and encouraged.

- Produce more than 100 doctoral graduates per million per year by 2030. South Africa currently produces 28 doctoral graduates per million per year, which is very low by international standards. To achieve the target of 100 per million per year, South Africa needs more than 5 000 doctoral graduates per year against the figure of 1 420 in 2010. If South Africa is to be a leading innovator, most of these doctorates should be in science, engineering, technology and mathematics.

- Double the number of graduate and postgraduate scientists and increase the number of African and women postgraduates, especially PhDs, to improve research and innovation capacity and make university staff more representative.

- Create a learning and research environment that is welcoming to all.

- Expand university infrastructure. University enrolments have almost doubled since 1994 and infrastructure has not kept up. This has a major impact on the quality of teaching and learning. Student accommodation in universities needs urgent attention.

- Develop uniform standards for infrastructure and equipment to support learning, promote equity and ensure that learners doing similar programmes in different institutions receive a comparable education.

- Strengthen universities that have an embedded culture of research and development. They should be assisted to access private sector research grants (third stream funding) in addition to state subsidies and student fees, attract researchers, form partnerships with industry and be equipped with the latest technologies. In turn, they should support postgraduate students, not only in their own institutions but also in those which focus on teaching and learning as well as in other sectors of the post-school system.

- Provide performance-based grants to build capacity and develop centres or networks of excellence within and across institutions. Given that performance-based grants, can entrench historical privilege and disadvantage, capacity-building grants should be provided with clear targets for improvement in five-year intervals.

- Offer extra support to underprepared learners to help them cope with the demands of higher education. Many individuals with poor schooling aspire to higher qualifications, but they are academically less prepared than their middle class counterparts. Support programmes should be offered and funded at all institutions.

- Expand the use of distance education. The advances in ICT can help overcome the infrastructure limits to further expansion of higher education. Upfront investment is needed in technology, curriculum design, quality assurance and monitoring. The Department of Higher Education and Training has published a draft policy statement intended to provide a framework for expanding the use of distance education in higher education. The Commission supports this initiative.

- Private providers will continue to be important partners in the delivery of education and training at all levels. Ensuring the quality of private provision requires enabling regulation, quality assurance, and monitoring and evaluation of programmes.

Colleges

Approximately 65 percent of college students are unable to find work experience, which is a requirement for completing National Technical Diplomas popularly known as N diplomas. The college sector is intended as a pathway for those who do not follow an academic path, but it suffers from a poor reputation due to the low rate of employment of college graduates.

The college sector needs to be expanded, but this must be preceded by clarity about its vision and role. The priority is to strengthen colleges, address quality teaching and learning, and improve performance. A critical indicator of performance is the throughput rate and the ability of college programmes to provide the skills South Africa needs.

Colleges are the backbone of technical vocational education and training. Their target group includes young people in the FET phase who chose the vocational pathway, adults who want to change careers or upgrade skills, and unemployed people who wish to start a career. Colleges should be strengthened to become institutions of choice for the training of artisans and producing other mid-level skills.

- Improve the throughput rate to 75 percent by 2030. This would have a major impact on South Africa's skills profile.

- Produce 30 000 artisans per year by 2030

- Promote lifelong learning to complement post-school education.

- Provide funding certainty to ensure that colleges employ staff and give them job security. This will ensure that colleges attract and retain skilled and experienced college staff.

- Support the development of specialised programmes in universities focusing on training college lecturers. Provide funding for universities to conduct research on the vocational education sector.

- Build the capacity of FET institutions to become the preferred institutions for vocational education and training. Learners should be able to choose the vocational pathway before completing Grade 12. Expand the geographical spread of FET institutions to ensure that learners who choose to pursue a

vocational career have access to institutions that provide quality vocational education and training. Distance education with structured learner support will help to improve access.

- Expand the college system with a focus on improving quality. Better quality will build confidence in the college sector and attract more learners. The recommended participation rate of 25 percent would accommodate about 1.25 million enrolments compared to the current 300 000. The DHET proposes establishing Community Education and Training Centres which will incorporate the current public adult learning centres. These institutions, combined with enrolment in workplace-based programmes, should reach an additional 1 million learners.

- Build a strong relationship between the college sector and industry. This will improve the quality of training in colleges and ensure quick absorption of college graduates into jobs. Continuing education is necessary for meaningful participation in a modern economy where many jobs require some college or university education. Industry should play a significant role in college curriculum development and provide opportunities for practical training. Through this partnership, the college sector will also be able to determine what skills are needed in the labour market.

- Significantly decrease the number of young people who are not employed or in education and training by 2030. There are currently about 3 million young people aged 18-24 who are not in employment, education or training.

The Strategic Plan 2010/11¬¬-2014/15 of the DHET identifies a number of priority areas, including: strengthening the institutional capacity of vocational education and training institutions, increasing access and improving success in programmes leading to intermediate and high learning, and ensuring a dynamic interface between workplaces and learning institutions. The commission supports these priorities.

Providers

The state and private sector both have a role to play in providing post-school education and training.

- Develop and support a coordinated system for providing a diverse range of further education and training opportunities, through a range of state and private providers. The starting point must be strengthening existing institutions, with a focus on the college sector, public adult learning centres and technical high schools.

- Undertake a careful analysis of all further education and training colleges, other colleges and public adult learning centres to determine gaps in the post-school institutional network. Not all

institutions can or should offer all types of training. A differentiated system is needed. Where there are gaps, new institutional types should be established.

- Identify an appropriate role for distance education in the college sector and develop a policy framework to guide institutions in developing distance education.

Adult education

The adult education sector in South Africa faces many problems:

- Limited curriculum and lack of appropriate formal qualifications
- Small scale with around 300 000 participants
- Lack of a clear institutional identity
- High staff turnover due to lack of job security
- Limited resources
- Run on a part time basis
- Not linked to the other parts of the education system
- Few participants acquire the General Education Certificate.

The adult education sector is underdeveloped. It operates on a limited budget – consistently below the international benchmark of 1 percent of the education budget and has no facilities of its own - it shares facilities with schools. The level of qualifications of teachers in this sector has improved as a result of the introduction of an adult education teacher qualification via distance education by UNISA. Despite this, there is a high turnover of staff as teachers in this sector are employed on 1 year contracts. Quality is poor, regulation and monitoring is non-existent.

The Department of Higher Education and Training proposes establishing Community Education and Training Centres which incorporate and transform the current public adult learning centres. The Commission welcomes this proposal. Community Education and Training Centres will contribute to creating alternative education and training pathways. The current public adult learning centres should be transformed into Community Education and Training Centres that offer a variety of courses ranging from adult basic education to secondary and non-formal education. Community Education and Training Centres, like all post-school institutions, must have a clear identity and purpose.

The *Kha Ri Gude* Mass Literacy Campaign run by the Department of Basic Education caters for adult literacy learners and has been very successful. There is a need for relevant programmes and qualification for adults many of whom are Kha Ri Gude graduates. The existing programmes and qualifications for adult learners should be restructured to ensure they are appropriate for their target audience. The proposed Community Education and Training Centres will help expand

opportunities for graduates of the adult literacy campaign as well as other adult learners.

The location of the literacy campaign and the adult basic education and training programme in different departments is not ideal. Linkages need to be developed to ensure that learners who graduate from one programme do not face barriers in advancing their studies in another programme.

Skills development

The sectoral education and training authorities (SETAs) were established in 1997 and funded through the levy-grant system. They are expected to facilitate the delivery of sector-specific skills interventions that help achieve the goals of the National Skills Development Strategy and develop the skills needed by employers. There are currently 21 SETAs.

Current problems with the SETAs include:

- Poor governance
- Inadequate human resources
- Poor administration and financial management
- No proper monitoring and evaluation system
- No accurate records of the number people who have benefited from the system and what the impact has been
- Limited or no linkages with the post-school sector

Contributions of the SETA system include:

- SETAs have facilitated the participation of private training providers in skills development. However, training has tended to be in the form of short courses and in many respects has not been tailored to the needs of the labour market.
- Learnerships have facilitated entry to the labour market for unemployed people.

Where there is efficient implementation SETAs have had a positive impact, but skills shortages continue to choke the South African economy.

Proposals for the skills development sector

- Improve relationships between education institutions and employers. SETAs have a crucial role in building relationships between education institutions and the employers.

- Resolve the role of the skills development levy. The SETAs have a surplus of about R3 billion while other bodies, such as colleges and universities, are financially constrained.

- Clarify the mission, purpose and mode of operation of the SETAs. The current system largely excludes public providers (further education and training colleges and universities) from providing training funded by SETAs and the National Skills Fund. A related issue is whether SETA funds can be used to fund new and potential employees or whether they are solely for the currently employed in levy-paying firms. The focus on existing employees makes it harder to build a strong relationship between SETAs and colleges and universities, which would be best placed to train potential employees.

- Social partners at the National Economic and Labour Development Council (NEDLAC) need to debate whether the government, as a large employer, should contribute to the skills levy. Private sector firms and SETAs should take national priorities into account when planning and funding training initiatives.

Regulation and quality assurance

Post-school education in South Africa is governed by an array of legislation and institutions. There is duplication, overlap and, at times, incoherence and inconsistency.

The quality assurance framework is complex, with

overlapping directives and on-going contestation between different quality assurance bodies. The main bodies responsible for quality assurance are the three quality councils: the Council on Higher Education (CHE), Umalusi, and the Quality Council for Trades and Occupations (QCTO). Previously, SETAs performed quality assurance functions largely directed at the private training providers they fund. Professional bodies, such as the Engineering Council of South Africa, are a fourth category of quality assurance body.

The complexity and overlaps in the regulation and quality assurance systems need to be addressed.

Structural and systemic issues

Mobility within the education system should be supported through clear standards and procedures. Students should be able to move between colleges and universities, between different universities, between schools and post-school institutions, and between educational provision and the world of work. To do this, they need information on what different institutions offer.

Each post-school institution must have a clear identity and mission, including further education and training colleges. FET colleges continue to offer traditional theoretical training for apprenticeships through the old formal technical college instructional programmes popularly known as Nated programmes and the National Certificate Vocational. Delivering these programmes in a single institution is difficult and can be confusing.

There should be programmes to upgrade the skills of college lecturers, in partnership with industry. Industry experts should be encouraged and incentivised to spend time teaching in colleges, and college lecturers should be encouraged to spend time in the workplace updating their knowledge and skills. College teaching should be made attractive to good lecturers and students.

The evolution of the post-school system should always be guided by the principle of providing learning opportunities for all students.

Drivers of change

Private and public institutions must work together to create the educational infrastructure needed to support a thriving economy. The globalisation of labour and technology markets requires education systems to collaborate across national borders and across sectors.

Demographic changes are placing increasing demands on governments and educational

institutions to increase access to affordable, high quality education.

Meeting national development objectives and responding to global trends requires changes in planning and greater use of technology in delivering training programmes.

Funding an enabling, high quality differentiated system

Funding for higher education as a proportion of GDP has declined marginally over the last few years from 0.76 percent in 2000 to 0.69 percent in 2009. To preserve the quality of higher education, additional funding will be needed to support an increase in participation and knowledge production.

Proposals for post-school funding

- Base the revisions to the universities' funding framework that is currently being considered by the Ministerial Committee for the Review of the Funding of Universities on the needs of a differentiated system, with adequate provision for both teaching and research.

- As the quality assurance and monitoring system matures, greater emphasis should be placed on incentivising graduate output. Such a shift would be in line with the international trend towards greater emphasis on output-based funding. The Department of Higher Education and Training would have to address the risk of discouraging universities from taking students from deprived backgrounds.

- Provide all students who qualify for the National Student Financial Aid Scheme with access to full funding through loans and bursaries to cover the costs of tuition, books, accommodation and other living expenses. Students who do not qualify should have access to bank loans, backed by state sureties. Both the National Student Financial Aid Scheme and bank loans should be recovered through arrangements with the South African Revenue Service. Service-linked scholarships should be available in areas such as nursing, teaching and social work.

- Consider extending the National Student Financial Aid Scheme to qualifying students in registered private colleges as an incentive for private sector expansion.

Supporting institutions in chronic distress

The Department of Higher Education and Training should identify institutions that are in on-going crisis despite earlier interventions. Dedicated support should be provided for comprehensive renewal plans over five years. The plans should identify a viable and sustainable academic path for the institution, with an appropriate programme and qualification mix. If measurable progress towards achieving the objectives is not evident after five years, consideration should be given to reviewing the status of the institution.

NATIONAL RESEARCH AND INNOVATION SYSTEM

In comparison to its population, South Africa's science and innovation system is small by international standards. The natural sciences produce the most accredited research (36 percent of the country's total research output), followed by the humanities (21 percent) and medical and health sciences (20 percent). From 1995 to 2007, the proportion of all scientific output produced by universities increased from 80 percent to 86 percent, which means that universities are increasing their dominance as knowledge institutions in South Africa.

Research and development spending was 0.92 percent of GDP in 2007. By comparison,

Norway spends 1.62 percent. While South Africa has excelled in some areas, such as registering plant cultivars, there has been little increase in public sector research personnel, PhD graduates and research outputs. This compromises South Africa's global competitiveness.

Overall, South Africa's global competitiveness needs to be improved, and the system of innovation has a key role to play. It is the principal tool for creating new knowledge, applying knowledge in production processes, and disseminating knowledge through teaching and research collaboration.

The nature of how and where research gets done has changed radically. There are multiple sites of research and knowledge production, which are partly or wholly separated from higher education: in industrial laboratories, government departments, corporate research units, parastatals, statutory research councils and NGOs, or through collaboration between these organisations. It is essential that all these sites of research and innovation are coordinated and function coherently to take advantage of new modes of knowledge production, economies of scale and opportunities presented by working across disciplines.

The distribution of research capacity in higher education institutions is skewed in favour of historically white institutions. Under apartheid, the development of research capacity in black universities was severely limited, and they have only recently integrated research into their core functions. A research mandate has only recently been included in the institutional missions of universities of technology.

Continued advances in technological innovation and the production of new knowledge are critical to growth and development. Achieving a competitive and sustainable economy will require a strong and effective system of innovation, science and technology. The research and innovation system also needs to contribute to transformation.

The Department of Science and Technology (DST) has a number of programmes aimed at stimulating research and innovation. They cover areas such as:

- Space science and technology
- Hydrogen and energy
- Biotechnology and health innovation
- Innovation planning and instruments
- Radio astronomy advances.

The DST also aims to develop and implement national programmes to produce knowledge and the associated infrastructure, equipment and public research services to sustain the National System of Innovation. The creation of the South African Research Chairs of the National Research Foundation is an important contribution to developing research capacity.

The DST hosts science expos annually to stimulate interest in science among young people. This is an important initiative and should be supported by development of special schools for children who exhibit interest in science.

Recently, South Africa won the right to co-host the Square Kilometre Array (SKA), the largest telescope. This gives South Africa the potential to develop its capability in astronomy. There are many other programmes and initiatives that make up a base on which South Africa can build a strong National System of Innovation.

Proposals for the national research and innovation system

- Create a common overarching framework to address pressing challenges in the national system of innovation, involving the higher and further

education system, state-owned enterprises and private industries. The system needs to function in a coherent and coordinated manner with broad common objectives aligned to national priorities. Special consideration should also be given to dedicated programmes in water, power, marine, space and software engineering, in which South Africa has both comparative and competitive advantages. Companies that focus on such programmes should provide internship programmes for experiential learning, specifically in manufacturing and services.

- Nurture and coordinate research capacity in higher education and link it to postgraduate studies. Improve coordination and support for partnerships between universities and other research and innovation sites.

- Transform the demographic composition of researchers in higher education, research councils and private research establishments. Put in place funding and research capacity development programmes to support young, female and black researchers.

- Increase support for postgraduate study at universities, for senior researchers, for partnerships between universities and industry. A more stable funding model is needed for all educational institutions that conduct research. Expand research capacity and improve research output.

- Develop a common policy framework on the critical role of science and technology, the role of higher education in shaping society, and the future of the country and its growth path. This should involve the Departments of Higher Education and Training, Science and Technology, Trade and Industry, Public Enterprises, Economic Development, and the National Treasury.

- Relax immigration requirements for highly skilled science and mathematics teachers, technicians and researchers. All graduates from foreign countries should be granted 7-year work permits. The movement of people, ideas and goods should be encouraged across the East and Southern African region.

- Revitalise science and mathematics by increasing the number of school leavers eligible to study science and mathematics-based subjects at university.

- Develop a few world-class centres and programmes within both the national system of innovation and the higher education sector over the next 18 years. The right to co-host the Square Kilometre Array project is an example. These should be in South Africa's areas of comparative and competitive advantage, including indigenous knowledge systems. Establish South Africa as a hub for higher education and training in the region, capable of attracting a significant share of the international student population.

- The government must create an investment climate that encourages the private sector to compete locally and internationally with innovative products, services and technologies. The freedom of scientists to investigate and of entrepreneurs to innovate is critical. The government must support collaboration between the business, academic and public sectors.

Networks and partnerships

The national system of innovation is about networks and partnerships. Research and development happens in many sites outside universities, including the science councils, state-owned enterprises and industry.

Partnerships are important for drawing together the

capabilities, interests, and resources of different stakeholders. A framework to coordinate the production of knowledge and guide the investment of public funds should support such partnerships.

The framework should include strategies and incentives to attract businesses to develop industry clusters designed to increase competitiveness and wealth. These clusters contribute to the development of science and technology capacity.

CONCLUSION

The decisions we make today will determine the labour market prospects of graduates in 2030. We estimate that South Africa will have more than 10 million university graduates and there will be roughly 400 000 new graduates each year. Although this will represent a 300 percent increase over a 30-year period, the country needs other skills, which are provided through non-degree programmes. Our education and training institutions must deliver programmes of the highest quality.

The proposed interventions in early childhood development, basic and post school education are designed to ensure that learning outcomes improve. The challenges we face require everyone to be an active participant.

CHAPTER TEN

Promoting health

KEY POINTS

- Greater intersectoral and inter-ministerial collaboration is central to the Commission's proposals to promote health in South Africa.
- Health is not just a medical issue. The social determinants of health need to be addressed, including promoting healthy behaviours and lifestyles.
- A major goal is to reduce the disease burden to manageable levels.
- Human capacity is key. Managers, doctors, nurses and community health workers need to be appropriately trained and managed, produced in adequate numbers, and deployed where they are most needed.
- The national health system as a whole needs to be strengthened by improving governance and eliminating infrastructure backlogs.
- A national health insurance system needs to be implemented in phases, complemented by a reduction in the relative cost of private medical care and supported by better human capacity and systems in the public health sector.

INTRODUCTION

South Africa's health challenges are more than medical. Behaviour and lifestyle also contribute to ill-health. To become a healthy nation, South Africans need to make informed decisions about what they eat, whether or not they consume alcohol, and their sexual behaviour, among other factors.

People need information and incentives to change their behaviour and lifestyles. Leaders and other influential people can provide role models. All South Africans need to be encouraged to buy, grow and eat healthy foods, and to do more exercise.

Promoting health and wellness is critical to preventing and managing lifestyle diseases, particularly the major non-communicable diseases among the poor, such as heart disease, high blood cholesterol and diabetes. These diseases are likely to be a major threat over the next 20 to 30 years.

There are other non-behavioural factors that affect well-being. The environment in which people are born, grow up, live and work can affect their health negatively. This includes exposure to polluted environments, inadequate houses and poor sanitation. How well the health system functions can determine the success in the treatment of disorders, and the longevity and quality of life of the population.

The Ministry of Health is embarking on massive reform, covering health systems, personnel and financing, among others. The proposals presented here are in line with many of the strategies that are under consideration in the Ministry of Health. In the view of the National Planning Commission, South Africa is on the right path, after a period of some difficulty.

The Commission invites all South Africans to think differently about their health and to work with government and each other to create a healthy nation. Health stakeholders are called on to collaborate with each other and with government, to be open to new ways of doing things, and to put patients first.

This chapter:

- Sets out the 2030 vision for health
- Discusses current challenges
- Puts forward a set of goals, indicators and actions
- Puts forward a set of priorities.

VISION 2030

A health system that works for everyone and produces positive health outcomes is not out of reach. It is possible to:

- Raise the life expectancy of South Africans to at least 70 years
- Ensure that the generation of under-20s is largely free of HIV
- Significantly reduce the burden of disease
- Achieve an infant mortality rate of less than 20 deaths per thousand live births, including an under-5 mortality rate of less than 30 per thousand.

In countries that have succeeded in reforming their health systems, committed leadership in all layers of the health system has been key.

CURRENT CHALLENGES

The South African health system is underpinned by the principles of primary health care and the district health system.

Primary health care emphasises globally endorsed values, such as universal access, equity, participation and an integrated approach. Critical elements of primary health care include prevention and the use of appropriate technology. Other components

include better access to and use of first-contact care, a patient-focused (rather than a disease-focused) approach, a long-term perspective, comprehensive and timely services, and home-based care when necessary.

The district health system embodies a decentralised, area-based, people-centred approach to health care. The World Health Organisation identifies six important elements of the system:

- Service delivery
- The health workforce
- Health information
- Medical products, vaccines and technologies
- Sound health financing
- Good leadership and governance.

Each of these is important for achieving equity and quality, responsiveness, social cohesion, financial risk protection and better efficiency in health care.

Demographics and health trends

The health challenges facing South Africa are well documented. The country faces a quadruple burden of disease:

- HIV/AIDS and related diseases such as tuberculosis (TB), and sexually transmitted infections (STI)
- Maternal and child morbidity and mortality
- Non-communicable diseases (mainly related to lifestyle)
- Violence, injuries and trauma.

HIV/AIDS has been a leading cause of death, followed by interpersonal violence, TB, road traffic injuries and diarrhoeal diseases. The leading risk factors are unsafe sex, followed by interpersonal violence, alcohol abuse, tobacco smoking and excess body-weight.

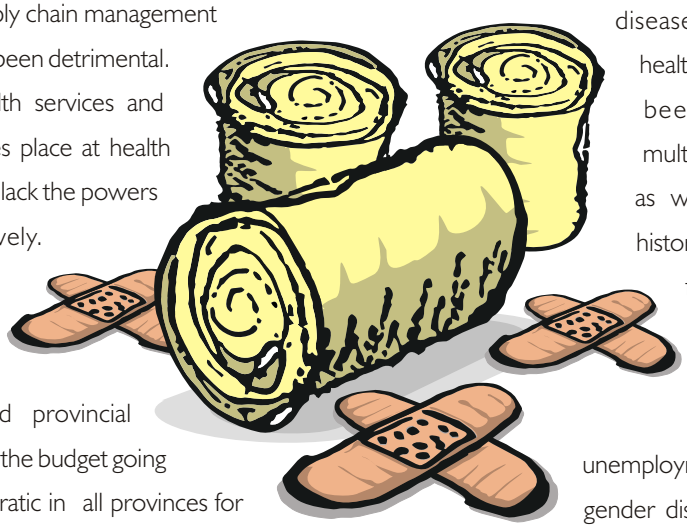
Death notifications doubled between 1998 and 2008 to 700 000 per year. The increase is mostly in deaths of infants (children up to four years old) and young women (between 30 and 34 years old), which trebled to nearly 60 000 per year, mostly due to HIV. HIV has also contributed to the mortality of men, particularly between the ages of 35 and 39. There has also been a sustained increase in deaths of young men due to injury. Communicable diseases such as TB escalated, imitating the HIV epidemic: up to six times more young women are affected and up to four times more young men. There was a similar rise in non-communicable disorders, such as cardiovascular disease, and predisposing factors such as obesity, hypercholesterolemia (abnormally high levels of blood cholesterol) and diabetes mellitus.

The health system

The performance of South Africa's health system since 1994 has been poor, despite good policy and relatively high spending as a proportion of GDP. Services are fragmented between the public and private sectors. The public sector serves 83 percent (41.7 million) of the population and the private sector 17 percent (8.3 million). Imbalances in spending between the public and private sectors have skewed the distribution of services, which has been detrimental to both sectors and has led to increased costs. The inability to get primary health care and the district health system to function effectively has contributed significantly to the failure of the health system.

The expressed needs of communities are not always valued and respected. The management of the health system is centralised and top-down. Poor authority, feeble accountability, the marginalisation of clinicians, and low staff morale are characteristics of the health system. Centralised control has not worked because health personnel lack discipline, perform inappropriate functions, are not held accountable, do not adhere to policy, and are inadequately overseen. In addition, the institutional links between the different levels of services are weak.

The centralisation of hospital budgets and key functions such as supply chain management at provincial level has been detrimental. The delivery of health services and care for patients takes place at health facilities yet managers lack the powers to manage effectively. Health funding is also a victim of competing priorities for limited provincial budgets. The share of the budget going to health has been erratic in all provinces for some time. In 2011/12 Mpumalanga allocated the smallest share (25 percent) of the provincial budget to health and the Western Cape allocated the largest share (36 percent). Health spending per person also varies from one province to another. The Northern Cape spent the least amount person (R905) compared to highest spending per person in the North West province (R5700). This pattern of spending per person has persisted for well over a decade. This anomally needs to be corrected.



Progressive policies were formulated in the first years of the democratic dispensation and the public health system was transformed into an integrated, comprehensive national health system. However, inconsistent management and inadequate capacity has meant that implementation and health outcomes have fallen short of expectations. There was a misguided attempt to change everything at once, when many aspects of the system were not faulty.

Some crucial issues have never been satisfactorily addressed, such as the substantial human resources crisis facing the health sector and massive unemployment in the country.

Social determinants and ecology

The weaknesses in South Africa's health systems are exacerbated by the quadruple burden of disease. Health and health services have been shaped by multiple epidemics, as well as powerful historical and social forces, such as vast income inequalities, poverty, unemployment, racial and gender discrimination, the migrant labour system, the destruction of family life and extreme violence.

It is internationally recognised that societal risk conditions are more important than individual ones in the spread of a disease. The report by the World Health Organisation Commission on the Social Determinants of Health, made three major recommendations that are especially relevant for South Africa:

- Improve the conditions of daily life
- Tackle the inequitable distribution of power, money, and resources
- Measure the problem, evaluate actions, expand the knowledge base, develop a trained workforce in the social determinants of health, and raise public awareness.

HEALTH GOALS, INDICATORS AND ACTION POINTS TOWARDS THE 2030 VISION

This section sets out long-term health goals for South Africa, and provides indicators and action points. There are nine goals: the first five relate to the wellbeing of the population and the other four describe the required systems.

GOAL 1: Average male and female life expectancy at birth increases to 70 years

These strategies and actions are in line with the National Strategic Plan on HIV, STIs and TB 2012 to 2016:

- Early initiation of antiretroviral (ARV) therapy for all eligible people living with HIV
- Initiation of all TB patients on lifelong ARV therapy, irrespective of their CD4 count
- A package of treatment services for HIV, STIs and TB for key populations
- Promotion of the consistent use of condoms
- Routine availability of microbicide to all women 15 years and older as a prevention strategy
- Universal availability to pre-exposure prophylaxis with ARV therapy
- Effective implementation of the prevention of mother-to-child transmission (PMCT) programme.

These actions should reduce mother-to-child HIV transmission rates to zero, and new HIV infections by half among women between 15 and 24 years old.

GOAL 2: Progressively improve TB prevention and cure

Methods of treating TB are well known and have been practiced for over 50 years. The indicators of effective implementation are:

- TB rates among adults and children compared with global targets
- Successful treatment completion
- Progressive decline in the latent infection rate among school-age children
- Decrease in TB contact indices
- Number of latently infected people receiving six months isoniazid treatment (first-line anti-TB medication in prevention and treatment).

GOAL 3: Reduce maternal, infant and child mortality

- Reduce under-five child mortality from 56 to below 30 per 1 000 live births.

Approximately 97 percent of pregnant women attend at least one antenatal clinic and 89 percent of children are fully immunised at one year old. The rate of hospital births is also high, indicating a high rate of interaction of pregnant women and young children with the health system. Improving the quality of antenatal and postnatal care, and using health information to follow up on patients can contribute to reducing unnecessary deaths.

GOAL 4: Significantly reduce prevalence of non-communicable chronic diseases

- Cardiovascular diseases
- Diabetes
- Cancer
- Chronic respiratory diseases.

Diet-related non-communicable ailments such as obesity, diabetes and cardiovascular disease account for a large proportion of South Africa's disease burden and may rise further, especially among poor African women. Risk factors include tobacco smoking, physical inactivity, raised blood pressure, raised blood glucose, obesity, and raised cholesterol. There has been an encouraging decline in self-reported tobacco smoking by over 40 percent since 1995, which is expected to continue.

Studies have shown that increases in non-

communicable diseases are linked to certain changes in diet. There have been rapid and marked changes in what the black population in South Africa eats, from a diet based predominantly on unrefined maize with vegetables and occasional animal protein to refined and processed foods with high concentrations of sugar and salt.

The state can raise awareness about the consequences of diet choices and use a regulatory mechanism to monitor progress. But people themselves must make the choices.

GOAL 5: Reduce injury, accidents and violence by 50 percent from 2010 levels

- Introduce measures to reduce motor vehicle accidents
- Violent crimes
- Interpersonal violence
- Substance abuse.

Contributing factors include unroadworthy vehicles, irresponsible driver behaviour, alcohol and substance abuse, gender-based violence, access to firearms, and weak law enforcement.

Here too, the state is responsible for raising awareness and enforcing the law. But people themselves must act more responsibly.

GOAL 6: Complete health systems reforms

- Integrate the different parts of the health system.
- Develop an information system for managing diseases.
- Separate policy-making from oversight and operations.
- Decentralise authority and devolve administration to the lowest levels.
- Rationalise clinical processes and systematise the use of data, incorporating community health, prevention and environmental concerns.
- Address infrastructure backlogs, including making more use of information communications technology (ICT).

GOAL 7: Primary healthcare teams provide care to families and communities

- Ensure that primary health care teams are established throughout the country with the required number of doctors, specialists, physicians and nurses.
- Each household must have access to a well-trained community health worker.
- Schools must receive health education provided by teachers and primary health care teams.
- Primary health care teams must have adequate resources for the services they need to deliver.

GOAL 8: Universal health care coverage

- Everyone must have access to an equal standard of care, regardless of their income.
- A common fund should enable equitable access to health care, regardless of what people can afford or how frequently they need to use a service.

GOAL 9: Fill posts with skilled, committed and competent individuals

Increase the capacity to train health professionals.

- Train more health professionals to meet the requirements of the re-invigorated primary health care system.
- Link the training of health professionals to future diseases, especially different categories of non-communicable diseases.
- Follow the lead of the Municipal Systems Act
- of 2000 (as amended) and set procedures and competency criteria for appointing hospital managers.
- Set clear criteria for the removal of underperforming hospital managers.

There are critical shortages of health professionals in a number occupational categories. More health professionals need to be trained and funding needs to allocated to create more posts in the public health sector. Between 2002 and 2010, 11 700 doctors graduated from South African medical schools and only 4 403 were employed in the public sector. In addition, the distribution of doctors between urban and rural areas is inequitable. The Department of Health has developed a human resources strategy which estimates gaps and sets targets to ensure that South Africa has adequate health personnel.

PRIORITIES TO ACHIEVE THE GOALS OF THE 2030 VISION

There are no quick fixes for achieving the goals set out above. Each goal will require a range of interventions. Below we set out nine priorities that highlight the key interventions needed to achieve a more effective health system.

PRIORITY 1: Address the social determinants that affect health and disease[1]

Implement a comprehensive approach to early life

Existing child survival programmes should be expanded and interventions aimed at social/emotional and language/cognitive development of a child introduced earlier. Extended breastfeeding is desirable for women, but for many it is not possible, for example, in instances where women need to go back to work. What is more practical for most mothers is to exclusively breastfeed for up to six months, and then to wean the child using a cup and spoon to provide additional milk. This must be encouraged.

Collaborate across sectors

The linkages between policies on human settlements, urban planning and urban design, transport, basic services, education, energy, trade, agriculture and food security, rural development, social protection, and neighbourhood policing should be fully assessed and understood. Their design should take into account their impact on health.

The health sector should engage with partners and other departments to ensure that the negative impact of other policies on health outcomes is understood and mitigated, and promote policies that result in positive health outcomes.

Health is everyone's responsibility, including city planning officials. Many functions of a city government, like providing pedestrian walks, cycling lanes, open parks and street-lighting, can have a positive effect on physical activity which is essential for health outcomes.

Poverty is a significant determiner of health and needs to be addressed. The Department of Health must collaborate with departments whose mandate has a direct impact on alleviating poverty.

Promote healthy diets and physical activity

The best place to instil changes in lifestyles and behaviour is at school:

- Physical education should be compulsory in all schools.
- Every school in South Africa should employ a qualified physical education teacher.
- Schools should have access to adequate facilities to practice school sport and physical education.
- All schools should be supported to participate in organised sports at local, district, provincial and national levels.
- School health promoting teams should be established in each district and should visit schools regularly.
- A culture of wellness must also be established

in communities and at work.

- Every ward should have adequate facilities for basic exercise and sporting activities.
- There should be incentives for employers to provide opportunities for employees to exercise and have access to information about healthy eating.

South Africans need to be more physically active as part of their culture. Every month there should be a day dedicated to physical activity where everyone is encouraged to take part in a physical activity. Such a day should be widely publicised in the media. Celebrities, government, business, sportspeople and other leaders should promote and support physical activity to stimulate a healthy culture. But the conditions for a culture of physical activity also need to be taken care of. For example, authorities must ensure that the design of cities, suburban areas and rural villages encourages people to run, walk and cycle.

PRIORITY 2: Strengthen the health system

A number of actions across different levels are needed to strengthen the health system. They include:

- Establishing a coherent and vision-based
- executive decision-making process.
- Promoting quality, including measuring and benchmarking actual performance against standards for quality.
- Defining an appropriately specialised, more accountable operational management model for health service delivery, including revised roles and responsibilities for the national department, provinces, districts and public hospitals. This should also cover governance and capacity requirements.
- Bringing in additional capacity and expertise to strengthen a results-based health system, particularly at the district level. This should include revised legislation to make it easier to recruit foreign skills, partnerships between the private and public sector, and deployment and training for district health management teams.
- Implementing a national health information system to ensure that all parts of the system have the required information to effectively achieve their responsibilities.
- Establishing a human resource strategy with national norms and standards for staffing, linked to a package of care.
- Developing an implementation strategy and partnerships to leverage funding, increase health sector efficiencies and accelerate the implementation of the national strategic plan[2]

Leadership and management

The health system requires competent leaders and managers at all levels – from clinic to tertiary hospital. From a governance perspective, competent leaders are required in all structures from district to national level. Anyone who does not meet the competency requirements for a job should be replaced. People who lead institutions must have the required leadership capability and high-level technical competence in a clinical discipline.

To improve services, roles and responsibilities for all public health care facilities need revising. National, provincial and district organisational structures should also be reviewed to better support the focus on primary health care.

To provide overall guidance, technical capacity at national and provincial levels should be strengthened. Policies must be effectively implemented, monitored and assessed. Active engagement in communities is required. And the social and economic barriers to achieving good health must be addressed.

Functional competence and commitment to quality service need to be a priority. Communication and coordination mechanisms should be improved within departmental spheres, across clusters and with private partners to prevent silo funding and operations.

Accountability to users

Governance and management frameworks, from national to local levels, need to be effective, with the emphasis on accountability to users/communities. Centralised guidance, technical support and monitoring should be aligned with decentralised, devolved responsibility and decision-making. Greater attention should be given to collaboration within and between national, provincial and district or local strategies and plans. Appropriate delegations can consolidate the responsibilities of chief executive officers and district managers.

Additional capacity and expertise

The focus of training and mentorship should be on rolling out best practice. To strengthen a results-based health system, particularly at the district level, partnerships with the private and non-profit sectors need to be boosted. Trainers and mentors should be used to improve capacity in district health management, clinics, hospitals, and community-based outreach primary health care.

Quality control

An important reform is the proposed Office of Health Standards Compliance (OHSC) to promote quality by measuring, benchmarking and accrediting actual performance against standards for quality.

Infrastructure and equipment in health facilities are in a desperate state. Health personnel are unevenly distributed. Remote facilities in rural areas face dire shortages. Facilities in major urban centres have more personnel, but are under severe strain due to growing urban populations. They often service populations from far beyond their catchment areas and in some instances from beyond national borders.

The OHSC will be responsible for ensuring that standards are met in every sphere and at every level. Specific focus will be on achieving common basic standards in the public and private sectors.

The OHSC will perform functions which include: inspecting and certifying health establishments that comply with prescribed norms and standards, withdrawing certification, investigating complaints relating to the national health system, monitoring indicators of risk as an early warning system relating to serious breaches of norms and standards and reporting any breaches to the Minister without delay, identifying areas and making recommendations for intervention by a national or provincial department of health.[3]

PRIORITY 3: Improve health information systems

Several actions are needed for synergy between national, district, facility and community health information systems:

- Prioritise the development and management of effective data systems. Credible data is

necessary for decision-making and regular system-wide monitoring.

- Integrate the national health information system with the provincial, district, facility and community-based information systems. The national health information system should link to secure, online, electronic patient records and other databases, such as for financial, pharmacy, laboratory and supply-chain management data. It should also link with other government, private sector and non-profit databases.
- Establish national standards for integrating health information systems. Integrating data between different software and financial systems is difficult.
- Undertake regular, independent, data quality audits, possibly by the OHSC.
- Develop human resources for health information. Replace existing ad hoc training with ongoing training.
- Strengthen the use of information. Mobile phones (m-health systems) can improve community-based data collection by professional teams, including community health workers, and make reliable data instantly available. At facility level, the district health information system software should be flexible to allow data to be added according to local needs and to track and monitor local priorities.
- Expand data reporting. Address the increasing demands on health workers for data through a structured approach, using sentinel sites. Complementary use of routine data and regular inexpensive annual facility surveys to update basic information data on staff, infrastructure, equipment, maintenance, and other information that does not change often. A national task team should discuss, revise and approve the national health information system every two years, encouraging districts and provinces to take part and make submissions. Two areas requiring urgent incorporation are reports on human resources and finances.
- Focus access to digital information on web-based and mobile data entry and retrieval, linked to the existing district health information system, which should be continuously and incrementally modernised.
- Invest in improving data quality. This depends on the continuing allocation of full-time national and provincial staff, as well as on the commitment of district information officers and supervisors.

PRIORITY 4: Prevent and reduce the disease burden and promote health

It is important to provide comprehensive care, particularly quality primary health care and community outreach. But an integrated focus is needed on three main interventions to reduce the major disease burden.

- Prevent and control epidemic burdens through deterring and treating HIV/AIDS, new epidemics and alcohol abuse.
- Improve the allocation of resources and the availability of health personnel in the public sector.
- Improve health systems management by improving the quality of care, operational efficiency, the devolution of authority, health worker morale and leadership and innovation.

PRIORITY 5: Financing universal healthcare coverage

In 2005, the World Health Assembly passed a resolution on sustainable health financing, universal coverage and social health insurance. The resolution noted a wide mix of financing mechanisms across countries, but asked countries to commit to progressively extending a pre-payment system. This was aimed at increasing the security of services, protecting them against financial

risk, preventing catastrophic health expenditure and moving towards universal systems.

Types of health system

South Africa's proposals for a national health insurance (NHI) system represent a profound break with the past. The changes being made now may set the foundations for a new health system for the next 50 years.

South Africa has a transitional or pluralist health system, consisting of a tax-funded health system for the majority, and medical schemes for a relatively small proportion of the population (17 percent, 8.3 million beneficiaries).[4] However, given the large inequities in income, spending in the private sector amounts to about half of total health spending. This spending attracts scarce skills away from the public sector: a large proportion of South Africa's specialists, pharmacists, dentists, optometrists and physiotherapists work in the private sector. South Africa's level of public health spending (4.1 percent of GDP) is fairly average in global terms, but the country's burden of disease, including the high level of HIV/AIDS,[5] creates additional costs estimated at around 0.7 percent of GDP.[6]

It is unusual for middle-income countries to spend more than 6 percent of GDP on health services. (Countries with higher income, such as the United Kingdom, spend about 8 percent of GDP.) As countries become more developed and richer, their health systems and financing systems typically move away from transitional systems towards more universal systems, in which a large proportion of health funding is public.

In advanced countries, there are three main types of health system:

- National health service: Services are predominantly tax-funded and delivery is mainly through the public sector (United Kingdom, Spain and Sweden).
- National health insurance: Financing is predominantly public, but delivery is typically by a mix of public and private providers. There is a range of sub-options here, but one of the main differences is between single-payer models (Australia and Canada) and multi-payer models (Holland and Germany), which typically emerge and build on occupational social health insurance scheme arrangements.
- Private health insurance: The United States model of private health insurance is generally considered one of the most expensive and inefficient, and is being reviewed under the Obama health reforms.

When social insurance systems reach universal coverage, the differences between a national health service and national health insurance may become blurred. In South Africa, the term national health insurance may be open to misinterpretation. South Africa's NHI system will be predominantly based on public sector delivery at first, and mainly tax-funded (strong elements of the national health service).

Evolution towards NHI

NHI is a common endpoint for health financing reforms across the world. Over 100 countries either have or are moving towards NHI. In many countries, NHI has evolved over decades through the progressive elaboration of social health insurance. As economies strengthen and a growing proportion of the population is employed in the formal sector, a relatively low percentage of the remaining uninsured people are subsidised to bring the entire population into the insurance system. South Africa is working towards this objective of universal coverage, but the approach has to be tailored to the South African context:

- The progressive inclusion of private providers into the publicly funded system is likely to be much more gradual given their substantially higher costs. The Green Paper on NHI

suggests a transition of 14 to 15 years. In the early years the focus will be on strengthening public health services, like a national health service-type system.

- NHI in South Africa will involve substantial cross-subsidisation in the early decades due to the high levels of unemployment and income inequality.

South African health financing numbers

South Africa will spend about 8.7 percent of GDP on health services in 2011/12 (R255 billion), of which about 4.2 percent (R122 billion) will be in the public sector, 4.3 percent through private financing streams (R126 billion) and 0.2 percent through donors. The largest public stream is through provincial departments of health (3.8 percent of GDP) and the largest private stream is through medical schemes (3.6 percent of GDP).

In 2007, South Africa's public spending on health services was close to the global average (3.5 percent of GDP) for upper-middle-income countries. High-income countries spent on average 6.9 percent. However, government health expenditure as a percentage of total expenditure in South Africa (41.4 percent) was significantly below the average (55.2 percent for upper-middle-income countries and 61.3 percent for high-income countries), meaning that health spending in South Africa is more unequal than in most other middle-income countries.

Government spends about R922 per month per family of four on health services, which is roughly 14.7 percent of government spending (excluding interest costs). A similar family covered by a medical scheme spends between four and five times as

FIG 10.1. HEALTH EXPENDITURE IN SA PUBLIC AND PRIVATE SECTORS

Rand million	07/08	08/09	09/10	10/11	11/12	12/13	13/14	Annual real % change 07/08 -13/14
Public sector								
National Department of Health Care	1,210	1,436	1,645	1,736	1,784	1,864	1,961	2.2
Provincial departments of health	62,582	75,120	88,593	98,066	110,014	119,003	126,831	6.1
Defence	1,878	2,177	2,483	2,770	2,961	3,201	3,377	4.0
Correctional services	261	282	300	318	339	356	374	0.1
Local government (own revenue)	1,625	1,793	1,829	1,865	1,977	2,096	2,221	9.4
Workmens Compensation	1,287	1,415	1,529	1,651	1,718	1,804	1,894	0.6
Road Accident Fund	764	797	740	860	980	1,029	1,080	-0.1
Education	1,833	2,134	2,350	2,503	2,653	2,812	2,981	2.2
Total public sector health	71,439	85,154	99,468	109,769	122,427	132,165	140,721	5.6
Private sector								
Medical schemes	65,468	74,089	84,863	96,482	104,008	112,120	120,866	4.4
Out of pocket	14,694	15,429	16,200	17,172	18,202	19,294	20,452	-0.3
Medical insurance	2,179	2,452	2,660	2,870	3,094	3,336	3,596	2.5
Employer private	1,041	1,172	1,271	1,372	1,479	1,594	1,718	2.5
Total private sector health	83,383	93,141	104,994	117,896	126,783	136,344	146,632	3.6
Donors or NGOs	3,835	5,212	6,319	5,787	5,308	5,574	5,852	1.2
Total	158,657	183,507	210,781	233,452	254,518	274,083	293,205	4.4
Total as % of GDP	7.6	7.9	8.6	8.8	8.7	8.6	8.3	
Public as % of GDP	3.4	3.7	4.1	4.1	4.2	4.0	4.0	
Public as % of total government expenditure (non-interest)	13.9	14.0	13.8	14.1	14.7	14.7	14.6	
Private financing as % of total	52.6	50.8	49.8	50.5	49.8	49.7	50.0	
Public sector real rand per capita 10/11 prices	2,131	2,300	2,512	2,635	2,766	2,812	2,816	4.8
Public per family of four per month real 10/11 prices	710	767	837	878	922	937	939	4.8

Source: National Treasury Budget Review, various years

FIG 10.2. GOVERNMENT HEALTH EXPENDITURE IN SELECT MIDDLE-INCOME COUNTRIES

Country	GDP per capita (current US$)	Gov health expenditure as % of GDP		Per capita gov health expenditure (PPP int $)		Total health expenditure as a % of GDP		Gov health expenditure as % of total health expenditure		Life-expectancy
	2007	2000	2007	2000	2007	2000	2007	2000	2007	2008
Chile	9,877	3.4	3.6	320	507	6.6	6.2	52.1	58.7	79
Mexico	9,741	2.4	2.7	236	372	5.1	5.9	46.6	45.4	75
Russia	9,146	3.2	3.5	247	512	5.4	5.4	59.9	64.2	68
Turkey	8,865	3.1	3.5	272	467	4.9	5.0	62.9	69.0	72
Venezuela	8,252	2.4	2.7	199	324	5.7	5.8	41.5	46.5	74
Uruguay	7,206	6.1	5.9	500	678	11.2	8.0	54.6	74.0	76
Brazil	7,185	2.9	3.5	202	348	7.2	8.4	40.0	41.6	72
Malaysia	7,028	1.7	2.0	159	268	3.2	4.4	52.4	44.4	74
Argentina	6,604	5.0	5.1	452	671	9.0	10.0	55.5	50.8	75
Botswana	6,545	2.7	4.3	218	568	4.4	5.7	61.0	74.6	54
South Africa	5,933	3.4	3.6	223	340	8.5	8.6	40.5	41.4	51
Costa Rica	5,891	5.0	5.9	360	656	6.5	8.1	76.8	72.9	79
Namibia	4,216	4.2	3.2	174	196	6.1	7.6	68.9	42.1	61
Peru	3,771	2.8	2.5	134	191	4.7	4.3	58.7	58.4	73
Thailand	3,689	1.9	2.7	89	209	3.4	3.7	56.1	73.2	69
China	2,651	1.8	1.9	42	104	4.6	4.3	38.7	44.7	73
Morocco	2,373	2.0	2.3	32	68	4.2	5.0	46.6	45.4	71
Nigeria	1,123	1.5	1.7	20	33	4.6	6.6	33.5	25.3	48
India	1,096	1.1	1.1	16	29	4.4	4.1	24.5	26.2	64
Vietnam	804	1.6	2.8	23	72	5.4	7.1	30.1	39.3	74
Low income		1.8	2.2	14	28	4.7	5.3	37.6	41.9	
Lower middle-income		1.6	1.8	35	76	4.4	4.3	37.0	42.4	
Upper middle-income		3.2	3.5	243	419	6.2	6.4	52.0	55.2	
High income		6.1	6.9	1,631	2,492	10.2	11.2	59.4	61.3	

Source: World Health Organisation, 2010 [7]

much. South Africa has not quite met the Abuja declaration health spending target of 15 percent of government spending.

Components of a health financing system

The costs of NHI depend on the type of health financing system, for example, the nature and type of benefits, the extent to which private providers (private hospitals) are used, the nature of reimbursement mechanisms, how much purchasing is active or passive, the degree of genuine competition, the relative power of purchasers and providers, usage levels of services and how successfully demand is managed.

REVENUE COLLECTION

Sources of funds: households, businesses, government, donors.

Types of revenue stream:

- Tax – direct/indirect, personal income tax, value added tax, borrowing
- Social insurance, NHI
- Private insurance, medical schemes
- User fees – out of pocket
- Community financing
- Donations/grants.

Types of collecting agency: government, parastatal, private.

POOLING

Risk pools:

- Coverage and composition of risk pools and degree of fragmentation
- Number and nature of purchasing authorities.

Resource allocation:

- Degree to which needs-based (risk equalised)
- Needs-based resource allocation formulae (e.g. risk-adjusted capitation).

PURCHASING

- Transfer of pooled funds to providers
- Active vs. passive purchasing, contracting, information systems
- Benefit package
- Budgeting, allocative efficiency
- Payment mechanisms.

The Green Paper on NHI estimates that public health spending will increase from R100 to R110 billion at baseline to R255 billion in real terms by 2025 (R574 billion in nominal terms). As a percentage of GDP, this is an increase from about 4.2 percent to 6.2 percent.

However, the actual costs will vary depending on how the NHI is implemented and wider health system issues, such as increasing the supply of doctors.

FIG 10.3. GREEN PAPER COSTS OF NHI

R million	Real					Nominal				
	Baseline narrow*	Baseline broad	NHI	Gap1	Gap 2	Baseline narrow*	Baseline broad	NHI	Gap1	Gap 2
10/11	99 802	109 769			99 802	109 769				
11/12	106 171	116 265			111 798	122 427				
12/13	109 006	119 196	125 359	16 353	6 163	120 867	132 165	140 279	19 412	8 114
13/14	110 099	120 295	134 763	24 664	14 467	128 793	140 721	159 523	30 731	18 803
2,014	111 199	121 498	144 408	33 209	22 910	136 520	149 164	180 826	44 305	31 662
2,015	112 311	122 713	156 196	43 885	33 483	144 711	158 114	203 993	59 282	45 880
2,016	113 435	123 940	166 726	53 291	42 785	153 394	167 601	229 654	76 260	62 053
2,017	114 569	125 180	177 666	63 097	52 486	162 598	177 657	258 165	95 567	80 508
2,018	115 715	126 432	189 083	73 368	62 651	172 353	188 316	289 932	117 578	101 616
2,019	116 872	127 696	200 966	84 095	73 270	182 695	199 615	325 278	142 583	125 663
2,020	118 040	128 973	213 636	95 596	84 663	193 656	211 592	365 124	171 468	153 532
2,021	119 221	130 263	227 097	107 876	96 834	205 276	224 287	409 974	204 698	185 687
2,022	120 413	131 565	236 001	115 588	104 436	217 592	237 745	449 847	232 255	212 103
2,023	121 617	132 881	245 284	123 667	112 403	230 648	252 009	493 773	263 125	241 764
2,024	122 833	134 210	254 987	132 153	120 777	244 487	267 130	542 236	297 750	275 107
2,025	124 062	135 552	255 815	131 754	120 264	259 156	283 158	574 362	315 206	291 204

* Narrow refers to national provincial Departments of Health
Broad includes all other health-related services in other departments and entities

Source: Green Paper on National Health Insurance

The financing of a health care system does not depend solely on its cost projections. It is subject to many other factors, such as the relative prioritisation of other sectors (education, income support, infrastructure, job creation), the overall fiscal stance of the country, its economy, the ability of the health sector to convincingly show value for money and political choices.

Health systems must be designed for long-term sustainability. Some countries provide inadequate levels of funding for health services, despite very high levels of maternal and child mortality. At the other end of the spectrum, poorly conceived health systems can bankrupt companies and governments. Cost spirals in health systems are easily set off and can be very difficult to control.

Cost controls

Health systems require many mechanisms to improve their efficiency and control their costs. For example, primary care gate-keeping; demand management strategies such as appropriate self care and user fees; rationing, diagnostic and therapeutic protocols; preferred providers; managed care; and reimbursement strategies (capitation or global budgets instead of fee-for-service). The 2010 *World Health Report* [8] estimates that between 20 percent and 40 percent of health spending globally is wasted through inefficiency.

Financing mechanisms

Some common financing mechanisms for health care internationally include:

- Tax – direct/indirect, personal income tax, value added tax, borrowing
- Social insurance, NHI – often via proportional payroll contributions/taxes
- Private insurance; medical schemes
- User fees – out-of-pocket payments
- Community financing
- Donations/grants.

Typical criteria used for assessing financing mechanisms are: feasibility, effectiveness, efficiency, equity, sustainability, structuring of contributions (which can be more progressive or regressive depending on the model used), extent of coverage, and fiscal decentralisation versus centralisation.

- **General tax revenue** is a source of financing for health care in many countries, particularly those with advanced national health service systems (the United Kingdom, Sweden, Spain and Italy). Types of taxes that underlie general tax income include personal income tax, value added tax and company tax. Taxes on alcohol and tobacco also contribute to the general revenue pool.

General taxation tends to be effective and equitable. In South Africa, the South African Revenue Service is a competent national revenue authority. Personal income tax is a particularly progressive form of raising revenue: the level of income determines the amount of the tax, and the poorest are not taxed. It is more progressive than collecting comparable resources through NHI contributions.These are based on fixed contributions according to the requirements of the NHI and not on income. Value added tax (VAT) is a key source of general tax in most countries. In many countries with universal health care systems, VAT is at a higher level than in South Africa. However, no firm decision has been taken on including VAT as a source of funding for the NHI.

- **Private health insurance** is not an effective system for financing universal health care: it is voluntary, uses risk rating (meaning that some people may be excluded or charged prohibitive fees), excludes many people, and contributions are not linked to income. An additional consideration is that South Africa's medical schemes are not typical private health insurance vehicles and have already been through several sets of reforms. They are non-profit entities and risk rating is prohibited.

Medical schemes in South Africa are a well-established financing mechanism used by 8.3 million beneficiaries. Occupationally linked restricted medical schemes cover 3.1 million beneficiaries and have gross contributions of R37 billion in 2010/11.[9]

- **Social health insurance** contributions are typically mandatory, linked to income (typically as a percentage of income) and not risk rated. They are therefore more progressive than private schemes, although they typically provide a limited set of benefits.

Payroll taxes are the predominant source of funding for NHI in some countries. However, once coverage becomes universal, the advantages of payroll taxes against general taxes become less significant and the more progressive nature of general taxes make them preferable.

- **User fees** (out-of-pocket payments) are a regressive form of health financing and can seriously detract from access to health services. Out-of-pocket payments should not constitute more than 15 to 20 percent of health financing revenue[10] to minimise the risk of health costs seriously compromising a household's finances. In South Africa, user fees contribute about 8 percent of revenue, mainly for private services. The public sector derives only 1.8 percent of its expenditure from user fees and has exemptions for various groups.

One view is that there should be no user fees at all (with minimal exceptions, such as for non-South Africans and services outside the package). Another view is that user fees play a role in controlling unnecessary demand for discretionary services, and this contributes to avoiding catastrophic household health expenditure (defined as more than 40 percent of non-food household expenditure).

The National Planning Commission supports the broad principle of universal coverage outlined in the Green Paper on NHI and the process under way in government to investigate the most appropriate mechanisms for financing NHI. The success of NHI in South Africa will depend on the functioning of the

public health system. The Commission supports attempts to improve the public health system, starting with the auditing of facilities and setting appropriate standards.

Inefficiencies in the private health sector need to be reduced to control costs. This includes revisiting the Health Professions Council's decision to bar private hospitals from employing doctors. As a result, doctors and specialists establish private practices on hospital premises,[11] attracted by the hospitals' investment in infrastructure and equipment. The hospitals refer patients to these doctors, and doctors generate demand for hospital beds. This model leads to over-servicing, which drives the cost of private health care up.

PRIORITY 6: Improve human resources in the health sector

There is a disparity in the distribution of health personnel between the public and private sectors, driven by differences in service conditions. This is linked to the financing of the health system. There are further difficulties in planning for human resource development, because PERSAL (government's human resources administration system) and the health council's registration system in the private sector do not provide accurate statistics.

Key challenges relate to:

- The supply of health professionals and equity of access
- Education, training and research
- The working environment of the health workforce.

There is a lack of posts in the public sector: more graduates are being produced than the public sector can absorb.

Most of the additional resources in the public health sector have gone towards the costs of the occupation specific dispensation.

Community-based health care

A core component of re-engineering primary health care is to emphasise population-based health and health outcomes. This includes a new strategy for community-based services through primary health care outreach teams, based on community health workers. The strategy includes advocacy on major health campaigns, such as providing health information, and responding to issues identified by communities.

In South Africa, community health workers' interventions have been limited, in particular to HIV/AIDS care and prevention. In a growing number

performing a wide range of interventions, especially maternal, neonatal and child health. Community health workers can contribute to effective, comprehensive health care, including treating common, acute, mainly childhood illnesses.

Policies permitting community health workers to use antibiotics to treat pneumonia have been controversial, because health professionals are concerned that antibiotics might be misused or over-used. However, in Ethiopia and Nepal the quality of care has remained high. Supportive national policies are needed to allow community health workers to administer antibiotics for specific childhood diseases, along with strengthened regulatory and quality controls for their distribution and appropriate use.

There is strong evidence that community health workers providing medication, including antibiotics, can eliminate epidemics and prevent deaths, such as from bronchol-pneumonia, even in remote settings in Nepal. Community health workers can be as effective as health professionals in carrying out protocols. Shifting life-saving tasks to lower cost personnel saves a health system money and saves many lives.

Community health workers have been successful in various systems, from those that emphasise community-controlled, part-time workers (Thailand, Rwanda) to those where community health workers are formal members of subdistrict health teams (Iran, Brazil). In all the countries where community health worker programmes are successful, community participation is through structures that are integrated into the wider health system.

The number of tasks a community health worker can perform depends on a variety of factors, the most important being the ratio of community health workers to families, the duration and quality of their training, and the extent and quality of their supervision.[12]

The Re-engineering Primary Health Care policy proposes six community health workers for each primary health care outreach team, each community health worker covering 250 households, or about 1 000 people. Lessons learned from low and middle-income countries suggest that the necessary ratios for community health workers to families should be as many as 1:500 families for full-time workers, or 1:20 for part-time workers. In the early stages of a community health worker programme, when numbers are small, the recruitment and allocation of community health workers in the neediest areas should be prioritised.

As in other countries (Brazil, Rwanda, Thailand, Bangladesh), a community health worker programme in South Africa should rapidly increase the poor's access to health care and result in improved health outcomes, especially if the ratio of community health workers to population increases to ensure that all households are regularly visited and health problems detected early. In several countries, high ratios are achieved through a two-tier system, where the ratio of full-time community health workers is 1:250–500 households and they supervise part-time community health workers with more limited training.

When the community health worker programme is extended to the entire population, South Africa is likely to need well over 700 000 community health workers. Community health workers would undertake a range of activities, spanning the full breadth of rehabilitative/palliative care, treatment, preventive and promotive interventions. They would form the base of the health pyramid. In addition to making health care more accessible and equitable, this primary health care system will create more jobs and thus indirectly improve health by reducing the prevalence and depth of poverty.

To achieve this model of community-based health care, the powers of conservative professional councils will have to be curtailed and the scope of practice for non-doctors, especially community health workers and nurses, enlarged.

Appropriately skilled nurses

The core of the primary health care outreach team will be a professional nurse, a staff nurse and community health workers. Many more trained nurses are needed, and their skills to carry out and support primary health care need to be strengthened. Community nurses will also need to be substantially competent in promoting health and preventing ill health. In several countries, community nurses (professional nurses with public health training) lead many aspects of district health work.

Training more midwives and deploying them in the appropriate levels in the health system could have an immediate positive impact on maternal, neonatal and child health, which would reduce maternal and child mortality.

The rapid expansion and reorientation of nursing training is required, and the policy decision to reopen and expand nurse training colleges supports this. But a curriculum review is needed. This must include advisers external to the current nurse training bodies (the South African Nursing Council and the Sector Education and Training Authorities), with expertise in public health and experience in countries that have implemented a comprehensive, district-based approach.

Doctors and specialist support teams

Family physicians in the district specialist support team will take the primary responsibility for developing a district-specific strategy and an implementation plan for clinical governance. They will also provide technical support and capacity development for implementing clinical governance tools, systems and processes to ensure quality clinical services in the district health system. Family physicians will also take overall responsibility for monitoring and evaluating clinical service quality for an entire district.

In some countries, the emphasis of family physician training and practice has been on individual patient care in a well-resourced context. In several countries that have promoted doctors as leaders of the district health team, these doctors have been trained in five specialist areas (medicine, surgery including anaesthetics, obstetrics, paediatrics and psychiatry) and are also encouraged to get training in public health. This should be considered for the South African context.

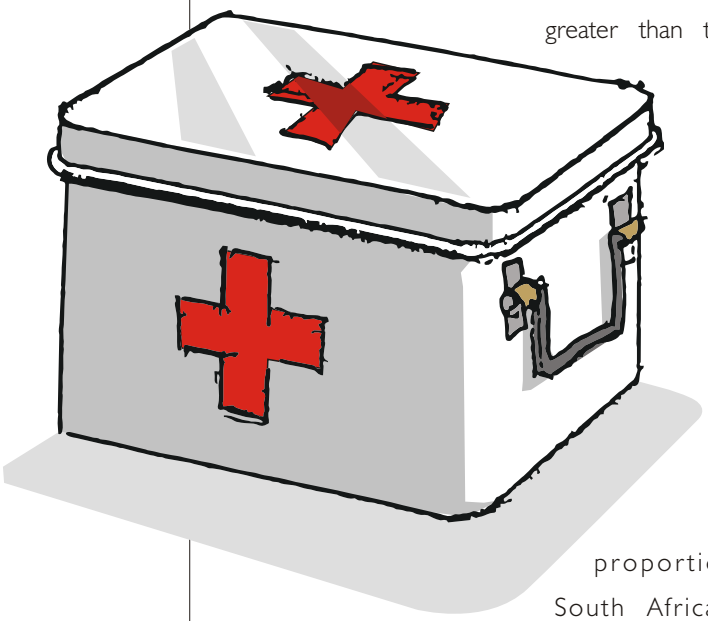
Patient care in many district hospitals is poor. Prevention, primary health care and the quality of care is neglected. Specialised medical training is currently out of step with what South Africa needs. Training specialists to improve the quality of care in their field in district hospitals and surrounding health centres and clinics is the priority. They should also be trained to improve the planning, management and monitoring of district services in their field.

A major change in the training and distribution of specialists is needed, including speeding up the training of community specialists in each of the five specialist areas. Training would include compulsory placement in regions, under the supervision of provincial specialists. Specialists would be based at a

regional hospital, but would examine and improve the standard of health care across a system or within the region, including the quality of preventive care, care at primary care clinics and district hospitals, and the referral and transport network.

Increased investment in health personnel development

Brazil's health system has inspired some of South Africa's policies, particularly those dealing with primary health care. Brazil's health sector employs more than 2.5 million workers, about 10 percent of the workforce in the formal sector and far greater than the proportion South Africa's health sector employs. Brazil has achieved this by significant investment in health research and development, including: expanding training, especially for nurses and technicians; up-skilling public health and auxiliary personnel, for example in problem solving and reflective thinking; and incentives to promote curricular reform in undergraduate training programmes.



South Africa's production of doctors, by contrast,has stagnated and until recently the number of nurses has declined. Training in public health, a core component of primary health care, is minimally supported by government funding, with most schools of public health relying heavily on external donor and research funding. Most categories of health professionals, except nurses, are disproportionately located in the private sector.

To implement policies that are more appropriate to the health care needs of South Africa, there needs to be a massive and focused investment in training health personnel. Government could incentivise the production of appropriately trained personnel in sufficient numbers within a realistic but short time.

PRIORITY 7: Review management positions and appointments and strengthen accountability mechanisms

Even though the numbers of people employed in the public health system have stagnated overall from the late 1990s, the number of people in management posts has grown. The percentage growth of management posts has greatly exceeded the growth of service delivery posts. Management personnel and their competencies to strengthen and rationalise public health services have recently been reviewed. Statutory structures need to be bolstered and resourced so that community representatives can participate in health system governance.

Equip health personnel to lead intersectoral action

Many of the factors that impact on health are outside of the health sector, and intersectoral action is a feature of most successful community health worker programmes. Its implementation takes several different forms: for example, in Iran, community health workers are the key implementers, while in Brazil they act primarily as health care workers and refer clients to other sectors.

Addressing intersectoral action is a priority.
It requires:

- Identifying the key categories of health and health-related personnel

- Identifying their roles
- Elaborating appropriate, practical training programmes
- Developing a facility for ongoing mentoring and support in the field.

These actions are likely to require using the skills of experienced non-governmental organisations.

The health sector must play an active advocacy role in other sectors that affect the social determinants of health, such as safety and security, trade, water affairs and education. Some European countries have successfully integrated health into the policies of other sectors by insisting on a "health in all policies" approach, promoted at the highest level of government.

Strengthen human resources management

Human resources need to be strengthened at all levels by:

- Ensuring that human resource management personnel in the health sector are appropriately accredited
- Continuously reviewing remuneration
- Putting into operation incentive schemes, such as the occupation-specific dispensation, to boost services in underserved areas.

Effective performance management frameworks are an important aspect of human resources management. Managing performance and retaining staff should receive as much attention as producing new professionals. Poor management is the reason most doctors give for leaving the public sector. Recruiting skilled professionals from abroad is very difficult in South Africa because of considerable red tape. In the global, knowledge-based economy, South Africa is struggling to compete for this scarce resource. This requires urgent attention.

Collaborate with traditional healers

African traditional medicine is one of the major service industries in this country: 28 million South Africans use traditional medicine and there are about 185 500 traditional medicine practitioners. Raw medicinal plants, prescriptions and herbal medicines add up to a pharmaceutical industry worth R2.9 billion. A policy framework for how traditional medicine fits into the health sector is important. The Traditional Health Practitioners Act of 2007 provides for national policy on traditional medicine, but actual integration of traditional medicine into the national health care system and structured relationships with the pharmaceutical industry has been limited.

PRIORITY 8: Improve quality by using evidence

Health services are costly, and it is essential to base planning, resource allocation and clinical practice on empirical evidence. Evidence-based evaluation, planning and implementation improves the quality of planning. The health workforce, particularly leadership, needs to become familiar with using evidence in all aspects of practice.

Empirical evidence on which to base predictions for specific health plans and targets should be regularly reviewed, and the data and scenarios to refine targets for 2030 should be continuously updated. At district level, this implies using the district health expenditure review and planning process effectively.

PRIORITY 9: Meaningful public-private partnerships

Meaningful public-private partnerships in the health sector are important, particularly for NHI. South Africa needs robust debates between public and private sector partners, including civil society organisations. Key issues include:

- Legal and governance frameworks

- The public-private partnership policy environment
- The sociopolitical dimension of such partnerships
- Public-sector capacity
- The business and financial implications of partnership implementation.

These partnerships should be guided by best practice principles in purchasing, provisioning, procuring and sound financial management of health services. They should create incentives for improving access, greater equity, higher quality, more innovation and serving the poor with efficiency.

CONCLUSION

What is presented in this chapter is a set of reforms that when implemented together will ensure that South Africans enjoy a better quality of life. We need to mobilise and use resources efficiently. This includes addressing financing inequalities, training and employing more health personnel, improving the physical infrastructure in health facilities, effective supply chain and inventory management practices to ensure health facilities do not run out of essential drugs, better management of patient records and strengthening the delegation of powers to those closest to ground. These are inter-related parts of the health system which require an integrated response.

The proposed goals and priorities are meant to provide an integrarted response to South Africa's health challenges and require all of government to work together. South Africa's governance system is founded on the principle of cooperative governance as set out in chapter three of the Constitution. We also have a number of laws that are meant to ensure that different spheres of government and departments within a sphere work together. With this legal framework in place and the experience of the past few years, it is clear that we do not need new laws. We need to encourage officials to work together and coordinate their efforts as they implement programmes at the lowest levels.

Private health providers, traditional healers and other sectors play a big role in the health system of the country. Contrary to the belief that private health providers cater for the rich, many poor people use services of general practitioners and private pharmacists. Traditional healers are the first health providers consulted by many people before visiting health facilities. Efforts to ensure that we have a single national health system must acknowledge and draw on the considerable expertise, know how and resources that private health providers and traditional healers possess.

The different regulatory institutions and professional bodies in the health sector must be strengthened to support these reforms. In some instances different institutions will have to be formed to ensure that we have a well-regulated and ethical health sector that puts patients first. Other regulatory institutions outside the health sector, such as the Competition Commission, the National Consumer Council, among others must take cognisance of these health goals in pursuing their mandate.

NOTES

1. These priorities draw heavily on the World Health Organisation's seminal 2008 report. (World Health Organisation Commission on Social Determinants of Health (2008).*Closing the Gap in a Generation: Health Equity through Action on the Social Determinants of Health.Geneva:* World Health Organisation.)

2. These are the main recommendations from the 2008 consultative process to create a roadmap for health, facilitated by the Development Bank of Southern Africa.

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4. Council for Medical Schemes (2010). *Annual Report 2010/11*. Pretoria: Council for Medical Schemes.

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9. Council for Medical Schemes, 2010.

10. World Health Organisation, 2009.

11. Matsebula T and Willie M (2007). 'Private Hospitals' in Harrison S, Bhana R and Ntuli A (eds) *South African Health Review*. Durban: Health Systems Trust.

12. World Health Organisation, 2010. Guthrie et al, 2010.

CHAPTER ELEVEN

Social protection

KEY POINTS

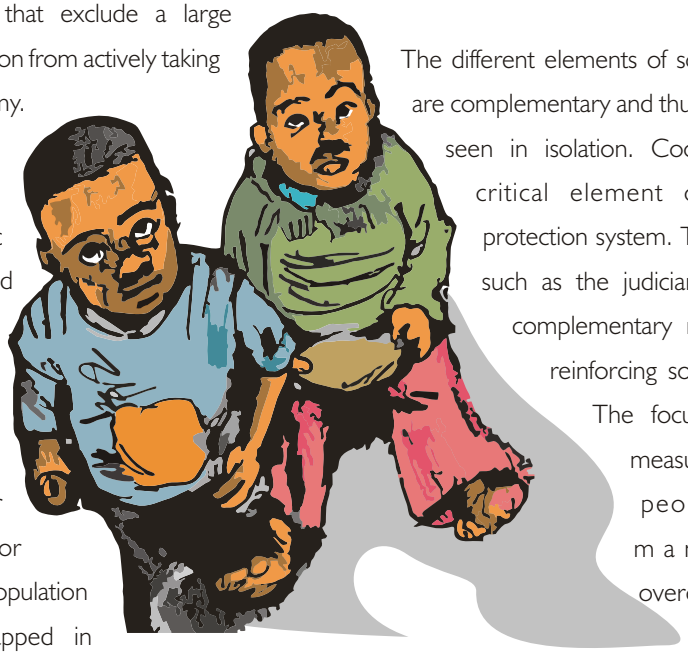
- A social floor is defined and a multi-pronged strategy recommended to ensure that no household lives below this floor. Problems such as poverty induced hunger, malnutrition and micronutrient deficiencies will be addressed.
- Create an inclusive social protection system that addresses all areas of vulnerability and is responsive to the needs, realities, conditions and livelihoods of those who are most at risk.
- Provide support that builds and utilises the capabilities of individuals, households, communities and NGOs to promote self reliant sustainable development.
- Encourage a culture of individual saving for risks associated with loss of income due to unemployment, old age and illness by providing appropriate frameworks and incentives.
- Enhance services and programmes for labour market activation for the unemployed and create opportunities in public employment.

INTRODUCTION

The National Planning Commission discusses fifteen interconnected but distinct problems facing the country. To address these, the commission focuses on two overarching goals: to eradicate poverty and reduce inequality. These goals can be achieved by building capabilities that enable individuals to take part in the formal economy and in other parts of society. Working towards this would enable a better appreciation of how social security, social welfare, education, health, housing, energy and transport policy can be coordinated to benefit individuals and communities, as well as the economy.

The deep poverty levels and inequitable distribution of income are partly due to low levels of formal employment that exclude a large section of the population from actively taking part in the economy. The root cause of income inequality is the socioeconomic distortion introduced by apartheid, which constrained the development of education and skills, and therefore labour market participation, for the majority of the population and kept them trapped in poverty. The provision of services was also distorted with Africans, especially in the rural areas, denied access to clean water and sanitation, electricity and safe transport. In urban areas services for Africans were provided to barely meet their needs. The welfare system was unequally distributed, with elderly Africans receiving their old age grant payout every second month, while their white counterparts were receiving it monthly. Both income distribution and access to the basic services that are necessary to enable individuals to attain a decent standard of living were distorted, creating a poverty trap for the majority of the population. The time and resources needed to address these challenges should not be underestimated.

South Africa needs to pay careful attention to the design of policies between now and 2030 to ensure that the country is kept working, individuals are engaged in meaningful activity, and vulnerable groups and citizens are protected from the worst effects of poverty. If apartheid destroyed opportunities for the majority of the population and trapped them in poverty, the challenge for the next 20 years is to rebuild the opportunity structures and help individuals develop the capabilities to live the life they wish to lead.



The different elements of social protection are complementary and thus should not be seen in isolation. Coordination is a critical element of the social protection system. The other areas such as the judiciary also have a complementary role to play in reinforcing social protection. The focus here is on measures that help people prevent, manage and overcome situations that adversely affect their well being.

Other aspects of social protection are addressed in other chapters. The focus of this chapter is on the social protection measures for those who are not gainfully employed due to their vulnerable status, i.e. children, people with disabilities and the aged, as well as those who experience labour market vulnerability due to the nature of their jobs, low income levels or unemployment. These social

protection measures seek to support those most in need, including children, people with disabilities and the elderly and promote active participation in the economy and society for those who are unemployed and under-employed through labour market activation measures, employment services, income support programmes and other services to sustain and improve quality of life.

The aim is to define the elements of a social minimum or social floor which together provide a standard of living below which no one should fall. This should cover the entire life cycle of the individual, from conception by ensuring that pregnant mothers have adequate nutrition up to retirement to alleviate old age related poverty.

Employment is critical, but in South Africa structural unemployment due to historic factors and factors arising from economic globalization means that formal employment based on an industrial model of development is unlikely in the immediate term. We have to take a different approach to social protection than the typical Western industrial model. Our approach has to be based on a hybrid model that protects the vulnerable and those at risk while at the same time ensuring economic inclusion through a range of active strategies.

Social protection is both a public and private matter. Whereas government should play an active and important role in providing this support, it equally requires the active participation of individuals in ensuring that they are supported to take responsibility for attaining a higher standard of living. Equally government has a responsibility to ensure that social protection is affordable and sustainable to avoid withdrawal of guarantees, but also to promote solidarity and cohesion.

Employment is the best form of social protection. Too few people in South Africa have work, and the levels of poverty and inequality are very high and rooted in the labour market. As indicated in chapter 3, it will take time to fix the economy and address labour market challenges. Thus social protection should be used to close the gap, building on the already existing social protection measures in existence, but it should be labour market and employment friendly.

South Africa's level of human development does not reflect its natural wealth and abundance of labour. Why is it that South Africa is not able take advantage of its natural resource endowments and positive demographic features?

FIVE FUNCTIONS OF SOCIAL PROTECTION

- Protective – Measures are introduced to save lives and reduce levels of deprivation.
- Preventive – Acts as an economic stabiliser that seeks to help people avoid falling into deeper poverty and reduce vulnerability to natural disasters, crop failure, accidents and illness.
- Promotive – Aims to enhance the capabilities of individuals, communities and institutions to participate in all spheres of activity.
- Transformative – Tackles inequities and vulnerabilities through changes in policies, laws, budgetary allocations and redistributive measures.
- Developmental and generative – Increases consumption patterns of the poor, promoting local economic development and enabling poor people to access economic and social opportunities.

These 5 functions reflect a conceptual approach to social protection that is appropriate for countries in Africa. It responds to issues of chronic poverty, unemployment, risk and vulnerability.[1]

EVOLUTION OF SOCIAL PROTECTION POST-1994

In 1994 the democratic government inherited a social system that was fragmented along racial lines, which was characterized by inequities and a low standard of services for the black majority. These inequities existed in all social services, such as education, health, access to basic services such as water and sanitation and welfare provision. The unemployment, poverty and inequality challenges facing South Africa today have their roots in the apartheid system.

To address the challenges of poverty and inequality, the democratic government adopted an integrated vision of social policy to promote human development, economic inclusion and social stability. Democratic South Africa adopted a comprehensive social protection system and established minimum standards linked to a social wage. The democratic government modified the social protection system to eliminate racial inequities and introduced some new guarantees and benefits. The social protection system includes non-income transfers and a set of basic services. Basic services complement people's earnings to ensure that everybody can access a minimum level of consumption. These have had a significant impact in addressing poverty and asset inequality. Key elements of the system include:

- social assistance cash grants for children, the aged and persons with disabilities
- access to free basic services, such as shelter, water, sanitation and energy for poor households
- free education in 60 percent of schools in poor communities; a school nutrition and transport programme
- free health care for pregnant women and children under six
- statutory social insurance arrangements, i.e. unemployment insurance fund (UIF), compensation for injury and disease (COIDA) and the road accident fund (RAF)
- voluntary social security arrangements for those formally employed, i.e. pensions and provident funds
- active labour market policies to facilitate labour market entry and redress the inequalities that are inherent in the system due to apartheid
- income support for the working-age poor through public works programmes
- a developmental social welfare approach, with a focus on individuals, families and communities.

These aspects are analysed below. Evidence is provided to indicate the achievements and gaps in the social protection system.

Social protection as a right

Under Section 27 of the Constitution, South Africa recognises social security as a basic right: all South Africans "have the right ... to social security, including, if they are unable to support themselves and their dependants, appropriate social assistance.[2]" Section 27(2) goes further to state that the state must take reasonable legislative and other measures, within its available resources, to achieve the progressive realisation of the right of access to social security and social assistance. Section 28(1)(c) provides for the right of children to social services.

People with disabilities, those who are elderly, children and migrants are at greater risk and more vulnerable. They require measures which include removing obstacles to accessing social protection; and measures to provide assistance. These groups bear the brunt of poverty and inequality. Special attention also needs to be given to the needs of women due to their socio-economic and cultural status and the high concentration of poverty amongst them.

There are many other people who face different forms of vulnerability and are at risk of falling into poverty as a result of insufficient wages, unemployment, sickness, and other conditions that may threaten their livelihoods and dignity, such as food insecurity, economic and other environmental factors. Social protection measures should be extended to cover these risks.

SCOPE AND OBJECTIVES OF SOCIAL PROTECTION

Social protection is conceptualised broadly and is more inclusive than social security. It incorporates non-statutory or private measures for providing social security without excluding traditional social security measures such as social assistance and social insurance, social welfare services, and active labour market policies. Labour market policies are a critical component of social protection. They play a dual role - providing minimum income protection for the poor who are capable of gaining employment and improving their employability. Social insurance alleviates the needs of the unemployed, albeit for a short period, but also covers loss of income due to work-related injury or illness.

A human rights approach requires that a societal understanding is reached of what constitutes the "social floor", or minimum social protection below which no one should fall. These are the basic essential social rights and transfers in cash and in kind that provide minimum income and livelihood security as well as essential basic services such as water, electricity, sanitation, health care and education that should be available to all those who need them. These would define an acceptable standard of living for all. The right to access social protection should provide a fallback of supplementary benefits when income from work and assets such as land does not provide sufficient income to achieve a minimum standard of living.

Social protection should be available to all when they need it the most. It is critical in the fight to eliminate and prevent poverty and reduce inequality. However, it is not aimed at meeting the total needs of the individuals. The measures are designed to lift recipients out of poverty, rather than providing passive protection against contingencies and risk. They are a means to enable the most basic needs (defined in the 'social floor') to be met and provide relief during crisis situations. They should address chronic poverty, support the poor to develop the capacity to address the environmental, economic and social risks and causes of poverty, such as unemployment, exclusion, sickness, disability and old age, and promote people's capabilities. By raising labour productivity these measures create the conditions for people to move out of poverty in the future and so enhance social stability.

A balance needs to be struck. Social protection needs to provide a safety net, especially to vulnerable groups, as well as providing support to cushion individuals and families from household-level and economy-wide shocks. It also needs to encourage economic participation. This includes incentivizing and supporting individuals to develop their own ability to respond to shocks and save for rainy days.

The responsibility for social protection thus lies with both the state and individuals as well as social partners, such as business, organized labour formations and community organizations including informal saving schemes. The state through non-contributory social assistance and social relief programmes provides grants to the most vulnerable members of society including the aged, children and people with disabilities. Private individuals, through regulated voluntary insurance and other forms of savings should make their own provision for risks that may result in loss of income due to retirement, temporary unemployment, loss of income due to illness or disability. Social partners, especially the non-government sector, can play a role in the delivery of social services and other community related programmes. This includes community-level programmes that can be integrated with government social protection measures such as the Community Works Programme. It also includes building the capacity and culture of active citizenship among communities. The private sector can ensure compliance with statutory contributions, but also create a market for extending insurance to the poor by designing simple and low cost schemes that encourage saving.

THE CHALLENGE

The country has built an advanced and comprehensive social protection system with wide reach and coverage, but the system is still fragmented, plagued by administrative bottlenecks and implementation inefficiencies. As a result, the various elements of the social protection system are not operating seamlessly. The priority should be improving efficiency in the delivery of services, addressing exclusions by identifying and reaching those who are entitled to the existing benefits of social protection, reducing the administrative bottlenecks that prevent people accessing benefits. These measures are not costly, but will improve effectiveness and ensure wider coverage.

Social assistance

Exclusion errors mean some people are not accessing the benefits they are entitled to. This may be due to a failure to reach certain geographic areas or the administrative burden the system places on the poor. There are also reasons related to poor targeting and administration on the part of the state. These gaps disproportionately affect the poorest, especially orphans and children, persons with disabilities and the aged on farms, in remote rural areas and hard-to-reach informal settlements. These are the groups who need social protection the most and it is important to ensure they can access the appropriate social protection.

Whereas significant progress has been made in administering the various cash grants, administrative challenges impact on delivery. It is estimated that there are approximately 2.1 million eligible children who are not receiving the child support grant. The documentation required to access social grants places a burden on the poor, which has a particularly adverse impact on the poorest of the poor. The foster child grant also presents administrative challenges because it is linked to the judicial system. This creates complications and delays, which can discourage people from fostering children.

Children, the aged and people with disabilities are the groups who are most likely to be unemployed and bear the brunt of poverty and inequality. Their dependence on family networks is precarious given the extent of unemployment and under-employment. The evolution of social protection post-1994 has focused on providing cash transfer to these vulnerable groups. High unemployment rates mean grant recipients have to use their grants to support other household members as grants are often the main source of income in poor households.

Social wage[3]

The country has made significant progress in providing basic services to the poor. However, access to basic services is still a challenge particularly for the poorest sections of society. This is partly due to planning and management failures in municipalities (discussed in detail in chapter 13) and in part, due to gaps in the financial framework (discussed in detail in chapter 4). Low incomes and unemployment mean a combination of the social wage and cash transfer programmes are critical for reducing poverty.

Social security

Many people are excluded from the safety net provided by the social security system. The system is also plagued by inefficiencies. Social security is largely contribution based and biased towards formal sector workers, with very limited coverage of those working in the informal sector. This means it is not in alignment with the dynamics of the labour market. This applies to the coverage for retirement, unemployment and compensation for injury and diseases.

Furthermore, the redistributive and solidarity elements of social insurance are undermined by the

fragmentation of private and public sector contributions. The two systems operate separately. Government employees do not contribute to the unemployment insurance fund, representing a loss of contributions which could be used to pool funds and develop mechanisms to protect the unemployed.

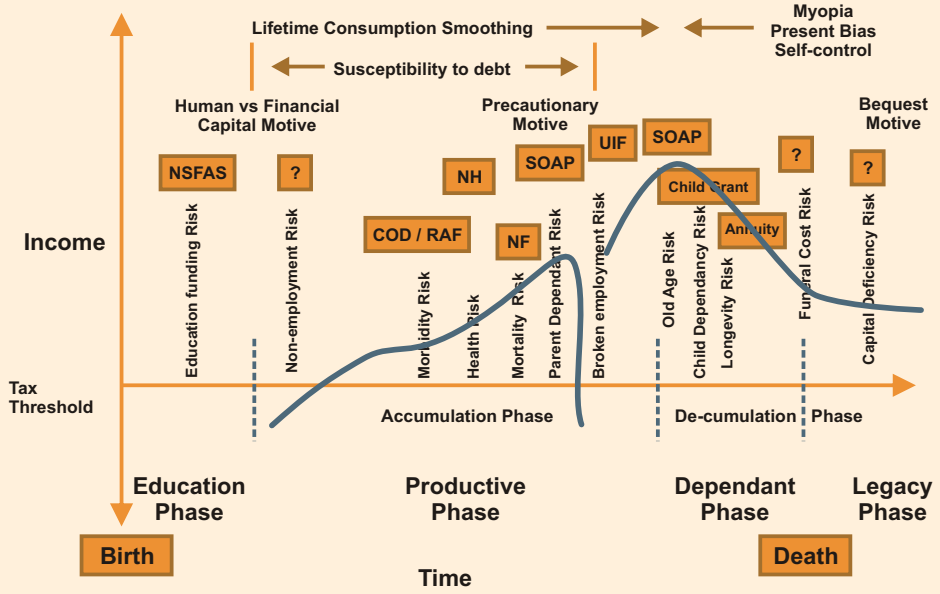
Whereas there is an argument that there is a low savings culture in the country, there are also limited mechanisms and incentives to encourage people to save. Many people find themselves employed in precarious and low paying jobs. There is a growing trend of sub-contracting arrangements. Workers employed through this route do not usually contribute to taxes or contributory social security schemes, while they are the first to suffer from the ensuing deficits and lack of coverage. There is no protection from risks as they have made no individual provision and the state has also not made provision.

The country has one of the largest private retirement fund industries with high participation and contribution rates amongst upper and middle income earners, but low income earners are excluded from the system. The private pension market is expensive and not adequately regulated. The costs and fees structures are high, which reduces the incentive to invest. A significant number of those who contribute to private pensions withdraw their pension savings if they lose their job and therefore have no pension income on retirement. For those who preserve their pensions, there is a lack of protection against longevity and investment risks.

Protection for the unemployed poor through labour market policies

The provision of work opportunities is one of the most effective forms of social protection. However, the country is faced with the challenge of high unemployment as well as a low labour market participation rate of 41 percent. There is no special grant for the unemployed working age population. But various labour market activation schemes exist. These include the public works programmes as well as training and skills development programmes. However, their scope is small relative to the magnitude of the unemployment challenge. One of

FIG 11.1 PROPOSED STATE COVERAGE OF LIFECYCLE RISKS



Source: Smith, 2011[4]

the gaps in social protection is the deficiencies in providing the unemployed working age population with active assistance that promotes employability and adaptability, as well as creating incentives to work and absorb the unemployed through various active labour market policies. For those who are able to work, the right to work would provide a means to improve their standard of living.

Figure 11.1 shows the lifecycle risks that individuals face and the obstacles to ensuring adequate protection. The current statutory funds and social assistance measures offset some of these risks.

Household food security and nutrition

Social protection extends beyond income security. It includes ensuring that individuals have adequate food security. This means access to land and sea for subsistence farming can play an important role in ensuring a minimum standard of living.

Maternal health is an important starting point for promoting food security. Measures to improve maternal nutrition will help to end foetal malnutrition, which causes infants to be born with low birth weight. Low birth weight has long-term impacts, including impaired cognitive ability and increased vulnerability to various illnesses.

Food and nutrition security is a top priority of government. However, currently policy is fragmented and under-resourced. Major inroads have been made to reduce hunger in terms of the feeling of not being satiated because of a lack of food. However, under-nutrition is the more serious problem in South Africa with many people being unable to afford a balanced diet.

Under-nutrition is not only a rural question, since a large proportion of under-nourished people live in the metropolitan areas, especially Johannesburg, Ekurhuleni, Cape Town and OR Tambo. Some rural households have to pay more for the same food basket than in urban areas.

Developmental social welfare

Government has adopted a developmental approach to social welfare provision, in line with the Constitution and the 1997 White Paper on Social Welfare. It includes a focus on the social and economic development of individuals, families and communities. This approach incorporates raising community awareness of social concerns and introducing strategies to reduce and prevent social pathologies.

Social welfare services may be provided by the state, nongovernmental organisations and the market. For example, homes for the elderly and the frail, mental health clinics, child guidance services and services related to addictions are provided by government, private providers, non-profit providers and government subsidized providers.

Despite progress in reducing fragmentation in the post-apartheid era, the social welfare sector is struggling with huge constraints related to lack of coordination and integration of systems, weak and limited effectiveness of funding and significant capacity deficits. The distribution of and access to both public and private social welfare services remains skewed along racial and income lines, with the wealthy having access to relatively effective private services.

The burden of disease, particularly HIV/AIDS, extremely high levels of violence and extensive poverty affect the ability of families to care for children, persons with disabilities and the aged. The high mortality rate amongst young adults due to HIV/AIDS places a greater burden on the elderly for raising children.

The social determinants of rising violence require urgent attention. These include heightened levels of addiction, increasing criminality among young

people, high levels of gang-related violence in schools and communities, and sexual violence against children and women, especially in economically deprived areas. Demographic trends and human development indicators point to a country with significant levels of social fragmentation, unacceptable levels of social alienation and the breakdown of social institutions. Poor social services and ineffective policing reinforce the sense of powerlessness in poor communities. Poor-quality education limits social mobility, further straining social relations. The impact of youth unemployment and HIV/AIDS has worsened matters.

VISION FOR SOCIAL PROTECTION

To effectively tackle poverty and inequality, social and economic policies have to work together. Social protection as part of public policy should provide support that reduces vulnerability, alleviates and ultimately prevents poverty, and empowers individuals, families and communities.

By 2030, everyone must enjoy an adequate standard of living. There must be basic social protection guarantees aimed at preventing or alleviating poverty and protecting against vulnerability. These should be easily accessible and available to those who need them the most. We should build a social protection system which:

- Has a defined social floor so that households that have not achieved the basic standard of living are assisted. The floor of essential goods and services can vary between individuals, depending on their age, gender, socio-economic status, health and abilities. Poverty induced hunger must be eliminated;
- Is responsive to the needs, realities and conditions of livelihood of those who the system is intended to benefit;
- Is built on a principle of building and utilising the capabilities of individuals, households and communities and avoiding the creation of dependency and stigma;
- Is flexible and capable of responding to rapidly changing scenarios and the emergence of new challenges (for example, the impact of HIV/AIDS), and of meeting the changing needs of individuals across the life-cycle.

The social protection system must cover the entire life-cycle of an individual, from conception through ensuring adequate nutrition for pregnant mothers to retirement by ensuring that old age related poverty is eliminated.

TOWARDS A BROADER SOCIAL PROTECTION AGENDA

This vision should be attained through a combination of public and private provision of services. It aims to ensure the most basic needs of recipients are met and so break the cycle of poverty.

By 2030 a social floor should be defined based on the following guarantees:

- All children should enjoy services and benefits aimed at facilitating access to nutrition, health care, education, social care and safety.
- Problems such as hunger, malnutrition and micronutrient deficiencies that affect physical growth and cognitive development, especially among children, should be addressed.
- Vulnerable groups such as children, orphans, the elderly, patients with chronic illnesses and people with disabilities should enjoy the full protection provided for under the Constitution. Cash grants should be used to ensure their income is above the poverty line.
- All South Africans should have access to basic services such as shelter, water, sanitation and energy (details are dealt with in chapters 4 and 8).
- The majority of working age South Africans should be empowered to participate in social and economic life. Social protection services should provide protection against short-term shocks, sudden risks and chronic vulnerabilities. This should be funded by both the state and individuals.
- No one should suffer poverty induced hunger, thus no individual should live below the poverty line of R419(2009).
- The unemployed working age population should have income support through various active labour market initiatives such as public works programmes, training and skills development, and other labour market related incentives.
- There should be universal access to basic essential health care, with the state taking the responsibility for delivery and financing of health care (details of this are dealt with in the chapter on health).
- All working individuals should be making adequate provision for retirement through mandated savings. The state should provide measures to make pensions safe and sustainable.
- Social security mechanisms should be in place to cover risks associated with informal employment.
- There should be an effective social welfare system that delivers better results for vulnerable groups, with the state playing a larger role compared to now. Civil society should complement government initiatives.

The state will continue to bear primary responsibility for ensuring this vision is achieved. The state will also ensure there is alignment and coordination of social protection issues and that efficiency is improved. It will develop an enabling environment, create conditions for social partners to contribute, and ensure vulnerable groups are protected. It will pilot new interventions to address the gaps in social protection.

Our social policy must create a bridge between our 2030 vision of an economy close to full employment and the current problem of high

unemployment. With our long-term goals in mind, the short-term actions should be steered towards universal and inclusive systems of social protection.

Sustainability of social protection

As our social protection system evolves, attention has to be given to the sustainability of the system. The sustainability will largely determine the country's capacity to promote a high level of social protection. One of the main considerations for the future of social protection is the funding of the system. Ultimately, the state must generate sufficient income from the active groups in the population to be able to redistribute to those that are less active or inactive while still meeting other policy priorities. It will be undesirable if the guarantees or transfer benefits are too many or generous and hence contribute to an unsustainable fiscal position. It is equally undesirable and difficult to reduce the benefits and guarantees once they have been introduced. Thus the system should evolve progressively taking into account the sustainability and affordability of the supply-side funding requirements. However, this should not prevent us providing social protection to those who need it the most.

A comprehensive and universal social protection system is feasible within the context of high economic growth, with high labour absorption capacity. South Africa's 'youth bulge' means it has a high proportion of people who are of working-age, but it still has a high dependency ratio because the majority of the working-age population is not in employment.

Government must pursue policies that purposefully increase job creation. The strategy must be multi-pronged and policies must be complementary. As described in chapter 3, policies to address the structural deficiencies in the economy need to be pursued together with a strategy to address frictional unemployment through the expansion of state funded and state operated employment services. The strategy to address structural unemployment should include a series of training programmes and incentives to employers to create jobs in both the public and private sectors.

Population projections show that the dependency ratio will increase over time, health projections also show that life expectancy will rise. The mortality associated with HIV/AIDS will decrease but demand for health care will increase, thus the cost of social expenditure will rise.

Failure to create jobs will mean public expenditure will need to rise dramatically because not only will the country experience a large growth in the share of pensioners, but there will be a growing number of elderly people who would not have worked when they were of working age. A growing number of children born of these adults will be reliant on social assistance due to their parents' socio-economic circumstances. There will be a growing need for health and long term care and thus a need to increase the resources contributed by the active population.

Demographics and social protection

Another key consideration for the social protection system is the demographics. Demographically, the country had a 'window of opportunity' between 2010 and 2012. This window will close starting from 2026 to 2030. The window of opportunity means that a high proportion of people are of working age and so the dependency ratio is low. From 2026 the proportion of older people will increase. With fertility rates dropping, the number of children is expected to decline.

Although the economy did not grow as much as was anticipated, economic growth together with this window of opportunity have provided South Africa with the fiscal space to further investments in other areas such as health and education while still

permitting more resources to be allocated to extending social protection coverage. For example, the child support grant has been extended to include eligible children up to 18. Eligibility for the old age grant has been equalised, with both men and women being eligible at 60.

Unless urgent measures are implemented to increase economic participation and employment amongst the youth, the country will lose the advantages of the 'youth bulge', which may then turn out negatively.

Of the estimated 13 million people who are employed today:

- About 7 million (57 percent) will leave the labour market in the next 18 years
- Almost half of those, just over 3.5 million, will be over 63 years old
- In the next 18 years, the economy needs to add a significant number of new people to enter employment, and also needs to keep them in employment for longer.

The 'youth bulge' of today, if not effectively leveraged, will become an older population that is reliant on social protection measures to achieve a minimum standard of living. If the projected increases in life expectancy are realised, the strain on social protection will be even greater.

The need to take into account the current and anticipate the future structure of demographics and its impact on the social protection system calls for a combination of labour market and social security policies, and social services such as health care and long-term care systems.

In the meantime, short to medium term mechanisms must be found to maintain the current contributors in the workforce for as long as possible. The retirement age has been equalised downwards to 60 years. However, many people could still be economically active after 60. With life expectancy expected to increase, to the focus should be on keeping older people in the labour market.

In the short to medium term, there is a need to find a balance between two options:

- Maintain as many current contributors in the system as possible. Discourage early retirement, encourage flexibility in retirement arrangements and promote participation by older people in the labour market.
- Encourage early retirement – 'deactivation of older people' in the labour market to increase labour market participation of the youth.

The second option would erode the funding base of the social protection system. It would reduce the tax take and social contributions while adding costs in the form of early retirement payments. It would

FIG 11.2 YOUNG AND OLD POPULATION TRENDS

Source: ASSA, 2012

therefore put social protection funding under fiscal strain.

There is also no certainty that there will be a linear replacement of the retiring employed with the unemployed. It depends on a number of factors, including the sector and the availability of skilled younger people. Although South Africa has a 'youth bulge' advantage, the majority of these young people do not possess the necessary education and skills to replace more experienced older workers.

A balance has to be struck, which includes training and skills development programmes to enhance the employability of young people.

For many, especially the youth, gaining entry into the labour market is not a smooth process. Hence efforts should be made to facilitate labour market entry through active labour market policies.

Building the foundation of future social protection – improve the state of children today

Currently the state provides the child support grant to an estimated 11.5 million children (0-18 year olds), out of an estimated 19.5 million children in the country. These children will be the adults (18-36 year olds) of 2030. The actions taken today will determine their future. These actions are detailed in the health and education chapters.

The proposals in the education chapter on early childhood development (ECD) and education are important if the future of these children and future generations is to improve. Progress also has to be made with respect to the absorption capacity of the labour market. If these objectives are achieved, young people will have a higher level of education and better employment prospects. In this scenario, a smaller number of children will be eligible for the child support grant. Most children in 2030 will have parents who are working. Most of these parents will be contributing to taxes and social insurance, thus easing the burden on the fiscus.

This scenario requires concerted efforts to ensure that the education and labour market outcomes envisaged in this plan are achieved. The children of today must be guaranteed access to high quality education and professional training throughout their education and working life.

There is already an increase in the level (although not necessarily the quality) of education attained by the younger generation. This increase in educational attainment could be an important source of future productivity gains and improved employment prospects. However, assistance is needed in the transition from school to work and in promoting life-long learning to prevent long-term unemployment.

The undesirable scenario would be that educational outcomes remain poor, labour market absorption capacity remains low and unemployment persists.

In this instance we would have to plan for social protection with increasing dependency ratio. The state would have to continue to provide child support grants of similar magnitude, mediated by the projected decline in fertility rates, while also meeting the growing need for social insurance, old age pensions, as well as services such as health and education. Based on the current labour market participation and tax base estimates, there clearly would not be enough tax payers and contributors to ensure state provision, maintenance and sustainability of decent social protection. Social protection benefits will be competing with other priorities for a small pool of funds. And with technology and other advances in medicine, life expectancy is projected to increase, which will require increased spending in the health sector. This would be an undesirable state for governance and

political legitimacy as poverty and inequality would persist.

These are extreme scenarios and other possibilities lie in the middle. However, the extreme scenarios do raise a critical issue. The majority of young people who are unemployed today have low levels of education. Even if labour market activation strategies and public employment programmes were to provide work for most of them, they would not be able to make adequate private contributions to social insurance. Most will be in informal employment and will depend on the old age grant in their old age. This also implies that in their adult life, they will continue to face a number of risks from which they are not able to cover themselves. Efforts and mechanisms have to be found to encourage them to save even when they are outside formal employment.

The implication is that efforts and resources should be targeted at addressing the education and employment challenges, which are priorities identified in the plan. For most of these young people of today, labour market activation strategies to enhance their employability and improve their chances of entering higher paying jobs are critical and urgent. Most of these jobs must be in the private sector.

SOCIAL ASSISTANCE - GRANTS

The concerns with respect to the sustainability and affordability of social protection should not crowd out the state's obligation to provide social protection to those who need it the most. The issues raised above regarding affordability, sustainability and demographics provide the context within which extensions and expansions of guarantees should be considered.

It is important to note that social grants have been extended so that all children up to 18 and adults over 60 are eligible if they pass the means test.

The evidence about the positive impact of the various social grants on poverty reduction is overwhelming. They dominate the income profile of many poor households and thus play a vital role in sustaining lives and livelihoods for households that have no employed members.

Social grants are targeted at non-working vulnerable groups – children, older persons, and people with disabilities. However, beneficiaries often have to share them with other family members. This raises concerns about the level of the grants, with the child support grant in particular being regarded as too low. These concerns point to the need for complementary measures and support, because the grants are only intended to provide for a basic minimum standard of living. Working parents provide the best complementary measures for the child support grant.

In the early years of the child support grant, there was a discussion on whether there should be conditions attached to the grants. This drew on lessons from countries such as Chile and Mexico where social assistance is tied to some form of conditions such as school attendance or accessing health care. Conditions were considered unnecessary in South Africa since there is over ninety percent school attendance at the compulsory phase and most children access health care and get immunised on time. In 2009, 'soft' conditions were introduced, i.e. there are no sanctions for non-compliance.

As the social protection system evolved, the child support grant was extended to include children up to eighteen. There is a high dropout rate from school from age fifteen (and maybe lower in some instances), with the participation rate of those aged above 15 years old estimated to be around

67 percent. The question is whether there should be conditions for children over a particular age or other incentives and measures to encourage school attendance.

Policy proposals

Close the gaps by ensuring those eligible for the existing benefits receive them

Despite significant progress in expanding the reach of social grants, there are people who meet the criteria for the existing benefits but are not accessing them. This may be due to geographical and/or administrative burdens.

Survey data suggests that about three-quarters of the elderly are eligible for the old-age pension, almost all of whom are receiving it. About 6 percent of the working-age population receives disability grants. While 60 percent of children who are within the age and income bracket covered by the child support grant receive a child grant of some form, a 2008 survey estimated that 70 percent are eligible for the child support grant on the grounds of household income. This indicates that there are many children who are not receiving grants to which they are entitled: some estimates put the number at 2.9 million.[6]

Priority should be given to identifying these people and ensuring that they receive the benefits they are entitled to.

Targeting versus universalism

The grants are currently targeted through means testing. There are proposals to remove the means test so that each person, by merit of being a citizen, would receive benefits from social protection guarantees. There are societal benefits to this as it would accelerate delivery and make it easier to reach that those who are currently eligible but who are not receiving the grants. It would cushion millions of families from the effects of household level and economy wide shocks. It would also reduce the administrative burden on the poor. There are however, also considerable cost implications. Every element of the proposal to extend or expand guarantees would need to be financially quantified. There are also concerns that the universalism approach may unfairly distort individual efforts.

SOCIAL SECURITY

The fundamental objective of social security is to provide people with a securely funded and adequate pension on retirement. Contributions to private schemes must guarantee a decent replacement income on retirement. Most social security or insurance schemes are financed out of labour income. However, employment does not offer full protection against the risk associated with loss of income. Some people flow in and out of employment and unemployment.

For some who are in formal employment there are statutory and voluntary social insurance schemes, with mandatory membership and contributions. These include measures which provide protection against the risks associated with loss of income as well as medical care. There are also voluntary funds that cover retirement for those in formal employment, but most low wage earners are not covered. Recently, there has been analysis within the private sector of various types of private insurance to cover loss of income due to job losses and/or hospitalisation. The extent of coverage of these is not fully known.

Social security should not be limited to those who have made private contributions to private schemes. It should provide income security in old age and during unemployment spells to those who, for various reasons, had shorter or interrupted working careers, those who have had shorter spells of formal employment, worked in the informal

sector and those who were in low paying jobs. It must also seek to provide protection to those who have had long unemployment spells throughout their working life.

The old age grant covers all those who pass the means test. Those who move in and out of the labour market or work in the informal economy should be encouraged to save during the periods when they are working so that they do not become entirely reliant on the old age grant. Thus mechanisms for making social security contributions should be available to those outside formal employment.

Make pensions safe and pension systems sustainable

South Africa's retirement fund industry is said to be one of the world's largest relative to GDP, with high participation and contribution rates. Dependents receive substantial benefits and protection in case of the premature death of the contributing member. However, on retirement many members do not have adequate income to sustain a reasonable level of consumption, given that consumption drops post retirement. This is due to a number of reasons; key amongst these is the low preservation rates, i.e. most people do not preserve their pension funds when they change jobs or flow into unemployment. The cost and fees structures of the schemes are also said to be high, eroding the investment value of these and thus lowering the benefits. There are issues related to the governance of some of the schemes, which leads to potential loss of income. Moreover, there is lack of protection post-retirement against longevity and investment risks.

Policy proposals

Whereas the private pension scheme system is large with high participation rates, it is characterized by inefficiencies which will require strong government regulation. The Commission supports the proposals made by the government task team on retirement reforms led by the Minister of Finance:

- Improving governance of retirement funds
- Harmonising the contributions to and benefits from all retirement funds
- Phasing in preservation requirements to improve financial security in retirement
- Reforming the annuities market.

These will ensure that a significant majority of those who are in formal employment and contributing to private/voluntary pension schemes are protected on retirement, relieving the pressure on public finances.

However, this will require finding measures to close other gaps. There must be protection from the risk of losing a job. Most of those who do not preserve do so to avoid risks associated with unemployment. The question is how to protect from risks associated with unemployment and thus discourage early withdrawal of pension funds. It is not feasible to ask individuals to save for retirement when they are faced with immediate needs for food, housing, health care, etc. This should be a priority issue to be
worked out alongside the proposals made for social security reform.

The proposals to provide a contribution subsidy for low-wage formal sector employees are also supported. The financial implications of this and the other proposals in the reform need to be clear, both within the comprehensive social protection policy and as a means of prioritizing fiscal spend within the broader developmental objectives.

The current proposals do not address the issue of bequest motive or intergenerational transfers of the pension funds. While it may be argued that at old age, people do not necessarily have dependents, the individual savings could play an important role in

addressing intergenerational poverty. In the context of high unemployment and increasing number of orphans amongst other reasons, many old people do have dependents. The other issue not addressed is how to cover the informal sector. Some proposals on this are dealt with below.

UNEMPLOYMENT INSURANCE

The national unemployment insurance fund assists those who lose their jobs, but also those who stop receiving a salary for a period of time due to maternity leave, illness or taking care of an adopted child under the age of 2. Family members left behind upon the death of the breadwinner in the family are also assisted by the fund.

The fund's coverage is limited, with less than 5 percent of the unemployed receiving unemployment benefits at any given time. Part of the explanation lies in the fact that 55 percent of the unemployed report that they have never worked and thus have not contributed to the fund. Furthermore, 44 percent of unemployed people who have previous work experience have been unemployed for more than a year and would have exhausted their benefits if they were ever eligible for them. While the fund clearly has an important role to play in providing replacement income and a degree of security to the short-term unemployed, the vast majority of the unemployed fall outside this system.

The unemployment insurance fund provides essential support to workers who have lost their income. For the first nine months of 2010/11, the fund received an average of 63 260 new claims per month. Average monthly benefit payments amounted to R466.8 million to 207 646 beneficiaries according to the Budget Review 2011. The fund currently has a large and growing surplus. In 2010/11, fund expenditure was about R8.1 billion, while revenues were R14.4 billion.

The fund currently has a growing surplus. In 2010/11, fund expenditure was about R8.1 billion, while revenues were R14.4 billion. In the 2010/11 financial year, when the economy lost an estimated million jobs, the fund processed an average of 63 260 new claims per month. Average monthly benefit payments amounted to R466.8 million to 207 646 beneficiaries, according to the Budget Review 2011.

In light of the growing surplus and the persistent unemployment problem, there are proposals from

- **Of the estimated 13 million people employed in South Africa, about 9 million are employed in the formal sector. It is estimated that only about half of these earn enough to contribute to the voluntary social insurance schemes.**
- **Of these an estimated 10 percent preserve their retirement funds and thus are able to maintain pre-retirement level of consumption on retirement.[7]**
- **Government employees make up just over 1 million of the 9 million formal sector workers.**
- **Therefore over 80 percent of those who are currently employed will be reliant on state old age grant in retirement.**
- **This will have a significant impact on public finances and funding for other programmes**

the Department of Labour to utilize the fund more in order to provide more protection for the unemployed, by increasing the benefits to better address the long and structural nature of unemployment. These include extending the period of benefit payments or increasing the amount of the benefits.

Policy proposals

Having an existing fund balance or surplus from which to draw makes the problem of financing benefit payments much easier. However, a few issues need to be considered before thinking about increasing benefits:

- How long the current unemployment crisis is likely to last, and the long run prospect for unemployment rates
- The possibility of large year-to-year swings in unemployment insurance caseloads
- The potential disincentives and negative or unintended consequences of increasing benefits or extending the period of benefits payments.

The alternative to increasing benefits could be to find creative ways to use the UIF.

- One option is to improve the reactivation mechanisms such as assistance with seeking work, training and skills development. The design will have to be carefully crafted and a link established with the skills development levy and associated programmes which are also meant to facilitate finding work. The fund is currently focused on giving benefits to members, but to ensure its sustainability the focus should be on helping people return to active employment.

- The other option is to create an unemployment

- assistance fund. A proportion of the UIF could be set aside into a fund that will assist the unemployed, not only those who have contributed to the UIF. The fact with respect to the UIF is that not many of those who contribute face the constant risks of job losses. Many of those who do become unemployed quickly manage to return to employment. The low payments of benefits at a time of significant job losses attest to this. Furthermore, those who take longer to find employment, exhaust the benefits due to long spells of unemployment.

- The unemp!loyment assistance fund could be accessible to the informal sector and contract/temporary workers who have not contributed but can prove they have worked for a particular period. It could be extended to those without formal contracts who can prove they have worked for a particular period of time. It could also include labour market reactivation measures, such as training and job search assistance, which will be accessible to this group that is outside the scope of UIF.

- To assist those who lose jobs and need to cash their retirement savings to smooth consumption. Unemployment assistance could be accessed on condition that an individual can show they have a retirement savings account. It could be used to assist them after exhausting the unemployment insurance benefits and after they have tried to join the expanded public works programme or find other means of earning income. It must have conditions and not discourage reentry onto work.

- The proposal to increase the period of payments of benefits needs serious consideration. Long spells of unemployment limit the chances of re-entry into employment partly due to the deskilling that takes place while people are unemployed. The proposal may have unintended negative consequences.

- The other option is to create a job investment fund that is targeted at investing in small, micro and medium enterprise (SMME) development. There are already discussions on this with the Public Investment Corporation (PIC).

Currently government employees do not contribute to the UIF. Government employs over a million people and the fact that they do not contribute represents a lost income. There have been proposals to include government employees, but this has not happened. It is proposed that this should be seriously considered and implemented. This will have a number of benefits including a redistributive aspect. Their contribution will not only grow the Fund, but will also allow financial space to extend the benefits to the non-covered section of the population.

These proposals do not require additional resources, but a different approach to thinking about social insurance. They can be piloted and then scaled up within a short space of time.

COMPENSATION FOR OCCUPATIONAL INJURIES AND DISEASE

For those working in formal employment, there is the Compensation Fund, which provides medical care and income benefits to workers who are injured at work or with occupational diseases. The Fund is a statutory fund with mandatory membership and contributions, effectively restricted to the formal economy. However, as with other contributory funds, some of those without formal contracts of service in the formal economy and those in the informal sector cannot access the Fund if they are injured at work or develop occupational disease.

The informal sector and small-scale industries, in particular, are subject to numerous workplace hazards. Most informal sector workers live and work in poor areas, and vulnerability to disease and poor health result from a combination of undesirable living and working conditions.

Furthermore, due to improvements in workplace practices in the formal economy, the hazardous jobs are pushed into the informal economy where

companies can save costs. For example there is no pressure to ensure proper recycling of products in many industries including mining and manufacturing, and at the end of their life-cycle products are recycled in the informal sector. Despite Traditional occupational health and safety regulation operates through formal employment structures and therefore offers limited or no protection to informal workers.

Occupational safety and health in the informal sector and for those on informal contracts cannot and should not be seen in isolation and de-linked from the other socio-economic issues. The exposure to hazardous working environments exposes people to work related accidents and/or diseases and if these affect the breadwinner, it can push the family into deeper poverty.

Those in informal employment are effectively dependent on the public health system, as most of them will not have contributory health insurance. A long-term change in the risk coverage of workers in the informal sector and informal employment needs a shift in approach. Deciding who should bear the burden presents some practical difficulties. Nevertheless, the formal and informal sectors are interdependent and many formal sector supply chains can be traced back to the informal sector. Therefore solutions to some informal sector problems should come from the formal sector and the formal sector should hold some responsibility for workers' safety in the informal sector.

Policy proposals

Whilst there will be no one-size fit all solution, efforts can be made to cover some workers in the informal economy. There is an urgent need to improve the understanding of the scope and nature of informal employment in the country. This will assist in addressing the challenges related to this sector with respect to occupational health and safety. A number of suggestions should be explored to ensure that those in this sector are protected from hazardous working conditions:

- Reorient conventional occupational health and safety systems and regulations to include a substantial number of those in informal employment.

- Where linkages can be established, industry based funds or group insurance should be established to cover safety and compensation for those in the informal sector through formal sector funds.

- Improve the quality of statistical data on occupational hazards and injuries in the informal sector.

- Local government and municipalities should play a significant role in the management of occupational health and safety for the informal sector. This would include providing information to workers about health and safety issues in specific sectors, facilitating access to information from other sources.

- Municipalities should partner with the private sector to improve working conditions and ensure safety equipment is provided.

- Improve the implementation and enforcement of health and safety standards by requiring employers to invest more in occupational health and safety and organizing alternative provision for the informal sector and the self-employed.

SOCIAL PROTECTION OUTSIDE THE STATE – COVERING THE INFORMAL SECTOR

There is a growing trend of under-employment. Many people find themselves employed in

precarious and low paying jobs, and a growing number of people are working in the informal sector. There is a growing trend of sub-contracting. These workers do not usually pay taxes or contribute to social security schemes, meaning they have little protection.

There are three different forms of informal employment: workers who work in the formal sector but do not have formal contracts, workers who are employed by informal enterprises or households who also do not have formal contracts, and those who are self-employed in the informal sector. All these groups suffer high vulnerability due to the lack of effective social protection.
The informal economy is assumed to fare relatively well during crises and provides a cushion for those who lose formal sector jobs or need to supplement their formal incomes during crises.

Contributory systems for formal sector workers such as retirement insurance, unemployment insurance, occupational injury and disease insurance, provide very little coverage for workers in the informal economy. Informal sector workers are typically lowly paid and have immediate expenditure needs for food, clothing, housing, education and health. This makes it difficult to save sufficiently to cover future risks. Thus most of those in this group rely on the state funded old age pension in old age, but have few other means to cushion risks associated with temporary or permanent loss of income prior to qualifying for the old age grant. In event of injury or illness, they rely on the public health sector for care.

Social protection systems must respond to the growth of temporary and part-time contracts, and the increasing importance of self-employment.

Whereas a solidarity driven system of social security can cover those in the formal economy, other designs should be explored to enable those in the informal economy to participate in contributory schemes. There need to be a mixture of financing and institutional frameworks that bridge the binary division between the formal and informal sectors.

Policy proposals

Encourage voluntary participation

The government has a key role in facilitating and promoting the extension of social protection to help ensure a decent life for all its citizens, but it cannot fulfill this on its own. It should work with other

parties to explore options for developing social insurance and social protection schemes for the informal sector. Social partners and communities can play a strong role in running such schemes.

South Africa has a long tradition of stokvels, which are said to form a sizeable part of the informal savings schemes. Alongside these there are cooperatives, although these are generally small in size. These community based mechanisms show that there is a culture of saving as well as managerial and financial expertise. This expertise could be used in developing social protection schemes that will reach out to workers in the informal economy. The government should use these existing mechanisms as a basis for establishing and developing appropriate institutional support to promote social protection for the informal sector.

Community-based insurance provides a powerful mechanism for developing the organisational capabilities of civil society, with long term benefits for enhancing accountability and governance as well as welfare provision.

Encourage private sector participation and voluntary contributions through incentives

The private market has an important role to play. There are already indications that poor South Africans are willing and able to save if the incentives are appropriate, and the products are flexible and responsive to their needs. One of the major banks launched a savings product which illustrates the capacity and appetite to save among South Africans. Approximately 750 000 accounts were opened, collecting R1.2-billion in deposits, and about 20 percent of the people who opened accounts had never had a bank account before. People didn't take their money out when the programme closed down. The product had two incentives: there were no fees charged and people could invest small amounts, and there was the possibility of winning a big pool of money without losing the initial investment.

There are other private sector products in the insurance market, including medical insurance schemes which replace income loss during hospitalisation and insurance for loss of income as a result of losing a job. Most of these address the needs of those who do not participate in the formal

- In 2011, the All Media and Products Study (AMPS) estimated that 40 percent of the South African population belonged to a stokvel.
- According to African Response, there are 811 830 stokvels and 11.4 million stokvel members with a total estimated value of R44 billion in South Africa.
- Stokvel membership depends on individual circumstances, which is why there are different types. The most popular types of stokvels across all respondents are savings stokvels and burial societies (with 47 percent and 41 percent of respondents belonging to these types)
- Investment stokvels make up 5 percent of the total stokvel market. The rise of investment stokvels speaks to a newer aspirational need for stokvels.

Source: African Response 2011[8]

sector contributory schemes and have great potential to improve coverage of those in the informal sector.

Government needs to explore using such mechanisms to incentivise wider participation and provide matching contributions to those below a particular threshold.

Coordination role of trade unions

Trade unions can play a vital coordinating role to ensure social protection mechanisms are available to their members as well as workers in the informal economy. Trade unions should explore ways of extending protection to their members when they lose their jobs.

Whereas there are laws that require a subset of employers to provide severance pay, the requirement is difficult to enforce when a company closes down. The workers of these operations are usually left on their own without any form of compensation or protection. Laws need to be established to address this problem, but trade unions can also play a role in assisting their members.

Severance pay includes either a lump sum payment after the employment is terminated or periodic payments. Most of these workers become unemployed or enter informal employment and lose social protection coverage. The lumps sums paid out are usually used to replace the loss of income and little if any of it is saved. Using the principles of community insurance schemes, trade unions could assist in coordinating social protection for their members to provide protection against such risks. Trade unions can also play an educational and advocacy role to help extend social protection to members who become unemployed.

DEVELOPMENTAL SOCIAL WELFARE SERVICES

A robust social welfare system should be one of the pillars of the country's social protection agenda. The poor bear the greatest burden of a heavily-constrained social welfare system.

The current social welfare system needs to be reformed to deliver better results for vulnerable groups. Over the medium to long term, government should implement reforms that ensure accountability as well as adequate funding for the current state-civil society model for delivering welfare services.

Social cash transfers are not sufficient to ensure wellbeing. Other services are needed to reinforce the outcomes of social protection. It is thus important to identify the linkages between cash and in-kind transfers and social welfare services and that these are closely linking with the justice system. This requires a coordinated and integrated approach to social protection.

Policy proposals

Reorganise the state-civil society model for delivering welfare services to ensure greater accountability, improve service delivery and protect the very vulnerable from neglect, exploitation and abuse

In social welfare services, the state has adopted a partnership model of service provision and relies mainly on non-governmental welfare organisations to provide professional social services. However, the funding of these organisations has declined steadily since 1994, reducing the range and compromising the quality of services at the same time as demand for such services has increased.

Such organisations are unable to respond to the scale and complexities of South Africa's poverty, social fragmentation and lack of social support systems. Increasingly, the burden of care has fallen on the poorest communities and on women and the elderly, often leading to a sense of powerlessness and social isolation.

There is also a need to ensure that accountability is built into partnerships with the non-governmental sector. The state has to ensure that non-governmental providers do not take advantage of vulnerable groups and that they provide the correct benefits.

Address the skills deficit in the social welfare sector

In the immediate and medium term, the country needs to increase the supply of four categories of social service professionals to respond to the demand for appropriate basic social welfare services. These categories are social workers, auxiliary or assistant social workers, community development workers, and child and youth care workers.

Responding to the social breakdown of families, communities and society requires a range of generic and specialist education and training that is not available to poor communities. The inability of South Africa's social welfare services to provide the quality of care required is reflected in the inadequate supply of social work, community development, and child and youth care professionals. It is estimated that the country requires close to 55 000 social service professionals to respond to the country's social welfare needs. Currently, there are approximately 15 000 qualified social workers registered with the South African Council of Social Service Professions. Problems in the supply of qualified social service professionals are also linked to poor working conditions and a lack of funding for social services. Structural conditions in the education and health sectors affect the ability of tertiary institutions to produce social work, community development and social development professionals, as well as specialists such as school psychologists.[9]

The skills deficits are not limited to the social welfare sector. Delivery of effective and efficient social protection services is reliant on an effective and capable public sector. Chapter 13 of the plan deals with the issues of state capacity in detail.

The state should play a much larger role in the provision of social welfare services, including establishing effective partnerships with the private and community sectors.

South Africa needs to confront the reality that social services are critical for improving social integration and human development. The current model of shifting the burden of care, treatment and rehabilitation to the non-governmental sector and the poorest communities is not working. The scale of social fragmentation and loss of purpose requires more systematic engagement with both governmental and non-governmental social service providers. Statutory services for children, young offenders, the elderly, people with mental health problems and people living with disabilities need well-conceived state and community interventions. Complex social problems require professional interventions to deal with the symptoms and underlying causes of social pressures, most evident in schools, workplaces and neighbourhoods that are plagued by gang warfare and households afflicted by violence, including the abuse of women and children. Urgent and systematic attention is required to deal with these issues.

Accelerate efforts in integrating issues of disability into all facets of society, and ensure equitable service provision for persons with disabilities,

Due to various barriers, many people with disabilities are not able to develop to their full potential. They are often viewed as being unproductive and a burden, but this need not be the case. For most adults, work is a fundamental component of life, which confers status and economic security and opens up social networks.

The most notable barriers to people with disabilities accessing work are:

- Physical barriers, which may prevent persons with disabilities from accessing educational facilities.
- Information barriers, which may leave persons with disabilities without the use of essential educational materials.
- Communication barriers in educational settings, which may prevent persons with disabilities from accessing information and/or participating fully in the learning experience.
- Such barriers may also prevent students with disabilities from interacting fully with their peers who do not have disabilities.
- Attitudinal barriers, which may lead to assumptions about the capabilities of persons with disabilities, and whether it is wise to commit resources to their education. This can lead to people with disabilities receiving sub-standard education – or even being denied access to education – a problem that especially affects girls and women with disabilities.

Efforts to eliminate poverty by 2030 would greatly assist in reducing poverty-related disabilities.

Improve the safety of women, children and persons with disabilities

The safety and protection of these groups requires

special attention. The details are addressed in chapter 12 (building safer communities).

HOUSEHOLD FOOD AND NUTRITION SECURITY

Addressing household food and nutrition security is a low cost way of underpinning livelihoods, well being and developmental growth. It will help bring down the future costs of health care and improve education outcomes.

It is critical to address nutritional needs through the first 1000 days – 270 during a women's pregnancy and 365 days in each of the first two years of an infant's life –if we are to reap the benefits of good health and development. Poor dietary intake, food insecurity and the poor quality of basic services are major problems exacerbated by the HIV/AIDS pandemic. Nutrition in South Africa is beyond child survival, it is about realizing children's full potential, and building healthy families and a thriving nation. This requires multi-sector partnerships to reduce malnutrition and accelerate efforts for our children to thrive.

Policy proposals

- A household food and nutrition security roadmap should be pursued, including elements such as: food grants, fortification, pricing, education, home gardens. It should target mothers, infants and children.
- A campaign and roadmap for promoting household food and nutrition security should identify strategies to improve nutrition

- In 2012-15 the main elements of a comprehensive strategy should be identified and a campaign launched. Initial high impact steps should be pursued, mainly related to strengthening existing policies in respect of breast feeding, the first 1000 days programme, vitamin A distribution, fortification monitoring, food banks, access to social grants for mothers of children under 3 and school feeding schemes.

LABOUR MARKET POLICIES

Employment is the best form of social protection. As indicated in the employment chapter, the time it will take to fix the economy and associated labour market problems should not be underestimated. Unemployment is persistent amongst low skilled and less educated young people and those in economically depressed areas, as well as low skilled adults.

Social protection should provide security and flexibility, but also balance between rights or entitlements and responsibilities. Income support should be combined with active labour market policies as well as assistance and incentives that help people find employment.
Social protection must provide unemployed people who are able to work with assistance that promotes employability and adaptability through various active labour market policies.

Labor market policies allow social policy to be linked to productive activities, not just to public spending. Last resort employment schemes such as public works programmes, activation policies and other enabling programmes play an important role in stimulating economic activity and labour market participation. These policies are aimed at job creation and employment and offer incentives to ensure sustainable economic activity.

- Given the current labour market dynamics, the proposals should focus on building strong incentive and systems:
- Mechanisms and incentives to assist the unemployed to access the labour market
- Incentives for older workers as they face possible early retirement to stay in employment

- Incentives for employers and entrepreneurs in relation to job creation
- Training and skilling to enhance labour market mobility
- Address information asymmetries
- Reduce administered prices (particularly transport costs) that raise the reservation wage.

Public employment

Public employment programmes create new jobs through the expanded government employment. Public employment opportunities provide a bridge between social grants and the sustainable employment envisaged in the New Growth Path, creating a mechanism that allows unemployed people to become a productive part of the economy while the structural changes required to create sustainable employment take effect. Without this mechanism, the social tensions arising from high unemployment are likely to hinder medium to long-term growth and development objectives.

Expanded public works programme has created over half a million job opportunities for the unemployed. In the initial stages it was assumed that Expanded Public Works Programme (EPWP) would have a training component to enhance the employability of the participants and help them move on to a full-time job. However, it is now accepted that it is difficult to provide training through such programmes. This issue is important when thinking about the future of EPWP and other measures to enhance employability and reduce the unemployment rate.

The current phase of EPWP introduced innovations to enable a scaling up. This involved the simplification of programme targets and a decentralisation of decision making. Three new programmes were introduced namely the employment incentive for municipalities that achieve employment targets, the employment incentive for non-profit organisations, and the Community Works Programme. These new elements enable communities and organisations to determine how they will go about their job creation initiatives.

The type of public employment that the Commission advocates is more than income transfer; it is about empowering people to contribute to their communities.

Employment services

Employment Services should assist the unemployed in finding work and skills development opportunities, and help employers recruit new employees. This is particularly important for low skilled workers who form the majority of the unemployed as well as for groups who have special needs or face a particular disadvantage in the labour market.

Private employment and placement services play a significant role, although there are concerns about the implications for labour regulations and the protection of workers' rights. These issues should be addressed through better regulation. The private sector can play a significant role in reducing information asymmetries. The government, through the Department of Labour's regional offices, also provides these services, albeit on a small scale. They also play a regulatory role.

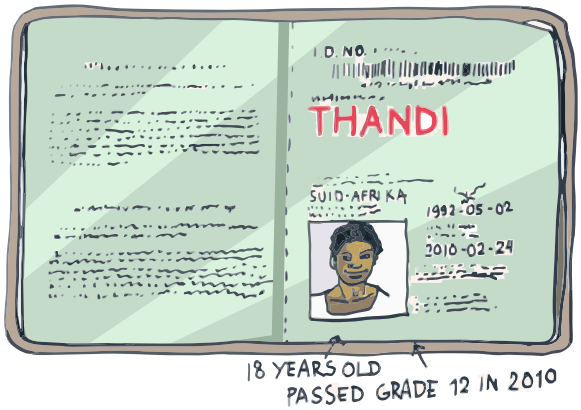
There are Special Employment Programmes under the auspices of the Department of Labour which focus on persons with disability. These provide placements for people with disabilities and facilitate on-the-job training, leading to qualifications and competencies that help people access employment. They also provide technical assistance to emerging and existing enterprises that promote the employment of people with disabilities.

There are also career services provided by other entities, both public and private. The South African Qualifications Authority in partnership with the Department of Higher Education and Training has a careers service programme. However, the focus is largely on initial career choices, and thus has a limited reach.

Training and skills development Programmes

Training and skills development programmes both promote employment and provide protection against the risk of unemployment. They aim to provide unemployed workers with the skills necessary to obtain decent jobs in both the private and public sector.

The current skills development system is not equipped to tackle the growing vulnerability that comes from more workers being in smaller firms and on less secure contracts. The programme operates at a small scale, despite there being adequate financial resources to expand. For example, at the end of the 2010/11 financial year there was an estimated R3.8 billion surplus from the skills development levy.



The evidence suggests that skills development programmes can play an important role in facilitating entry into the labour market. An HSRC study evaluating the first five years of the skills development strategy found that more that 50 percent of the young people surveyed moved from the learnership programme into employment before finishing their training programme. Furthermore, more that 50 percent of those who completed their training programme moved into full time employment.

Activation

There is no incentive structure to encourage employers to hire and train unemployed workers. The employment rates for young people are low and declining. Strategies to provide incentives for these unemployed people to seek and take up work and for employers to create new jobs are critical to address the problems of unemployment and poverty.

Employment incentives have been used in many countries and it is clear that they are a critical policy instrument. There are both positive and negative aspects of the instrument. The critical issue is to design the programmes in such a way that the negative aspects are minimized. It is also important to note that there is no single model of subsidized employment programme. Countries have experimented with different variants and a country can have more than one variant at a time, each targeted at a specific category of the unemployed.

Funding active labour market policies

Apart from training and skills development programmes, which are funded through the levy paid by employers, all the other strategies will require funding from the fiscus. Public funds are not unlimited and choices will have to be made. The challenge is to improve the efficiency of these programmes, minimize duplication and ensure they are properly targeted:

- Given the differences in the characteristics of the unemployed, how should the various programmes be targeted at specific groups?
- What is the primary concern of each of the programmes? Is it poverty alleviation, reducing the

impact of unemployment on individuals and families, or enhancing employability and increasing employment rates? It is proposed that to improve efficiency in all these programmes, they should be targeted at participants who are likely to benefit most. The following categorisation could be applied:

- EPWP should be targeted at low skilled adults who are unemployed –the programme serves as unemployment assistance and protects this group from the risk associated with job losses or long term unemployment.
- The youth with senior secondary education and above should be targeted by programmes that provide incentives to employers to hire and train them. After a year or two in a subsidised job that is complemented by relevant training, they will gain experience and their wages will increase, enabling them to graduate from the subsidised programme.
- The skills development programmes can be used to target young people and encourage them to acquire additional educational qualifications and skills. A large number of the unemployed young people have less than senior secondary education level. Unless this improves, their labour market prospects will remain poor. This group should be reengaged through proper education and training programmes.

Whilst there is agreement that the economy needs to grow to create jobs, high unemployment rates constrain economic growth. Thus it is a chicken and an egg situation and both strategies should be pursued. EPWP is sometimes expected to be a panacea for unemployment and also enhance employability of the participants. Lessons from the first round of evaluation of the programme have shown that this is an unrealistic expectation. EPWP has an important role to play but it cannot be the only instrument to address unemployment.

CREATING A FUTURE SOCIAL PROTECTION SYSTEM

Social protection is at the heart of reducing poverty and inequality. It combines the objectives of alleviating and preventing poverty and protecting individuals against social risks, as well as empowering individuals to seize opportunities for decent employment and entrepreneurship. It should enable a degree of security in normal times and serve as a safety net in times of crisis.

We should not under-estimate the time it will take to eradicate poverty and inequality. South Africa will need to commit significant resources to social protection measures. Effective social protection is not just about risk management or responding to crises; it is a long term investment in a productive society and economy. The state and other actors should focus on programmes that promote the sustainable use of natural resources and build resilience amongst the most vulnerable while at the same time addressing their developmental needs and protects them.

Some elements of the right to social protection are prescribed in the Constitution. Most of these rights have been converted into entitlements through social assistance, standards and the social wage. This demonstrates a sufficient level of consensus about the state's role, and the levels of risk and deprivation that are unacceptable. Government has a responsibility to ensure these rights are met. Non-contributory transfer programmes play a critical role in preventing people falling below a certain poverty level.

As the social protection system evolves, government must ensure that social protection is:

- Affordable in the short and medium term budget planning for the public budget. Does not place unreasonable burdens on households and communities;
- Financially and politically sustainable – the state's

role in social protection should reflect an adequate level of public support for interventions to assist the poorest.

Increases in spending are more likely to be justified if there is public support for the proposed safety net programmes and they promote social inclusion. This is more likely where taxes are raised efficiently, and the combined package of expenditure and financing is redistributive.

Social insurance should not only apply to those in formal employment. There needs to be a mixture of financing and institutional frameworks that bridge the binary division between the formal and informal sectors. This includes encouraging voluntary participation.

Informal sector social protection schemes should mostly be financed through a combination of private fees, grants and government subsidies. In terms of delivery mechanisms, the government can facilitate access either by implementing social protection schemes directly or by facilitating participation by other players.

South Africa should have a consolidated institutional framework that supports coherent policy implementation, integrated social security administration, and effective regulation and oversight of the system. The administrative coordination and alignment of the various elements of the social protection system should be improved.

Non-governmental welfare organisations cannot be expected to respond alone to the scale and complexities of South Africa's poverty, social fragmentation and lack of social support systems. Government should play a more active and larger role, including ensuring the system is adequately funded and accountability is strengthened.

Favourable social protection and employment outcomes are influenced by economic growth, they also contribute to progress in human and economic development and to poverty reduction.

CONCLUSION

This chapter has focused on the state of social protection in South Africa and the principles for the future of social protection. It should be read in conjunction with other chapters that deal with matters related to social and economic policies, as well as the safety of communities and nation building. The vision sets out the desired future social protection system. While a comprehensive social protection system exists in the country, it requires improvements in efficiency and coordination of policies as well as improvements in implementation, particularly with respect to the quality of services.

If South Africa is to make real progress in eliminating poverty and reducing inequality, it will need to provide its people with a secure foundation from which they can expand their capabilities and improve their life opportunities. Social protection can provide this minimum security, as can a range of social welfare services designed to provide targeted support to vulnerable groups.

An essential feature of any well-functioning democracy is the ability of citizens to hold the government accountable for its efficient and equitable delivery of public services, including social protection. It is important that errors are corrected, bad practices are exposed, and the rules and procedures of each element of social protection are clearly explained to avoid unnecessary confusion. An independent complaints or grievance mechanism is recommended for all social grant programmes to improve transparency, efficiency and equity, and expose corrupt practices.

It is critical to ensure that the actions of today steer us in the direction of a positive future for this country. Social protection has a critical role to play in shaping this future by guaranteeing people a minimum standard of living and thereby providing a foundation for expanding capabilities and opportunities.

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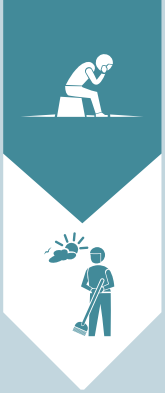
CHAPTER TWELVE



Building safer communities

KEY POINTS

- The criminal justice system is to have a single set of objectives, priorities and performance-measurement targets. Further implementation of the seven-point plan will receive greater interdepartmental coordination.
- Demilitarise the police. The police should be selected and trained to be professional and impartial, responsive to community needs, competent and inspire confidence.
- An integrated approach to safety and security will require coordinated activity across a variety of departments, the private sector and community bodies, the latter to include revitalised community-safety centres.
- All vulnerable groups including women, children and rural communities should enjoy equal protection and their fear of crime should be eradicated through effective, coordinated responses of the police, business, community and civil society.

INTRODUCTION

Personal safety is a human right. It is a necessary condition for human development, improved quality of life and enhanced productivity. When communities do not feel safe and live in fear, the country's economic development and the people's well being are affected, hindering their ability to achieve their potential. This is acute in the case of women, who are more vulnerable and less likely to achieve their potential in unsafe environments.

High crime levels have slowed South Africa's social and economic development. Although recent crime statistics released by the South African Police Service show a downward trend, especially in murder rates, the figures are still unacceptably high.[1] Violence against women, such as domestic violence and rape, has not been arrested significantly and trafficking of children for prostitution and drugs is still an unrecorded phenomenon. For people living in South Africa to feel safe, they need this downward trend to be accelerated in all categories of crime. Civil society organisations, community policing forums and criminologists must assist the police to determine the cause of the prevalence of crime, and police must use crime combating strategies that produce results.

Safety and security are directly related to socioeconomic development and equality. A safe and secure country encourages economic growth and transformation by providing an environment conducive to employment creation, improved education and health outcomes, and strengthened social cohesion. The socioeconomic status of women in urban and rural areas affects their experiences of their constitutional rights and their recourse to justice when those rights are infringed. Infrastructure and access to sustainable livelihoods are also related to the safety of women, especially in rural areas. Communal toilets, no toilets or open toilets provide an opportunity for gender-based crimes. Walking long distances through unsafe areas leaves rural women vulnerable to sexual offenders. The safety of communities should therefore be measured by the extent to which the most vulnerable in society, women in particular, feel and are safe from crime and the conditions that breed it.

Although there are links between South Africa's high poverty rate and its high crime levels, most poor people do not resort to crime. It is organised syndicates that launder money, deal in drugs and smuggle guns. Mob criminals are not necessarily from poor communities. Poor people are, however, often exploited by crime syndicates due to their vulnerability, as seen in poor coastal areas where abalone smuggling is rife. A distinction should therefore be made between so-called crimes of need and crimes of greed in terms of responses by the criminal justice system. Access to justice should relate to more than the efficiency of the criminal justice system in arresting, prosecuting and convicting offenders. The country should address rehabilitation through correctional services from an institutional point of view, and in society, through community and societal transformation processes. Active citizenry, an efficient criminal justice system and effective coordinated partnerships with civil society and the private sector are key components of a sustainable strategy for citizen safety.

VISION 2030

In 2030, people living in South Africa feel safe at home, at school and at work, and they enjoy a community life free of fear. Women walk freely in the streets and children play safely outside. The police service is well-resourced and professional, staffed by highly skilled officers who value their work, serve the community, safeguard lives and property without discrimination, protect the peaceful against violence, and respect the rights to equality and justice.

How to achieve it

Achieving this vision requires a well-functioning criminal justice system, in which the police, the judiciary and correctional services work together to ensure that suspects are caught, prosecuted, convicted if guilty, and securely incarcerated and rehabilitated. There are five priorities to achieve a crime-free South Africa:

- **Strengthen the criminal justice system.** A safe South Africa needs a strong criminal justice system. This requires cooperation among all departments in the Justice, Crime Prevention and Security (JCPS) cluster. We believe the correct implementation of the recommendations in the *Review of the South African Criminal Justice System*[2] will go far in dealing with the system's current weaknesses.

- **Make the police service professional.** A professional police service is essential for a strong criminal justice system. We propose linking the police code of conduct and a code of professional police practice to promotion and disciplinary regulations. Recruitment should attract competent, skilled professionals through a two-track system. (See 'Selecting for excellence and professionalism' below.)

- **Demilitarise the police.** The decision to demilitarise the police force, moving away from its history of brutality, was a goal of transformation after 1994. The remilitarisation of the police in recent years has not garnered greater community respect for police officers, nor has it secured higher conviction rates. Certainly, a paramilitary police force does not augur well for a modern democracy and a capable developmental state. The Commission believes that the police should be demilitarised and that the culture of the police should be reviewed to instil the best possible discipline and ethos associated with a professional police service. The police require capacity and skills to become more competent, professional and efficient. The community would then see them as a resource that protects them and responds to people's needs, based on the laws of the country.

- **Increasing rehabilitation of prisoners and reducing recidivism.** Successful reintegration of released prisoners into society is largely dependent upon the quality of rehabilitation programmes and conditions into which they are released. Correctional Services play a vital role in rehabilitating prisoners and reducing recidivism by preventing prisoners from relapsing into criminal activity and in so doing, putting the safety of the community at risk.

- **Build safety using an integrated approach.** Achieving long-term, sustainable safety requires tackling the fundamental causes of criminality. This would mean mobilising state and non-state capacities and resources at all levels, and citizen involvement and co-responsibility.

Increase community participation in safety. Civil-society organisations and civic participation are essential elements of a safe and secure society. The Constitution provides for municipalities to be responsible for the creation of safe and healthy communities. This objective can be achieved through the establishment of community safety

centres in communities where women, children and the youth are most vulnerable. Community policing forums should be strengthened to have effective oversight of police at precinct level. This requires a concerted programme of capacity building and training of community representatives on the community police forums. Special emphasis should be placed on the oversight functions of community policing forums.

Strengthen the criminal justice system: the seven-point plan

Inspiring public confidence in the criminal justice system is necessary to prevent crime and increase levels of safety. Public confidence is eroded by perceptions that criminals escape the law; that arrests do not lead to convictions; or that prisoners escape easily from courtrooms or correctional facilities. The most effective deterrent to criminality is an efficient and effective criminal justice system.

The 2007 *Review of the South African Criminal Justice System* recommended a seven-point plan that was adopted by Cabinet. The plan set out a modernised, efficient and transformed system. It included a new coordinating and management structure at every level, from national to local; greater cooperation among the judiciary and the magistracy, the police, prosecutors, correctional services and the Legal Aid Board; and initiatives such as empowering community police forums. The Office for Criminal Justice System Reform began implementing the plan. The plan contains seven transformative changes to the criminal justice system and requires full, integrated and holistic implementation to achieve the stated outcomes.

- **Adopt a single vision and mission,** leading to the JCPS creating a single set of objectives, priorities and performance-measurement targets for the criminal justice system.
- **Establish, through legislation or by protocol, a new and realigned single coordinating and management structure** for the system, flowing seamlessly from Cabinet to each court. Appoint a person from the Executive as head of the structure with coordination and management functions, but not executive powers.
- **Make substantial changes to the present court process** in criminal matters through practical, short- and medium-term proposals to improve the performance of the courts, especially the regional courts.
- **Put into operation priorities** identified for the component parts of the system, which are part of, or affect, the new court process, especially as it pertains to improving capacity.
- **Establish an integrated and seamless information and technology database** or system, or both, for the national criminal justice system, containing all information relevant to it. Review and harmonise the template for gathering information relating to the criminal justice system.
- **Modernise, in an integrated and holistic way, all aspects of systems and equipment.** This would include fast-tracking the implementation of current projects and modernisation initiatives. Technology should be used to increase efficiency across the board, and particularly to eliminate bottlenecks in the criminal justice system. This should include investigation-docket management systems, court-case management systems and parole management systems, including the monitoring of parolees to ensure better integration and rehabilitation. Technology for preventing and investigating crime should be prioritised to prevent it from happening in the first instance, and to expedite investigations through increased forensic capacity, better crime-scene investigation and analysis of current and future threats to safety.

- **Involve the public in the fight against crime** by introducing changes to community policing forums thereby expanding its role to deal with all matters in the system, such as policing outcomes, support to correctional supervision of out-of-court sentences and parole boards.

Departments in the justice and crime prevention system have been reporting on the implementation of the seven-point plan. However, the country needs greater systemic and institutional coherence among these departments. The seven-point plan should be viewed as a package that must be implemented holistically. Individuals at a very high level must interrogate, evaluate and monitor the implementation of the strategy. To succeed, it must be well-coordinated, with dedicated budgets and an implementation plan involving all departments in the cluster. Its aspects must be executed in tandem with stipulated timeframes and evaluated against intended outcomes. Without coherence, the seven-point plan's purpose will be defeated and resources wasted. Most of all, citizen safety will be compromised and confidence in the capability of the state jeopardised.

The Commission therefore recommends that:

- Departments in the JCPS cluster immediately align their strategic plans with the seven-point plan.
- The project manager appointed to the Office for Criminal Justice System Reform coordinates the plan's activities and programmes to ensure that the JCPS departments implement the seven-point plan in sync.
- Dedicated budgets for each participating department be established and outcomes reported on in relation to the plan.
- Continuous monitoring by the JCPS cluster and regular reporting on the plan's implementation to Cabinet is institutionalised.
- The overall implementation of the plan be evaluated annually and assessed against its overarching objectives.

A professional police service – a key component of the criminal justice system

The South African Police Service's aim to develop professionalism and discipline among its members should be welcomed and supported. Some steps have already been taken, such as developing a code of conduct. The South African Police Service should integrate this code with its human resource systems and non-adherence should have consequences for its members. The professional obligations of the police should be spelt out clearly to avoid blurring of roles and functions. For example, police perform functions that should be the responsibility of the Department of Social Development, such as mediating domestic disputes and relocating homeless people. While these social challenges have a security dimension, the primary responsibility for addressing them should lie with social workers, with police playing a supporting role.

Professional police uphold the integrity of the police service. They are knowledgeable about the law and their roles, carry out their functions competently, and understand their responsibility to serve communities. In this way, they earn public respect and support and the rule of law is upheld by citizens.

The Commission recommends the professionalisation of the police by enforcing the code of conduct and a police code of ethics, appointing highly trained and skilled personnel, and establishing a body to set and regulate standards.

Code of conduct

In the short term, the code of conduct should be included in the disciplinary regulations and performance appraisal system. The police service

and the metropolitan police authority should provide all their members with a copy of the code of conduct. This should be linked to all human-resource management systems and members should be required to sign a copy of the code, which is kept in their personal file. Periodic checks should be conducted to ensure that the code of conduct is understood and practiced.

Disciplinary cases involving a breach of the code should be dealt with as a priority. Police-service members charged with misconduct should be required to leave their station immediately until allegations are tested and cases finalised.

A code of professional and ethical police practice should be developed and prescribed through regulations. Police members should be trained and tested in its application. This should be a compulsory course and failure to pass should lead to suspension or dismissal from the service.

The South African Police Service and metropolitan police should be viewed as professionals, working in a skilled occupational group to protect the public. They are the only agencies mandated to use necessary coercive force. Ethical conduct should be practiced to maintain the public perception of policing as a professional institution.

The professional police practice code should state that the officers' fundamental duties are to the Constitution. They are to serve the community, safeguard lives and property without discrimination, protect the peaceful against violence and the weak against intimidation, and respect the constitutional rights of all to equality and justice.

The code should also prescribe the off-duty obligation of police officials to honour the badge as a symbol of public trust. Internal and external oversight bodies should be able to request a review of the professional ethics of an individual, unit or section of police and law enforcement agencies. Sanctions could be imposed, such as the withdrawal of commission.

Mandated oversight bodies should monitor adherence to professional ethics and recommend appropriate sanctions where necessary. The Independent Police Investigative Directorate and the Policing Board would also play a role.

National policing board

A national policing board should be established, with multi-sectoral and multidisciplinary expertise. It should set standards for recruiting, selecting, appointing and promoting police officials and police officers. The board should also develop a code of ethics and analyse the professional standing of policing, based on international norms and standards.

Selecting for excellence and professionalism

A professional police service conforms to minimum standards for recruitment, selection, appointment and promotion. Provision can be made for a two-stream system of recruitment.

As soon as possible, all officers should undergo a competency assessment and be rated accordingly. This rating should differ from police ranks. For example, a captain remains a captain, but the competency test determines if he/she meets the competency standard for a captain. Officers who do not meet the standard should not be promoted or appointed to a higher level until they attain the required level of competence for that rank.

A two-stream system should be developed in the next five years to create a high calibre of officers and recruits who are capable of being trained for effective professional policing. The basic police stream would allow for the recruitment and selection of non-

commissioned officers, who could progress through training and experience to the positions of warrant officer or inspector, or any level below a commissioned officer.

There should be objective testing against set standards to reward experience and competence. Non-commissioned members should be supported and mentored by commissioned officers. Peer sanction promotes professional behaviour, and is an effective counter to corruption. Such outcomes are only possible if officers command mutual respect.

Direct recruitment to the officers' stream should be based on set criteria, followed by further training and testing for candidate officers. Officers should be commissioned when all criteria are met. The basic stream and officers' stream could be flexible, allowing aspiring officers to work towards meeting the criteria for appointment to the officers' corps. Similarly, officers should lose their commissions if they fail to meet the standards.

The National Commissioner of Police and Deputies should be appointed by the President on a competitive basis. A selection panel, established by the President, should select and interview candidates for these posts against objective criteria. The President should appoint the National Commissioner and Deputies from recommendations and reports received from this selection panel. This would enhance the incumbents' standing in the eyes of the community and increase the respect accorded them by their peers and subordinates.

Training for professionalism

Renew focus on strengthening the capacity and training of detectives and specialised investigators, particularly in the fields of forensics, ballistics and crime-scene investigations. These specialised units should be deployed when and where they are most needed – during peak crime periods and in high-risk areas.

Re-establish specialised units staffed with highly trained and professional police officers, to respond to changing crime trends such as narcotics, cyber crime, human trafficking, crimes against women and children, and international crime syndicates. Technology development has greatly influenced crime patterns and the commission of crime. Bank robberies can now be committed using computers anywhere in the world. Social networks lure victims and people are drawn into pyramid schemes through sophisticated international scams. Police training needs to keep abreast of these developments. Superior instruction standards and partnerships with the private sector and universities would increase police competence.

Deploy officers according to crime patterns and trends. Officers should be available outside office-hours to direct operations, investigate crime and supervise staff. Office-hours should not apply to policing; senior staff should always be available to resolve crime matters with speed and efficiency.

Community policing as a philosophy, methodology and practice should be emphasised and

strengthened in police training programmes and systems for evaluation of police effectiveness. This evaluation should feed back into the training programmes for continuous improvement.

Demilitarising the police force

Civilianising a highly militarised and politicised police force was a transformation objective after the 1994 elections. It was considered necessary to professionalise the police, establish a rapport with communities, develop confidence and trust in the police, and promote positive community-police relations. The goal was to transform the police from a paramilitary force to a police ***service*** that meets all the criteria of a civilian professional entity. Demilitarisation required changes in police insignia, military ranks and force orders to create a civil police service as the first phase of community policing. The second phase consisted of changing policing methodologies from a "kradadige"[3] style to one which placed the community at the centre of policing through community policing. This required consultation with the community at a local level about their crime concerns and safety needs. "Problem-solving policing"[4] followed which promoted diversion of youth and first time offenders of minor crimes to agencies and programmes geared at preventing crime. Intelligence driven policing was added as a more sophisticated methodology which replaced random patrols to policing of hotspots.[5] Finally, sector-policing was added as a geographical orientation of the police in respect to personnel and resources which were allocated to areas within police precincts based on policing needs. All these reforms were intended to improve community policing and reduce crime through applying modern policing methodologies and to improve community safety. Police responsiveness to community needs should always be at the heart of policing outcomes. That is the main difference between a police force and a police service.

From 2000 however, the police service gradually started resembling a paramilitary force. This process was formalised with the reintroduction of military ranks in 2010. It took place against the backdrop of increasing violent crime, high levels of community frustration and fear, and a perception that the old military police ranks would command greater respect from communities. However, these arguments are inconsistent with the police's mandate in a modern democracy. They also neglect the challenges of developing greater competence and skills in the police to respond to growing complexity and changing patterns of crime. The police will earn public respect if they are efficient and effective, and display a professional approach to combating crime. The culture of the police and a professional ethos are

interlinked; ethos relates to the skills and competence of the institution and culture relates to the approach, values and discipline of its members.

"The most obvious problem with the militarization of civilian policing is that the military and the police force have two distinctly different tasks. The military's job is to seek out, overpower, and destroy an enemy. Though soldiers attempt to avoid them, collateral casualties are accepted as inevitable. Police, on the other hand, are charged with "keeping the peace", or "to protect and serve". Their job is to protect the rights of the individuals who live in the communities they serve, not to annihilate the enemy."[6]

Good management and strategic leadership are crucial to organisational stability, morale and integrity of any police institution. The South African Police Service has undergone radical shifts in the last 17 years, dramatic changes to the leadership following the charges of corruption against one national commissioner, and mismanagement and a pronouncement of lack of fitness to head the police against another. The impact of serious charges against senior members of the police needs to be assessed so that negative consequences can be mitigated. Morale is a very important aspect of the police culture. Measures should be put in place to ensure that the morale is high, discipline is maintained and respect for leadership and subordinates alike permeates the institution.

Police discipline is based on command and control, whereas discipline in a ***modern*** police organisation is based on self-discipline and leadership. The South African Police Service has been under strain as a result of serial management crises over the past few years. Coupled with organisational rank changes to military ranks without any or further training in judgement, discretion and professional conduct, these crises have had a detrimental effect on police culture and subcultures. The recent case where members from a police unit in Cato Manor were charged for allegedly executing suspects could be cited as an extreme example of a police subculture that developed out of a lack of professionalism and a perceived impunity.

The Commission therefore recommends that the South African police force be demilitarised. This is a short term objective which should happen in the immediate term. Furthermore, the organisational culture and subcultures of the police should be reviewed to assess the effects of militarisation, demilitarisation, remilitarisation and the serial crises of top management.

An integrated approach to building safety

In discussing crime, the danger is to focus on policing as the only solution. It is necessary to move from a narrow law-enforcement approach to crime and safety, to identifying and resolving the root causes of crime. To achieve this, South Africa will have to mobilise state and non-state capacities at all levels, which requires an integrated approach, with active citizen involvement and co-responsibility.

A holistic view of safety and security

Crime results from several interrelated societal elements that predispose some individuals or groups to certain types of activity. A study by the World Bank in 2010 confirms that "there has been a growing consensus among policy-makers that violence is not simply a security issue but that it has deep social and economic roots and consequences".[7] An effective and efficient response to violent crime requires a holistic approach to community safety that takes the causes of crime into consideration and responds to specific causal factors. This approach is often considered too complex, time consuming and long term. However, sustainable community safety is a long-term issue. It requires coordinated efforts – high levels of analysis of crime patterns and trends, using crime intelligence and leadership to command and direct policing responses. It also requires other

departments, local government and civil society to participate.

Crime prevention and community safety pose a daunting challenge to all spheres of government – the temptation is to fall back on a "more police, bigger guns" approach. Short-term results are neither sufficient nor sustainable. To develop a framework for community safety and crime prevention, the interrelated factors set out below must be considered:

- Underlying root causes, such as poverty, inequality, unemployment, and a variety of temptations and motivations to engage in criminal activity should be addressed. Although research has shown the complex relationships among these factors, it is clear that the higher their confluence, the more motivated people are to commit criminal offences.
- The lack of social cohesion, inadequate care of children and a failure to accept and internalise "good" societal norms are leading causes of crime.
- Opportunity and motive: for example, the availability of targets (vulnerable people or properties), the availability of weapons (tools of criminal trade), situational factors (such as spatial or environmental design), and the availability of accomplices (organisational requirements).

An effective safety strategy will involve taking a systems view of all these factors and pinpointing the interventions that will greatly improve safety, with the best return on human, technical and financial resources. It will also be crucial to identify which agencies and institutions across government departments, civil society and the private sector are best placed to lead and contribute to these interventions.

Several attempts have been made to implement a more holistic approach to community safety and crime prevention. This includes the National Crime Prevention Strategy of 1996 and its variations. Although this incorporated cutting-edge international thinking and was widely recognised as sound, it was never fully institutionalised as a comprehensive strategy.

In March 2000, the National Crime Combating Strategy superseded this policy and advocated a very different approach, focusing on criminal-justice resources. As a result, police were inappropriately envisaged as an all-purpose agency, rather than a highly specialised resource to be deployed strategically. This has led to a police agency that is stretched beyond its capacity, with a mandate that is impossible to fulfil, and disenchanted police officers with fragile authority and legitimacy. The goal now is an integrated strategy, followed from planning to consistent implementation, with monitoring by, and support from, all relevant role players. Leadership, coordination, monitoring, reporting and accountability are the elements for success. The criminal justice system is currently the primary focus, concentrating on existing and would-be offenders. It functions primarily through punishment, which aims to deter future criminality and, in the case of imprisonment, prevent further criminality by putting offenders out of action. It is for this reason that a greater emphasis is placed on the police as a primary role player in the criminal justice chain. It cannot be expected of society to display active and responsible citizenship and utilise its resources and time to engage in activities to promote citizen safety when the police are considered inept, unprofessional and unresponsive.

An effective criminal justice system is a necessary condition to promote safety and security effectively, but it is insufficient on its own. More is required for sustainable and effective solutions to crime and insecurity. The police play a vital role in protecting citizens by intervening, using reasonable coercive force where necessary to stop harmful actions,

support victims and bring offenders before court. An effective criminal justice system improves safety, while other departments address socioeconomic conditions of human development. The contributions of these multi-agencies must be coordinated to sustain the gains of an integrated strategy. Any significant decline in crime should be evaluated and the reasons examined, so that it can be maintained, repeated and increased. For this to happen successfully, greater community involvement should actively be encouraged especially from vulnerable sectors that are more prone to being victims of crime.

SAFETY OF WOMEN, THE GIRL-CHILD, CHILDREN AND THE YOUTH

Safety of women

Gender-based violence in South Africa is unacceptably high. This has consequences for women and girls and their ability to achieve their potential in every sphere of social and productive life. Gender-based violence in all its forms denies women and girls the opportunity to achieve equality and freedoms as enshrined in the Constitution. If this continues unabated it will impede the nation's ability to achieve its growth and development potential. The Commission recognises the importance of having a gender perspective when recommending strategies to attain prosperity and equality in South Africa.

Gender-based violence is defined as violence that targets individuals or groups of individuals on the basis of their gender, and is a form of discrimination that seriously inhibits women's ability to enjoy rights and freedom on the basis of equality with men.[8] Gender based violence also impacts transgendered communities, gays and lesbians severely and as such they need to have representation on community policing forums to articulate their safety needs. Hate crimes against gays and lesbians have been a silent threat to the safety of a very vulnerable sector of society.[9] Qualitative indicators need to be developed to measure the progress made to secure the safety of potential victims of gender based violence and the existing quantitative measures need to be expanded to include all categories of vulnerable people.

Many institutions, locally and internationally, including the Medical Research Council, Amnesty International, the United Nations and advocacy groups have released very alarming statistics on gender-based violence. An overall approach to eliminate gender-based violence is to address all facets of society that cause and condone such behaviour. Among other remedies, an effective

criminal justice system is needed to address gender-based violence where and when it occurs. Preventing it from occurring requires a concerted effort from all sectors of society to address social, economic and political inequality among men and women. The criminal justice system should be oriented towards the most vulnerable in society. As such, the success of the criminal justice system should be measured against its ability to protect the most vulnerable in society. The Sexual Offence Amendment Act should therefore be expedited and the application there of reviewed periodically to ensure that all aspects of sexual violence is covered by the Act as an effective deterrent.

Cultural and religious practices which condone inequality of the sexes to the extent that gender-based violence is tolerated and even encouraged should be addressed head-on by government, religious and cultural bodies and society as a whole. In submissions to the National Planning Commission, attention was drawn to the fact that discrimination is perpetuated by traditional beliefs upheld in the criminal justice system, the government, education, law, politics, the media, the public and at home. It was further stated that this inequality and discrimination has become so pedestrian and institutionalised, that some women are unable to even imagine, much less expect, a different life.[10] Any programme to attain social cohesion in society should narrow the inequality divide between men and women with measures in place to ensure that women, girls, people with disabilities and any other group at risk of discrimination, are able to enjoy their rights enshrined in the Constitution.

Safety of children

The South African government is signatory to the Convention for the Elimination of Discrimination Against Women and children (CEDAW). While girls may have the same gender-specific needs as women, they may have safety needs particular to childhood. This should be recognised in policies and practices of government departments. Infrastructure at schools should be designed with the safety of girls in mind. The location of toilet facilities at schools can elicit feelings of safety or fear of being harmed in high risk areas. For some girls, the very absence of toilets at school is a threat to their safety. The same applies to public facilities and amenities. Privacy and safety are core requirements for girls and women in society.

Children's rights to a safe and secure environment are protected by the Constitution. However, it is not enough to guarantee the safety of children. On paper, children's safety is a legal and moral requirement and an area of concern and interest to parents, government and society. South Africa, burdened by poverty and inequality, is challenged to realise this Constitutional imperative, particularly considering the number of child-headed households and Aids orphans in the country. In these instances the state's duty of care stretches to the effective monitoring of and support to surrogate parents. Mesures

to mitigate the potential threat to child safety under these conditions need to be explored fully.

School safety

In the Child Support Grant Evaluation Report 2010, drugs and alcohol abuse as well as crime in general and gang activities in particular, are among the main reasons for high school dropout rates. Gangsterism at schools is a growing phenomenon. The sale and use of drugs at schools are related to gangsterism. It places many learners at risk from both a safety, and an educational, point of view. Although urgent, this problem should be handled decisively, yet carefully, to avoid short-term solutions. The safety of learners at school and in the community requires a well-coordinated approach between the education department, police and local government.

School authorities and local government should take responsibility for the safety of learners, children, teenagers and youth within their specific mandates. Safety measures should be tailored to their specific needs. Safety of learners, girls in particular, should be components of any safety audit or strategy related to school infrastructure, and should form part of minimum standards set for all schools. School governing bodies should appoint an official to assess and report on safety measures and make recommendations for their improvement. Immediate and urgent security matters should be escalated to the Member of the Executive Committee for Education.

Premiers should report to the Provincial Coordinating Committee on all matters relating to safety of learners, including the nature or lack of infrastructure, to promote and share best practice of safety measures at schools. This report should be open to the public and allow for public comment.

More research and policy analysis should be done to establish accountability of public officials (and offices) for the safety of girls and children in general, with respect to the state's duty of care when children are at school. Where some measures exist, further analysis should ensure the desired outcomes are sustainable. A monitoring and evaluation system for school-management accountability should be developed to address these needs. Safety measures at schools should enhance learning outcomes and not replicate prisons where learners are educated behind burglar guards and metal detectors. A sustainable school safety model within the context of the social and geographical environment should be developed by the school governing body and monitored by the provincial departments of community safety.

The Commission recommends the following:

Conduct independent context studies and opinion surveys to gather information on perceptions of safety and fear of crime. The studies should be facilitated by the department of community safety in that province, or the Premier.

The findings of the studies should be shared with all stakeholders and should be factored into policing plans, local government development plans and the criminal justice system. Communication to communities and stakeholders about safety plans should be aimed at reducing fear and increasing the responsibility for safety to all role players including citizens.

Local government should report on environmental designs aimed at addressing the safety of women, children and other vulnerable groups. Local government should have a safety budget and an annual plan to this end. Grime, graffiti, poor or no street light, dark and dingy alleys, derelict buildings, open waste etcetera, create fear and a propensity for crime. Community activism and a responsive citizenry should be encouraged in this area.

The police service should develop plans that deal with safety risks and account for the increase in safety and reduction of fear alongside crime statistics reports. Crime statistics will provide the quantitative basis for reporting by the police service and metropolitan police, and community-safety levels will provide the qualitative indicators.

Further research should be conducted on qualitative measures and indicators to evaluate the safety of vulnerable groups, the prevalence of xenophobia, and of hate crimes against gay and lesbian people, and people with disabilities.

Further research should be done on child-headed households and children without proper parental care so that effective mitigation strategies to secure safety among the most vulnerable in society are developed.

Legislation on human trafficking should be expedited to address the fragmentation in legal frameworks and instruments.

The Sexual Offences Act should be amended urgently to strengthen the criminal justice departments' response.

Accountability frameworks should be developed for government departments to prevent sexual abuse and assault from occurring in state facilities. These should apply where a department is responsible for the care and safety of citizens; at schools and educational facilities; government facilities at municipal level; and any facility where government is assigned the role of custodian, such as a correctional institution.

Support to non-governmental organisations who engage in citizen safety should be stepped up. The Department of Social Development should facilitate consultations with non-governmental and business sectors to map out effective partnerships to eliminate sexual offences, domestic violence and child abuse as priority crimes.

The Department of Justice and Constitutional Affairs has a training and placement programme for Court Preparation Officers. The programme has produced good results and should be increased to assist in effective victim preparation to secure convictions of sexual offence perpetrators.

Domestic violence is a complex issue which should be addressed in a multi-faceted way. Education of both women and men should be undertaken with social partners and the private sector. The private sector has a very important role to play since work hours and productivity are negatively affected as a result of domestic violence. The effective implementation of the Domestic Violence Act (1998) requires adequate budgeting for such education and awareness training as well as training of police and justice officials.

Local government and the Department of Social Development should establish safe shelters for

women and girls who require temporary accommodation when exposed to domestic violence or who are at risk of such exposure.

Sustainable school-safety models within the context of the social and geographical environment should be developed by school governing bodies. The community police forum should monitor the school-safety plan at community level. The provincial departments of community safety should monitor and support the school-safety plans for the respective provinces.

Provinces should provide comprehensive reports on school safety to the Provincial Coordinating Committee. These reports should be assessed by a presidential committee with a feedback loop to the provinces for corrective action.

Safety of youth

The safety of young people should be of interest to all involved in shaping the future of the country. Most young people around the world would like to express themselves in places and spaces of their choice and cherish the freedom to enjoy their youth. If they feel unsafe and are hindered by violence or threat to life and property, a very significant stage of their lives is stifled.

In South Africa, the youth are often the main victims and perpetrators of crime. In an analysis of police murder dockets of a national sample of 1378 cases in 2009, it is clear that interventions need to be done by the criminal justice departments, arts and culture, social development, economic affairs and local government to curb this trend. Importantly, the youth should be engaged in the solution to the problem.

Demographics of victims indicate that young, black males are most affected. Young people should therefore be engaged in programmes that promote taking responsibility for their own safety. Resources to do this should be mobilised from the public and private sector, creating a partnership to support a comprehensive long-term programme.

The youth can only take co-responsibility if government is seen to be taking the lead to resource and support their initiatives and actions. Benevolent surveillance and mutual care among the youth should be promoted. In simple terms, they should look out for each other. Furthermore, they should be encouraged to approach government and the private sector on such measures that would promote their safety.

In the analysis undertaken in 2009 by the South African Police Service of a sample of murder dockets referred to above, the youth presented very high in the sample. Below are the tables reflecting race and gender of victims, and age and occupation of murder victims.

FIG 12.1 RACE OF VICTIMS

Race	Number	%	% Known
African	1198	86.9	87.5
Coloured	132	9.6	9.6
White	25	1.8	1.8
Asian	14	1.0	1.0
Unknown	9	0.7	
Total	1378	100	100

Source: South African Police Service, 2009

The majority of the victims whose race could be established were Africans followed by coloureds and whites. When compared to the population figures,[11] it is clear that more attention should be given to the causal factors of homicides. Such an analysis should inform a homicide prevention strategy that should direct the interventions of the police and other relevant departments. Alcohol- and substance-abuse as well as anger-management programmes for youth should be implemented at an early stage in schools and as part of diversion programmes for youth at risk of offending.

FIG 12.2 GENDER OF VICTIMS

Gender	Number	%	% Known
Male	1174	85.2	85.6
Female	198	14.4	14.4
Unknown	6	0.4	
Total	1378	100	100

Source: South African Police Service, 2009

There is a disproportionate division in the gender of victims of murder with males accounting for the majority. In most cases male victims were murdered by males and to a lesser extent by females. In the case of females murdering males, it could be attributed to domestic-related issues resulting in females killing their male partners, while males are more likely to cause the death of other males during social interaction. The link between assault and homicide should be drawn. Repeat assault should be cause for alarm and early interventions should be made. Although it may be difficult to trace a distinct pattern of murder cases, it would still be useful to analyse the circumstances which give rise to the prevalence of murder in certain communities. The South African Police Service, through their crime-intelligence division, therefore should produce an analysis of murder, assault, rape and all categories of contact crime as a standard tool for crime prevention strategies. This analysis should be made available to the broader crime prevention community to promote timely interventions and community supported strategies.

FIG 12.3 AGE OF VICTIMS

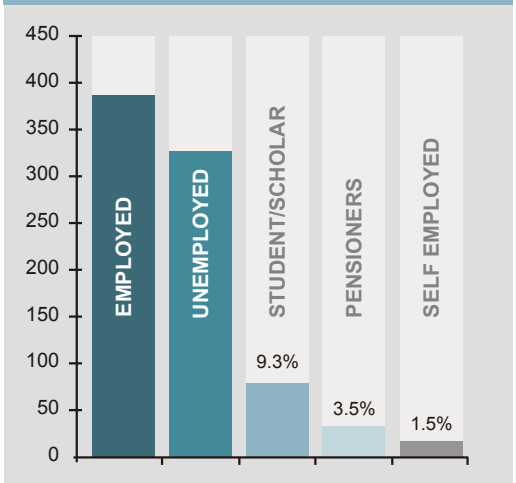
Age	Number	%	% Known
0 –10	19	1.4	1.6
11–20	166	12.0	13.8
21 –30	477	34.6	39.6
31 – 40	289	21.0	24.0
41 – 50	133	9.7	11.0
51 –60	75	5.4	6.2
60 +	46	3.3	3.8
Unknown	173	12.6	
Total	1378	100	100

Source: South African Police Service, 2009

The highest age category of victims fall within a demographic that should potentially be most active economically and socially. In the majority of cases, the relationship between victims and offenders were known. For victims falling in the age category of 0 to 10 years, it was found that they were murdered by their parents of which 63.6 percent pertain to incidents of the concealment of birth. With regard to victims between the ages of 11 and 20 years, in 49 percent of cases a relationship between the victim and offender could be established where the offender was an acquaintance/ person known by sight. A further 19.6 percent were murdered by friends and 5.8 percent by boy/girlfriends. Research should be done on how interpersonal relationships could improve and be free of violence. Special attention should be given to young women on reproductive health and alternatives to child rearing.

The figure above indicates that 46.4 percent of those victims whose occupational status was known were employed, while 39.3 percent were unemployed and 9.3 percent were students or scholars. Pensioners accounted for 3.5 percent of the victims and people who are self-employed for 1.6 percent. It was further established that pensioners are more vulnerable to be killed during the commission of other crimes, as in the cases of 38.5 percent of

FIG 12.4 OCCUPATION OF VICTIMS



Source: South African Police Service, 2009

pensioners murdered, compared to 15.9 percent of all the victims involved in the study.

Consumption of alcohol and drugs by victims

From the information contained in the dockets, it was established that at least 28.2 percent of the victims had used alcohol or drugs prior to the incident. A further breakdown of alcohol consumption or drug use according to gender indicated that 31.1 percent of the male victims had used alcohol or drugs, compared to 17.0 percent of the female victims. It was found that the highest incidence of consumption among murder victims occurred in the age group of 31 – 40 years followed by the age group of 21 – 30 years and the age group of 20 years and younger.

The analysis of murder dockets paints a grim, but clear picture. There needs to be a greater mobilisation of resources to establish and promote safety among the youth, who should be part of the solution and have ownership of the outcomes. Positive values must be propagated by role models who promote lifestyle attributes of care, responsibility and integrity, which are pronounced, visible and within reach of the youth.

The Commission recommends that:

More work should be done by the Youth Commission, departments of social development, criminal justice departments, civil society and the private sector to develop an integrated plan linking social cohesion and safety among youth to a focus on eliminating crime. Research into best practice of existing models (inner city New York, Rio de Janeiro and selected multi-cultural cities) could be undertaken in partnership with metros to develop models for safe spaces for youth in cities.

There should be linkages between youth mobilisation for safety, education and civic responsibility, job creation and skills development, and social cohesion. A pilot programme to address these elements in an integrated manner should be undertaken with the relevant stakeholders.

The relationship between drugs, alcohol and violence requires an in-depth study. Specific projects should be developed by the JCPS cluster to address these issues comprehensively and decisively.

Rural safety

Access to justice and the safety of rural and farming communities demand special attention. Farming communities and rural areas are very far from national and provincial government, business and non-governmental resources which expose them to crime and safety risks. Rural police stations are often isolated and responsible for vast areas. Attendance to domestic violence complaints and child protection are affected by distance and availability of resources. Infrastructure, telephony or roads for example, impact police response times which increase the risks to potential victims. Distances from the courts impose a burden on witnesses and availability of legal aid could compromise the administration of justice. The full bouquet of services from the criminal justice system therefore, is not readily available to rural and farming communities compared to services to urban areas. A national rural safety strategy was crafted by the South African Police Service to address these risks. This strategy is aimed at farmers, farm workers and the broader rural community. The National

Rural Safety Strategy was constructed through a consultative process involving key institutions and stakeholders.

The commission recommends that:

The National Rural Safety Strategy of the South African Police Service, a comprehensive strategy, should be implemented in its totality. Stakeholders who were party to the drafting of the plan should assist in monitoring the implementation of the strategy to ensure the effectiveness there of and new stakeholders such farm workers committees and Farm Watch[12] should be brought on board. Communication tools and early warning systems should be prioritised to address the impediment of distance and infrastructure. Technology and social media should be explored for this purpose. Examples of successful implementation of technology and mobilisation of rural communities for crime prevention should be explored further. Safety and crime prevention training and capacity building workshops should be provided to farmers and farm workers jointly. Safety plans for each farm should be developed taking on board the safety needs of everyone especially the most vulnerable and most exposed. Farm watch structures should be beefed up and supported by the local police station. Farm and rural safety structures should be supported by the business community especially those operating in the agricultural field.

Improving rehabilitation and reducing recidivism

The ideal society is one where citizens are safe from crime and can lead productive lives without fear. However, the impact the criminal justice system has on community safety warrants attention. The conditions within which inmates are kept have a strong effect on their behaviour upon release and have consequences for the way in which prison and prisoners are viewed. Overcrowding in prisons increases inmate violence and recidivism. This in turn could further lower overall levels of community safety. "Recidivism is the relapse into criminal activity and is generally measured by a former prisoner's return to prison for a new offence. Rates of recidivism reflect the degree to which released inmates have been rehabilitated and the role correctional programmes play in reintegrating prisoners into society."[13]

Recidivism is mainly caused by barriers to re-entry upon release. Prisoner re-entry into the community is a problem for many reasons. First, the number of prisoners released has increased considerably over the past two decades. Second, the communities to which offenders return are less stable and less able to provide social services and support to these large number of returning prisoners. Third, there are not enough prison rehabilitation programmes available to meet inmate needs in terms of quantity and quality. Fourth, the focus is on supervision and monitoring rather than casework and support by parole and release officers of prisoners re-entering society. This has compounded the problem of lack of programmes.

Reducing overcrowding to promote community safety

Prisons in South Africa have historically been overcrowded. However, due to increased crime and greater efficiencies in the criminal justice system since 1994, the prison population has exploded. This has an adverse effect on crime management and reduction since overcrowding of prisons in itself can lead to increased crime. As prisons become more overcrowded, inmates report higher levels of assault. Placing more prisoners in the same number of cells creates harsher conditions that ignite and promote violence and increase gang power. Warder-to-inmate ratios are affected negatively and supervision of inmates decreases as a result. These conditions increase the prisoners' propensity to violence and decrease the prospects for effective rehabilitation. In

turn, the safety of communities is more at risk upon release of prisoners from overcrowded conditions. Addressing overcrowding of prisons is therefore a priority community-safety issue.

The commission recommends that:

- Substance-abuse treatment during imprisonment should be stepped up. Substance-abuse programmes before release should be a component of any pre-release programme given the relationship between drug abuse and the commission of crime in the broader society. Substance abuse is a widespread problem among the prison population with re-addiction after release a frequent cause of recidivism and a barrier to obtaining stable employment.

- Education and training programmes should be extended to increase the chances of employment and reintegration of released prisoners. Correctional Services are implementing skills training programmes which should be increased. A proactive relationship between correctional services and business should be directed to appropriate skills development to increase the chances of released prisoners being absorbed into the economy.

- Capacitate community organisations to assist in sustaining rehabilitation of former prisoners and assist with reintegration into the community. Civil society can play an invaluable role in the continued rehabilitation of former prisoners and the prevention of re-offending. Civil society organisations need to be identified, vetted and adequately resourced to do this. Vetting should be compulsory for those organisations working with sex offenders.

- Overcrowding of prisons should be addressed as a matter of urgency. Building more prisons would be extremely costly and impractical and will not address the situation of overcrowding in the short to medium term. The best, practical and necessary way to address overcrowding is through assessment, categorisation and placement of prisoners in appropriate "out of prison sentence" programmes and correctional supervision based on clearly defined and objective criteria. Alternative sentencing regimes should be addressed with the Department of Justice and Constitutional Development and the efficacy thereof monitored on a regular basis.

- The population of awaiting-trial prisoners must be reduced drastically. Increased use of technology is important to monitor awaiting-trial prisoners to ensure attendance in court and prevent at-risk suspects from committing crimes or endangering community safety. The use of tagging and tracking of awaiting-trial prisoners should be explored as an alternative to incarceration.

- Youths in prison should be addressed by Correctional Services as a priority focus for restorative justice based on their crimes and their propensity for rehabilitation. Their chances to make a meaningful and productive contribution to society should be increased through the value of these programmes and post-prison conditions. Diversion programmes remain critical to reducing overcrowding, and rehabilitation.

Implement strategies known to work

A coordinated and holistic approach to safety and security is achievable. Some aspects of this approach have been seen during the 1994 elections and the 2010 soccer World Cup. Safety and security strategies for these events successfully aligned resources with appropriate solutions across the

security spectrum. The roles of the agencies involved were clearly defined, and mandates and protocols were understood. Equally important was the recourse given to citizens for inefficiencies or delivery gaps. Community support for any safety strategy is extremely important.

Community participation in safety

Civil-society organisations and civic participation are elements of a safe and secure society. Community problem-solving during the xenophobic violence of 2008 is an example of non-state mobilisation to resolve conflict and potential criminality. At the time, the police acted as the stabiliser, while civil society and other state departments were problem-solvers. The partnership was negotiated through coordinating structures at various levels of the state, community-based agencies such as church organisations and civic associations. A sustainable strategy requires greater clarity on various roles and a resourced coordinating mechanism that will bring state and non-state policing agencies together to secure safety and build cohesion. The state is best placed to play this role and account to citizens.

The Municipal Systems Act (2000) provides for local government to promote a safe and healthy municipal environment. Community safety centres, promoted by the Secretariat for Police and provincial departments of community safety, should be revisited to give effect to this provision. Local municipalities must work closely with all state and non-state bodies to establish their safety needs and develop strategies to fulfil them. They should develop safety audits or barometers with communities to inform their responses. These could include better street lighting, removing rubbish dumps and hazardous waste and municipal by-laws to increase community safety and wellness.

These initiatives should involve the youth and could be run by sectors, such as education, sports, arts and culture, and social welfare, coordinated by community safety centres. Local government should thus use its Constitutional mandate creatively and innovatively. At local level, communities should feel empowered to take part in making their environment safer and more secure. Communities should be consulted on housing and business developments in their locale and their inputs on the spatial planning of the physical environment, safety designs and layout of these projects should be solicited. These measures for community involvement in safety from a crime prevention point of view should be regulated by municipalities at a local level. Specialised skills for safety design could be sourced where capacity is lacking. Universities and non-governmental organisations specialising in this field should be contracted to assist local communities.

Universities and technical colleges should develop courses to promote urban design that will take account of safety in future housing developments and carry out corrective designs in established housing developments.

The Community Safety Volunteer Programme has been implemented in Gauteng, the Western Cape and KwaZulu-Natal with some success. The programme uses volunteers as marshals at schools, clinics, railway stations and parking lots. In the Western Cape, volunteers were also highly effective in the Child Safety Programme, which developed a rapid-response system to track missing children. When the Department of Community Safety in the Western Cape wanted to close the School Safety Volunteer Programme, principals, teachers and learners protested because the community felt safer with the volunteers.

The Commission recommends that the police service and metropolitan police further develop the Community Safety Volunteer Programme as part of a

community empowerment programme for safety. Volunteers should be deployed to at-risk schools, health clinics, pension- and grant-payment points, taxi ranks, parking spaces, open fields, areas with poor street lighting or public congestion, and generally unsafe areas. These volunteers are not substitutes for visible policing and do not carry out any police functions. They provide safety to the public only through visibility and safety in numbers – where they themselves are not put at risk. The volunteers are also contact-points for the police and other departments, providing up-to-date accounts of community needs, fears and feedback.

The programme should be included in the budgets of local governments, the metropolitan police and provincial departments of community safety. The provinces that have already successfully started using these volunteers should extend their existing capacity, skills and experience. All nine provinces need to develop the ability to deliver this programme.

CONCLUSION

As part of a safety strategy, these proposals should be implemented alongside carefully considered and effective law-enforcement interventions driven by the criminal justice system. Continuing to strengthen the cost-effectiveness of the system – including the police, prosecutors, courts and prisons – is important.

Law enforcement provides the institutional mandate required to improve safety. However, it does not, and cannot, provide a total response. South Africa has to mobilise its communities to play a role in their own safety. The private sector already supports local initiatives, providing technological support with closed-circuit television cameras or information technology. Private security initiatives have been carrying out joint operations with police and taking part in joint patrols and check points with neighbourhood watches. These initiatives should be supported and extended.

The proposals will need dedicated budgets and regular cost-benefit analysis to ensure that the public gets the necessary return on investment of public resources. Community police forums should undertake accountability checks to ensure that the police are accountable to the communities they serve. The forums should also provide feedback to the police on public perception of safety and fear of crime.

The proposals to mobilise and integrate the knowledge and capacity to implement safety solutions require leadership, which will allay public fears and increase perceptions of safety. Increased reporting on safety outcomes and progress will instil confidence in government's ability to protect the public and create conditions for freedom of movement and safety. Such initiatives, as part of an integrated strategy, can reverse the cycle of crime that has become a constant feature in South Africa, skewing the narrative about the nation's capabilities and potential. Safety involves the criminal justice system, local government, community, and private sector and role players involved in economic and social development. Only an integrated approach will make safety and security a reality for South Africans in 2030.

NOTES

1. South African Police Service (2001). 'South African Police Service Crime Statistics' in *South African Police Service Crime Report 2010/2011*.

2. De Lange J (2007). *Review of the South African Criminal Justice System*. Report to Cabinet.

3. "Kragdadige" is an Afrikaans word meaning heavy-handedness and was commonly used to refer to the type of policing during apartheid.

4. Problem-solving policing was borrowed from the Canadian approach to policing in 1995 in the South African Police Service. This approach required a very close cooperation with Social Development and Local Government as recipients of youth at risk of committing crime. Without effective diversion programmes, this approach cannot work.

5. "Hotspots" are areas where crime is frequently committed.

6. Balko R (2006). *Overkill –the Rise of Paramilitary Police Raids in America*: p15. Washington, DC: Cato Institute.

7. World Bank (2010). *Crime, Violence, and Development: Trends, Costs, and Policy Options in the Caribbean*.

8. Women's Legal Centre. Available at (accessed 4 July 2012).

9. Hate crimes refer to threats, harassment or physical harm and is motivated by prejudice against someone's race, colour, religion, national origin, ethnicity, sexual orientation or physical or mental disability.

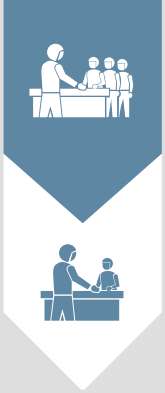
10. ibid.

11. Statistics South Africa. *Mid-year population estimates: 2009*. Available at http://www.statssa.gov.za/ (accessed 27 July 2009).

12. Farm Watch structures are similar to Neighbourhood Watch Structures. They consist of unarmed, trained volunteers who are organized at a local level to conduct patrols and report to the police.

13. McKean L and Ransford C (2004). *Current Strategies for Reducing Recidivism*. Centre for Impact Research.

CHAPTER THIRTEEN



Building a capable and developmental state

KEY POINTS

- South Africa needs to build a state that is capable of playing a developmental and transformative role.
- The public service needs to be immersed in the development agenda but insulated from undue political interference.
- Staff at all levels must have the authority, experience and support they need to do their jobs. This will require a more long-term approach to skills development.
- Improving relations between national, provincial and local government requires a proactive approach to resolving coordination problems.
- The governance structures for state-owned enterprises (SOEs) should be simplified to ensure clear lines of accountability and stable leadership.

INTRODUCTION

The National Development Plan requires collaboration between all sections of society and effective leadership by government. In a society with deep social and economic divisions, neither social nor economic transformation is possible without a capable and developmental state. The state provides the institutions and infrastructure that enable the economy and society to operate. Critical interventions are required to build a state capable of realising the vision for 2030. The chapter has benefited from extensive discussion and detailed inputs from a broad range of stakeholders including government departments, municipalities, organised municipality structures, academic institutions, civil society organisations and many members of the public. It should be read in conjunction with the chapters on tackling corruption (chapter 14), education (chapter 9), health (chapter 10), economic infrastructure (chapter 4) and rural development (chapter 6), which all identify improvements the state needs to make to deliver on its objectives. Chapter 3 includes recommendations on public-sector pay.

Progress so far

Since 1994, South Africa has made significant progress in building the structures of a democratic state. The fragmented apartheid governance structures have been consolidated into a system designed to serve developmental objectives. The composition of the public service and local government has been transformed to better represent the entire population. Democracy has laid the basis for greater accountability of the state to its citizens, and there is a crucial role for Parliament and Chapter 9 institutions in exercising oversight, holding government to account and enabling public participation. The state has successfully restructured public finances, created an effective tax system, and built an independent and credible reserve bank. The state has made significant progress in the provision of basic services such as housing, water and electricity. Some departments have also made dramatic progress in improving service delivery; for example, the Department of Home Affairs has achieved significant reductions in the time taken to issue identity books. The foundations have been laid, but weaknesses in how these structures function constrain the state's ability to pursue developmental objectives.

The challenge

The main challenge has been unevenness in capacity that leads to uneven performance in local, provincial and national government. This is caused by a complex set of factors, including tensions in the political-administrative interface, instability of the administrative leadership, skills deficits, the erosion of accountability and authority, poor organisational design and low staff morale. The weaknesses in capacity and performance are most serious in historically disadvantaged areas, where state intervention is most needed to improve people's quality of life. There have been many individual initiatives, but there is a tendency to jump from one quick fix or policy fad to the next. These frequent changes have created instability in organisational structures and policy approaches that further strain limited capacity.

The search for a quick fix has diverted attention from more fundamental priorities. A deficit in skills and professionalism affects all elements of the public service. At senior levels, reporting and recruitment structures have allowed for too much political interference in selecting and managing senior staff. The result has been unnecessary turbulence in senior posts, which has undermined the morale of public servants and citizens' confidence in the state. At junior levels, there has been insufficient focus on providing stimulating career paths that ensure the reproduction of skills and foster a sense of professional common purpose. The state needs a

clear vision for where the next generation of public servants will come from and how specialist professional skills will be reproduced. Weak managerial capacity and lack of leadership prevent these issues being addressed.

South Africa has struggled to achieve constructive relations between local, provincial and national government. A lack of clarity about the division of responsibilities together with a reluctance to manage the system has created tension and instability across the three spheres of government. There is no consensus on how this is going to be resolved and there is a lack of leadership in finding appropriate solutions. These coordination problems are not unique to South Africa.

The issue is how they are dealt with. New initiatives have often been ad hoc, with responses to individual problems being implemented without adequate consideration of the cumulative effect. This has resulted in public servants becoming increasingly overburdened with paperwork. Initiatives targeted at preventing misconduct often focus on restricting the scope for discretion, but this has the unintended consequence of limiting the scope for innovation. Reforms are needed that will enable people to do their jobs by strengthening skills, enhancing morale, clarifying lines of accountability and building an ethos of public service.

2030 vision

To address the twin challenges of poverty and inequality, the state needs to play a transformative and developmental role. This requires well-run and effectively coordinated state institutions with skilled public servants who are committed to the public good and capable of delivering consistently high-quality services, while prioritising the nation's developmental objectives. This will enable people from all sections of society to have confidence in the state, which in turn will reinforce the state's effectiveness. This vision requires a capable and developmental state: capable in that it has the capacity to formulate and implement policies that serve the national interest; developmental in that those policies focus on overcoming the root causes of poverty and inequality, and building the state's capacity to fulfil this role. The National Development Plan highlights the need for a developmental state that is capable of driving the country's development. Building state capacity is the most important step to achieve a developmental state. However, the plan also recognises that not all capable states are developmental and so emphasises the importance of building a capable and developmental state within a vibrant democratic system.

A developmental state brings about rapid and sustainable transformation in a country's economic and/or social conditions through active, intensive and effective intervention in the structural causes of economic or social underdevelopment. Developmental states are active. They do not simply produce regulations and legislation. They constantly strive to improve the quality of what they do by building their own capacity and learning from experience. They also recognise the importance of building constructive relations with all sectors of society, while insulating themselves from capture by sectional interests.

Developmental states have been created in both authoritarian and democratic countries. In many cases, democracy has been crucial in ensuring the state has sufficient legitimacy to bring about transformation. This is particularly important in South Africa where, as the plan identi-fies, one of the most critical roles of the state is to enable people to develop their capabilities. A robust democracy is therefore not just compatible with building a capable and developmental state, it is an essential

prerequisite for the sort of developmental state needed to tackle poverty and inequality.

What needs to be done

South Africa needs to focus on building a capable and developmental state. The experience of other countries shows that this cannot be done overnight. Measures will have to be strengthened over time. There are eight areas where targeted action is particularly important:

- **Stabilise the political-administrative interface**. Build a professional public service that serves government, but is sufficiently autonomous to be insulated from political patronage. This requires a clearer separation between the roles of the political principal and the administrative head.

- **Make the public service and local government administration careers of choice**. Build a skilled and professional public service from both the top and the bottom. At senior levels, recruitment and management should be based on experience and expertise, while at junior levels the focus should be on developing the skills and expertise that will be necessary for future public-service cohorts.

- **Develop technical and specialist professional skills.** Reinvigorate the state's role in producing the specialist technical skills to fulfil its core functions. Develop appropriate career paths for technical specialists.

- **Strengthen delegation, accountability and oversight.** Promote greater and more consistent delegation supported by systems of support and oversight. Make it easier for citizens to hold public servants and politicians accountable, particularly for the quality of service delivery. Ensure effective oversight of government through parliamentary processes.

- **Improve interdepartmental coordination.** Adopt a less hierarchical approach to interdepartmental coordination so that most issues can be resolved between officials through routine day-to-day interactions. Strengthen the cluster system and the role of the Presidency in resolving strategic issues.

- **Take a proactive approach to improving relations between national, provincial and local government.** The state needs to recognise the wide variation in capacity, particularly at municipal level, and devolve greater responsibilities where capacity exists, while building capacity in other areas. Where capacity is more limited, particularly in many rural areas, municipalities should be allowed to focus on their core functions and not be burdened with too many extra responsibilities. A more pragmatic fit between roles and capacity will only partly resolve challenges in the intergovernmental system. It is inevitable that there will be disagreements about how responsibilities are divided, and national government should intervene when necessary to mediate disputes.

- **Strengthen local government.** Develop an enabling framework for local government with active support and oversight from national and provincial government. Take a more long-term approach to developing skills together with a professional ethos and commitment to public service. Mainstream citizen participation.

- **Clarify the governance of SOEs.** The major SOEs need clear public-interest mandates and straightforward governance structures that enable them to balance and reconcile their economic and social objectives.

STABILISE THE POLITICAL-ADMINISTRATIVE INTERFACE

All democratic regimes have to balance the need for public servants to be responsive to the priorities of the government of the day with the need for the public service to treat citizens equally and not discriminate on grounds of political allegiance. Where the public service is too insulated from political pressures, there are likely to be concerns that it is failing to serve the interests of the government of the day and therefore not fulfilling its democratic mandate. However, where the public service is insufficiently insulated, standards can be undermined as public servants are recruited on the basis of political connections rather than skills and expertise, or access to state resources and services becomes defined by political affiliation rather than citizenship. Countries have sought different ways to balance these two extremes.

Following the end of apartheid, there was good reason to give political principals wide-ranging influence over the public service to promote rapid transformation of a public service that had previously represented a minority of the population. Having achieved significant improvements in the representivity of the public service, attention now needs to shift to ensuring the public service is adequately equipped to play its part in transforming society. The Municipal Systems Amendment Act (2011) introduced a prohibition on municipal managers, or senior managers who report directly to the municipal manager, holding political office in a political party. This suggests a growing recognition of the need to achieve a clearer demarcation between the administrative and the political.

Many of government's best-performing institutions are characterised by their stability of leadership and policy approach. However, lack of clarity about the division of roles and responsibilities between political principals and administrative heads often undermines this stability. Although public servants work for elected leaders, their role is non-partisan and the potential to forge a collective professional identity as public servants requires that this distinction is kept clear. In South Africa, the current approach to appointments blurs the lines of accountability. The requirement for Cabinet to approve the appointment of heads of department makes it unclear whether they are accountable to their minister, to Cabinet or to the ruling party.

Where the minister makes appointments below the level of director-general, it becomes unclear whether these officials report to the director-general or to the minister. This makes it difficult for directors-general to carry out their day-to-day responsibilities in running the department. Reforms are needed to ensure that directors-general are accountable to their minister, and that departmental staff are accountable to their director-general.

To stabilise the political-administrative interface, we propose the following:

- Strengthen the role of the Public Service Commission (PSC) in championing norms and standards, and monitoring recruitment processes.
- Create an administrative head of the public service with responsibility for managing the career progression of heads of department, including convening panels for recruitment, performance assessments and disciplinary procedures.
- Use a hybrid approach for top appointments that allows for the reconciliation of administrative and political priorities.
- Use a purely administrative approach for lower-level appointments, giving senior officials full authority to appoint staff in their departments.

Strengthen the role of the Public Service Commission

In many countries of the Organisation for Economic

Cooperation and Development (OECD), public service commissions fulfil an advisory and oversight role, ensuring that norms and standards are followed, without themselves being involved in selection processes. In other cases, the public service commission plays a more active role. For example, in the United States, the commission is responsible for appeals, while in much of South Asia it has direct responsibility for recruitment. In South Africa, the PSC is assigned an advisory and oversight role, which includes promoting the values of the public service and investigating breaches of procedure. To fulfil this role, the PSC needs to be a robust champion of a meritocratic public service with a stronger oversight role.

The powers of the PSC are set out in chapter 10 of the Constitution. This gives it the independence that comes from reporting to Parliament. However, the parliamentary *Report of the ad hoc Committee on the Review of Chapter 9 and Associated Institutions* raised the concern that the reports produced by the PSC could only be as effective as the will of the executive to act on those proposals. The effectiveness of the PSC therefore depends on whether Parliament picks up the issues it raises and the Portfolio Committee on Public Service and Administration has a critical role to play in ensuring the PSC's proposals are given adequate attention. Consideration could also be given to whether the relevant departments should be required to respond to proposals raised by the PSC to clarify which proposals will be taken on board and how they will be implemented.

The Constitution also provides for a stronger role for the PSC in upholding the principles of public administration set out in the Constitution through the power "to give directions aimed at ensuring that personnel procedures relating to recruitment, transfers, promotions and dismissals comply with the values and principles" set out in the Constitution. Consideration should also be given to how to strengthen the scope for enforcing other PSC recommendations, linked to penalties for non-implementation where appropriate.

In many other countries public service commissions fall under the executive arm of government. In South Africa, the PSC has a greater degree of independence by virtue of being accountable to Parliament, but to do its work effectively it also needs to have a strong relationship with the executive. This involves a careful balancing act so that the PSC can combine robust independence with sufficient engagement with government structures. The Office of the Public Service Commission, which is the administrative arm of the PSC, is partially dependent on the executive for the appointment of its director-general and the allocation of its budget. This provides some important benefits including the scope to participate in the Governance and Administration Cluster and to submit memoranda to Cabinet, but there is also the potential for these links to compromise the PSC's independence. These are issues that may need to be reflected on going forwards.

It would be counterproductive to give the PSC a far-reaching direct role in recruitment, because an overly centralised recruitment system would make it more difficult for departments to recruit their staff and undermine the ability of departmental heads to formulate a strategic direction for their own departments. However, the PSC should play a direct role in the recruitment of the most senior posts. The chair of the PSC, together with the proposed administrative head of the public service, should convene the selection panel for heads of department and their deputies. This would allow for a transparent process that could reinforce confidence in the way heads of department are appointed. The proposal for a hybrid approach to top appointments later in this chapter suggests how

such a role could be reconciled with the need to ensure senior public servants enjoy the confidence of their political principals.

An administrative head of the public service

To help stabilise the political-administrative interface, we propose the creation of an administrative head of the public service. Many countries have such a post, including Kenya, Ghana, Nigeria, Singapore and the United Kingdom. The administrative head of the public service usually has two main roles: (1) ensuring the effective overall management of the public service and (2) managing the career progression of heads of department. This typically includes convening panels for recruitment processes, performance assessments and disciplinary procedures. The decisions or recommendations of an administrative head of the public service are typically subject to the ultimate approval of the executive authority.

This post would allow for standard procedures to be applied in managing the career progression of heads of department without undermining the political oversight of senior public servants. Indeed, it should help to strengthen oversight by making it easier to identify whether heads of department are performing effectively, and whether the relevant norms and standards are being adhered to. Since the administrative head of the public service would interact with all heads of department, it would also provide him/her with the opportunity to identify broader challenges in the operation of the public service and facilitate better coordination.

The political-administrative interface will necessarily remain contested terrain, and so an important role of the administrative head of the public service would be to mediate issues that arise. As a starting point, this could include organising facilitated workshops that include ministers and heads of department as a means of demarcating roles and responsibilities, and the ground rules of the relationship.

Measures have already been taken to strengthen coordination through the Forum of South African Directors-General, cluster meetings and the creation of the Department of Performance Monitoring and Evaluation. It would therefore be a natural progression to align the new role with these existing structures by locating the administrative head of the public service within the Presidency. The role could either be assigned to an existing director-general, such as the director-general in the Presidency or the director-general in the Office of the Deputy President, or a new post could be created.

International experience suggests the role might have greater authority if it is combined with an existing and recognised post. In many cases, the administrative head of the public service is also Cabinet secretary. This helps to ensure access to the head of government, which is essential if the advisory nature of the role is to operate effectively. At provincial level, an equivalent post could be located in the Office of the Premier: the director-general in the Office of the Premier would come under the administrative head of the public service in the Presidency while provincial heads of department would come under the director-general in the Office of the Premier. The provincial head could also play an oversight role in relation to the recruitment and performance of municipal managers in that province. With increased delegation to large cities, it may also be important for there to be direct interaction between the national administrative head of the public service and the municipal managers for the largest metropolitan municipalities.

While submissions to the National Planning

Commission have been largely supportive of the proposal to create an administrative head of the public service, they have also stressed that the role should not displace or confuse the line of accountability between a director-general and his/her political principal. The Commission believes that the revised proposal presented here – for the administrative head to be responsible for managing the career progression of heads of department – not only avoids this problem but could actually help to strengthen the lines of democratic accountability by allowing for more consistent oversight. Creating this post would require an amendment to the Public Service Act (1994), which stipulates that responsibility for managing the career incidents of heads of department resides with the President at national level and with the premiers at provincial level.

A hybrid approach to top appointments

For top appointments, the recruitment system needs to be capable of ensuring that a political principal has confidence in his/her head of department, that heads of department have the necessary experience and expertise, and that the appointment is seen to be fair and based on merit. To achieve this balance, the plan proposes a hybrid model similar to that used in Belgium. A selection panel convened by the chair of the PSC and the administrative head of the public service would draw up a shortlist of suitable candidates for senior posts, from which the political principal would select a candidate. This allows independent oversight to ensure that candidates are suitably qualified, while also ensuring that the final selection is compatible with the priorities of the political principal. The selection panel should draw on the information that is available from the competency tests used for senior managers.

In the longer term, this process could be combined with greater job security for directors-general and heads of department, as long as there are robust performance-management mechanisms. Fixed-term contracts are necessary when heads of department are political appointments, but they contribute to organisational instability and make it more difficult to build an experienced senior-management cadre. Greater security of contract is only desirable provided people can be removed if their performance does not meet the required standard. This means greater job security should only be considered once there is confidence that performance-management mechanisms are robust. In the interim, however, it would be beneficial to favour five-year contracts over three-year contracts, which are too short and create too much instability. Even five-year contracts are short for many of the long-term changes that departments need to make and there should be discussion at an early stage of the scope for renewing where a director-general is performing well. This would make it easier to plan over a longer period. Where contracts are not renewed, the administrative head of the public service could play an important role in deciding whether the director-general's track record suggests his/her skills would be beneficial for another department or other parts of the state including municipalities.

Give senior managers authority over appointments

The Public Service Act situates a number of human-resources functions with political principals. Political principals are able to delegate these functions to their director-general or head of department at their discretion. In many cases, the political principal chooses not to delegate these powers. This creates a tension with the Public Finance Management Act (1999), which holds the accounting officer responsible for financial issues, meaning managers are answerable for issues over which they have limited control. It also leads to instability, as the degree of delegation can vary with each change of

minister. This prevents senior managers delegating authority to their line managers on a sustainable basis. We therefore recommend a greater and more consistent devolution of authority for administrative matters from political principals to their heads of department, and from the head of department to managers.

To achieve this shift, the plan proposes that the Public Service Act be amended to locate responsibility for human-resources management functions with the head of department. This would make it easier for heads of department to delegate greater authority for appointments to the appropriate line managers. The complexity of the appointment process means it often takes departments nine months to fill a vacancy. The approval of the head of department is often required at five different stages, rather than simply once at the beginning and once at the end. As a result, departments often avoid recruiting altogether, particularly for junior posts. This leads to an increased reliance on consultants and stymies the development of new skills and experience. It can also increase the temptation to circumvent official processes.

At local government level, the involvement of mayors and members of mayoral committees in recruiting senior managers who report to the municipal manager often complicates the line of accountability between senior managers and the municipal manager. It also raises problems when regional party structures seek to influence

STEPS TO STABILISE THE POLITICAL-ADMINISTRATIVE INTERFACE

- Ensure the public service is immersed in the development agenda but insulated from undue political interference.
- Strengthen the oversight role of the PSC by requiring departments to respond to PSC proposals and giving greater force to PSC recommendations.
- Create an administrative head of the public service with responsibility for managing the career progression of heads of department including convening panels for recruitment processes, performance assessments and disciplinary procedures. At provincial level, the same role should be played by the director-general in the Office of the Premier.
- Use a selection panel convened by the chair of the PSC and the administrative head of the public service to draw up a shortlist of suitable candidates for top posts. The selection panel should make use of competency tests and other assessment mechanisms.
- Move towards more long-term contracts for heads of department and reduce the use of three year contracts.
- Amend the Public Service Act to locate responsibility for human-resources management with the head of department.

appointments, as senior managers are then effectively accountable to neither the municipal manager nor the mayor.

MAKE THE PUBLIC SERVICE AND LOCAL GOVERNMENT CAREERS OF CHOICE

The public service should attract highly skilled people and cultivate a sense of professional common purpose and a commitment to developmental goals. To achieve this, South Africa needs a two-pronged approach to building a more professional public service from the top and the bottom. It needs to increase the pool of skilled people by ensuring that the public service and local government become careers of choice for graduates who wish to contribute to the development of the country, and ensure that high-level staff are recruited on the basis of their suitability for the job.

A professional public service is one where people are recruited and promoted on the basis of merit and potential, rather than connections or political allegiance. This requires rigorous and transparent recruitment mechanisms. However, the public service will not be effective if it is elitist and aloof. Public servants need to have an in-depth understanding of the sections of society with which they work. A highly skilled public service should also be representative of, and connected to, the communities it serves.

The Department of Public Service and Administration (DPSA) has highlighted as one of its 10 strategic priorities the need for "effective entry into the public service and human resource development standards to ensure cadre development". This will require a shift from isolated training initiatives to a long-term approach to recruiting people with relevant aptitude and developing their skills over the course of their careers. It also requires mechanisms for anticipating shortfalls in specialist and technical skills, so that the state can take a proactive role in developing professional expertise.

The tendency has been to value people who already have relevant experience and expertise. Where these skills are not available internally, departments often rely on outside consultants. This is a short-sighted approach that does not address where the next generation of senior public servants and technical specialists will come from. While promising graduates struggle to identify how they can embark on a career in the public service, departments have become top-heavy because of their inability to fill junior posts.

Building a skilled and professional public service requires a vision of how public servants' experience and expertise will develop during their careers. Jobs should be sufficiently stimulating and challenging to ensure people are constantly developing their skills. Recruitment and promotion processes need to emphasise skill and experience, and the state needs to focus on its role in producing and enhancing skills. Below, we set out proposals for how this can be achieved:

- A formal graduate recruitment scheme for the public service
- A career path for local government
- Make adequate experience a prerequisite for senior posts
- A long-term perspective on training and management
- Improve the systems for skills development.

A formal graduate recruitment scheme for the public service

Graduates leaving university in 2012 are part of the pool from which senior managers will be drawn in 2030, while children starting school in 2012 will

form the cohort of aspiring entrants into the public service in 2030. South Africa needs a strategy for recruiting dedicated young people, developing their skills and building an ethos of public service.

The public service has pockets of excellence, where recruitment is highly competitive and people aspire to work, but many departments struggle to recruit appropriate people. Multiple internship schemes have been introduced. In the best cases, these provide an entry point that can be the start of fruitful careers. However, these schemes are linked to specific departments and work best in departments that are already performing well. In addition, because each internship scheme employs small numbers of people, they are not widely known and are too small-scale to transform perceptions of the public service as a career opportunity.

We recommend initiating a formal graduate recruitment scheme to attract graduates into government departments by offering stimulating and rewarding career paths. This scheme should coexist with, rather than replace, other routes into the public service.

Many countries have formalised systems for entry into the public service. Some, such as the Indian Administrative Service, pursue a centralised approach, with emphasis on a mobile cohort of elite civil servants who can be deployed anywhere across government. The difficulty with this is that public servants are moved too often and never manage to build a detailed knowledge of how things work in a particular department. This has contributed to the formation of a state that produces elegant policy documents, but struggles with implementation.

The United Kingdom's Civil Service Fast Stream places recruits in specific departments. This has two major advantages. Graduate recruits can gain experience from a range of jobs within one department. As their careers progress, they develop a stronger understanding of how the department works. It also allows greater autonomy for departments and graduate recruits. Recruits are given an opportunity to shortlist their preferred departments and offered a post in a particular department. Departments have a say in which people they take from the scheme. Similar approaches have also been used in Canada and Japan.

For the scheme to succeed, departments must have confidence in the calibre of the applicants. It should begin with a select number of outstanding recruits in the first years, with the pool increasing gradually. Recruitment should be based on a rigorous meritocratic process that draws on a range of assessment mechanisms such as exams, group exercises and interviews. Rigorous assessment mechanisms would help to build the scheme's credibility with both departments and applicants.

A graduate recruitment programme recruits people on the basis of potential, and therefore needs to provide mechanisms for on-the-job learning and support. Graduate recruits should be given focused areas of responsibility that enable them to develop specific expertise early in their career. This means the quality of management within departments will be important for the success of the scheme. There also needs to be a central strategy for providing training, mentoring and support throughout the first years on the scheme. A common approach to recruiting and training graduates across departments would also enable new entrants to share experiences in a neutral forum in which they can discuss challenges. A formal graduate recruitment programme could also help improve coordination between government departments by enabling staff to form networks across departments. In other countries, such networks

have helped to foster a shared ethos of public service.

It is important for recruits to develop experience of both policy formulation and implementation early in their career. A formalised graduate recruitment programme should expose recruits to a range of posts within the national department and involve an extended placement in an equivalent function at provincial or local level. Provincial departments and municipalities would benefit from the secondment of staff with knowledge of the policy priorities and operating methods of the national department, while the national department would benefit from staff developing a detailed knowledge of the workings and challenges of provincial and local government. Once the scheme is established, recruits could also be placed directly with provincial departments.

The public service should be both skilled and representative. There is no inherent tension between these two objectives. Affirmative action has helped make the public service broadly representative of the country's population, although Africans are better represented in more junior posts. Affirmative action places greater emphasis on potential. This makes it particularly important that there are strong managerial and human-resources processes for selection, mentoring, training and career development. A formalised graduate recruitment scheme could therefore enhance the effectiveness of affirmative action.

A formalised recruitment scheme could be marketed widely with targeted recruitment programmes at universities, where recent recruits talk to students about their experience of being a public servant. Recruitment drives could be linked to the promotion of existing internship schemes that enable students and recent graduates to gain experience of working in government. Internship schemes could also target people from disadvantaged backgrounds to promote representivity.

A career path for local government

A separate strategy is needed to recruit high-calibre people into local government. It is in the interests of all spheres of government to ensure sufficient capacity exists to implement core government priorities and responsibilities, particularly ensuring that everyone has access to high-quality basic services. Yet, skills shortages are most evident in local government, especially in rural municipalities. Municipalities require a flow of promising graduates if they are to manage their core functions. This should be a priority for national government, but imposing a solution on local government will not be effective.

While there are internship programmes for specific skills gaps, there is no overarching mechanism for recruiting graduates into local government. The autonomy of local government means such a scheme would need to be different to the national government programme. In the United Kingdom, difficulty in getting high-calibre graduates to join local government resulted in the National Graduate Development Programme being set up. The programme is run centrally and local governments can choose to participate by employing people recruited through the scheme. Recruits are employed by the local government they work for, but receive training over a period of two years through the central programme, which provides an opportunity to bring the recruits together to share experiences.

In South Africa, local governments should be offered the opportunity to recruit graduates through a formal scheme. A formal recruitment scheme for local government should start gradually,

with a small number of municipalities and recruits so that it can develop on a demand-led basis. If it provides people who are valued by municipalities, the demand for graduates will increase. Similarly, if graduates have a positive experience, more recruits will be attracted. Recruitment should draw on formal assessment mechanisms including exams, which play an important role in strengthening the credibility of recruitment mechanisms.

For this approach to be successful, municipalities will also need to provide adequate training and support for recruits. This means greater attention needs to be given to ensuring municipalities have the necessary human resources and managerial systems in place to provide attractive work environments that are conducive to long-term skills development (see a plan to strengthen local government, later in this chapter).

Make adequate experience a prerequisite for senior posts

Skills, a professional ethic and a commitment to public service should be recognised and valued at all levels of the public service and local government. Many skills can only be developed on the job, but staff are often promoted too rapidly, before acquiring the experience needed for senior posts. As a result, the public service has become top-heavy. This is in part a reflection of skills shortages in broader society; but specific interventions within the public service can help ameliorate this.

Where the authority and experience attached to posts has been downgraded over time, salaries are high for the work required. For example, deputy director used to be considered a senior post, but today people can enter the post straight out of university on a salary higher than in many developed countries or equivalent posts in the private sector. This increases the pressure on higher ranking staff and, in turn, increases the proportion of work that is contracted out to highly paid consultants who are often former public servants. Policy work becomes about commissioning consultants and managing contracts, rather than engaging directly in policy analysis. The result is a widening gap between policy formulation and implementation.

Rapid promotions also mean people are thrown into management positions too quickly, making it harder to supervise junior staff and nurture their professional development, limiting the ability of the public service to produce the skills it needs. A formalised graduate recruitment process needs to be linked to a clearer and more graduated approach to career development. Rigid criteria can make recruiting and retaining good staff unnecessarily difficult, so it may be counterproductive to have strict requirements for particular grades. It is more constructive to focus on making mid-level posts more attractive, so that staff can build their skills, experience and understanding before rising to more senior posts. Those with a clear aptitude for management should not be prevented from rising rapidly, but such cases should be exceptional, with promotions placing much greater emphasis on experience and depth of expertise. Appropriate assessment mechanisms can help to build confidence in the system for promotions.

As part of this emphasis on the experience and expertise required to operate effectively in senior posts, it would be valuable to look at possible mechanisms for facilitating secondment into a different sphere of government. As highlighted above (see a formal recruitment scheme for the public service), secondments could both help to address skills shortages at the provincial and municipal levels, and help to develop better understanding and stronger relations between the different spheres. The Municipal Systems Amendment Act (2011) provides provision for

secondments to local government where municipalities are unable to recruit suitable people as senior managers.

Staff are more likely to accept gradual promotions if they feel fulfilled in their job and are confident that consistent and transparent criteria are applied to promotions. This will be difficult to achieve as long as there is a perception that senior posts are not always allocated on the basis of relevant expertise and experience.

A long-term perspective on training and management

New recruits cannot be expected to have all the necessary skills. There needs to be a vision of how public servants can develop their skills over the course of their career. Greater clarity about career paths, a less hierarchical approach, training and good management are essential.

Effective training is empowering and makes people feel valued. It fosters a shared understanding of basic principles, gives people a chance to develop specific skills or knowledge and allows a neutral environment in which workers can discuss the challenges they face. A one-size-fits-all approach to training will not be able to achieve these objectives. Training should include a standard element that builds a common understanding of the role and ethos of the public service. However, most training should be tailored to the needs of the individual. This requires a range of options from a range of providers. Rather than trying to centralise all training through a single provider, training responsibility should lie where the policy expertise is located. Rather than creating new training bodies, the focus should be on drawing on existing expertise. This should include using government departments to provide training in areas where they have specialist expertise, as well as partnerships with universities and professional associations. A central agency such as the Public Administration Leadership and Management Academy (PALAMA) would then have a critical role to play in identifying training needs and ensuring information is available on the different training options and their quality.

Implementing an effective training programme requires good management and strong human-resources capability with specialists who understand their role and, critically, its limitations. Human resources is principally an advisory function designed to provide managers with expert support and enable them to do their job. It is in this enabling role that human-resources functions are currently weakest.

Good management turns aspirational policies into implementable strategies by making optimal use of the financial, human and physical resources that are available. Good managers work closely with their staff to develop a common understanding of how processes work and how they can be simplified to ensure that everybody knows their responsibilities, and how these contribute to the wider objectives of the department. They seek ways to delegate responsibilities and build the capacity of their staff to fulfil those functions. Managers need to become more accessible to their staff. This is particularly important for managers with direct responsibility for service delivery who need to interact regularly with staff at the coalface.

The routines of good management are often missing, in many cases because of the absence of coherent implementation strategies. However, there is no quick or easy solution for improving management standards. There needs to be a production line of skills to create an adequate pool of experienced people from whom managers can be drawn. Managers need experience and expertise in the area they are managing. They also need to be clear about their roles and the powers available to them, and adequately supported to do

their jobs. Greater clarity about the division of responsibilities between political principals and senior managers will make it easier for managers to understand and exercise their powers effectively.

For managers, minimal core training should cover the responsibilities of their grade and the tools and support mechanisms that are available to them. Beyond this, a diverse range of training needs to be provided. It could include leadership training for senior-level managers, a mentoring function that allows them to draw on the expertise of retired

MAKING IT WORK

The importance of improving management and operations systems

- In January 2008, the Department of Home Affairs began a reform process that reduced the time a citizen would wait for an identity book from over four months to less than six weeks. This was achieved by promoting greater collaboration, clearly outlining achievable and relevant targets, frequently measuring performance and ensuring employees understood the entire process and the importance of their role in it. The identity document production process was simplified. Senior staff became more visibly involved, which boosted morale and fostered a culture of unity and service. The result was a clean audit, improved service and citizens' growing recognition of the department's achievements.

- The South African Revenue Service is a leading government institution. Its transformation from an unwieldy set of internal directorates to an integrated and autonomous body greatly increased revenue collection. Its successes in widening the tax net and ensuring tax compliance can be attributed to high-level support and building a motivated and skilled staff base. The institution was quick to realise that collection would improve if they were seen as proficient at catching tax evaders, while providing an efficient service to those who complied. It simplified procedures and tailored its actions to local conditions. The South African Revenue Service now has a consulting division that is assisting other government departments in improving their systems.

- The difficulties faced by public hospitals are well known, but there are important lessons from reform processes in individual hospitals. These have been most effective where they were inclusive and focused on achieving visible improvements. Without changing resource levels or staffing, processes can be refined by addressing centralised control and silo structures, and focusing on health objectives. Pilot programmes have shown that relatively simple changes to operational systems in outpatient departments and pharmaceutical dispensaries can significantly reduce waiting times.

These examples are based on:

- Hausman D (2010). Reforming without hiring or firing: identity document production, South Africa 2007–2009. *Innovations for Successful Societies.* Princeton University.
- National Planning Commission (2011). *Institutions and Governance Diagnostic.*
- Smith L (2003). The power of politics: The performance of the South African Revenue Service and some of its implications. *Policy: Issues and Actors,* 16(2).
- Von Holdt K, Smith M & Molaba M (2011). Transforming hospital functioning: an assessment of the surgical division transformation project at Chris Hani Baragwanath Hospital in *Service Delivery Research Report.* Office of the Presidency.

Impove the systems for skills development

To professionalise the public service and local government, the state needs to address weaknesses in recruitment, training, management and human resources. This requires a more coherent and long-term approach to ensure workplaces provide a conducive environment for skills development. Historically, developmental states have proactively sought to build their own capacity. Post-apartheid South Africa has made very little effort in this direction, partly as a reaction to the centralised apartheid-era model of the public service. The state has tended to assume that it has to choose between centralisation and decentralisation, but this is a false dichotomy. Decisions can be taken at the lowest possible level in order to strengthen the link between decision-making and implementation. However, this does not preclude a central role in building the systems of a capable, developmental and ethical public service.

At national level, it is often assumed that PALAMA is responsible for professionalising the public service. However, PALAMA was set up as a training institute equipped to run short-term courses. Expecting it to deal with all skills-development issues risks over-burdening PALAMA with responsibilities that fall outside its core mandate. PALAMA is constrained by its demand-led funding model. Its reliance on buying in training capacity means trainers do not always have adequate knowledge of the public sector. Consideration should be given to repositioning PALAMA within the DPSA or developing mechanisms to enable the DPSA to exercise a degree of oversight so that PALAMA's work can be better aligned with the wider objectives of professionalising the public service. It would then be easier to redesign PALAMA's funding and training model so that it receives core funding for training provided by in-house staff.

If PALAMA and the other training institutes are to focus on their core priority of delivering quality training courses, it is important that the relevant national departments – particularly the DPSA and the Department of Cooperative Governance – play an active role in driving professionalisation and skills development in the public service and local government respectively. These departments also need to coordinate with the other government agencies that play a role in skills development. This would mean supplementing their current role, which relates primarily to regulation and oversight, with a stronger role in implementing long-term skills-development strategies, such as developing recruitment systems and human-resources capacity. This would also help to build up the ground-level knowledge and profile of these departments, and so help to strengthen their regulatory and oversight functions. An important first step might be to initiate regular discussions with departments on what support or interventions are needed to strengthen their administrative capacity. Monitoring mechanisms such as the Department of Performance Monitoring and Evaluation's management performance assessment tool could be used as a basis for initiating such discussions and identifying appropriate interventions.

STEPS TO MAKE THE PUBLIC SERVICE AND LOCAL GOVERNMENT CAREERS OF CHOICE

- Ensure staff at all levels have the skills, authority and support they need to do their jobs. Develop a shared ethos of public service.
- Establish a formal graduate recruitment scheme for the public service and a parallel scheme for local government with provision for mentoring, training and reflection.
- Use assessment mechanisms such as exams, group exercises and interviews to build confidence in recruitment systems.
- Ensure new recruits are supported by high-quality management and training both centrally and within their departments or municipalities.
- Use placements and secondments to enable staff to develop experience of working in other spheres of government.
- Position PALAMA's role in providing training within a wider professionalisation agenda led by the relevant government departments and ensure that core training is provided by in-house staff.
- Make use of existing expertise particularly in government departments and universities to provide specialist training.
- Develop mentoring and peer-review mechanisms for senior managers.
- A stronger role for the main governance and administration departments in long-term skills development strategies, such as developing recruitment systems and human resources capacity.

DEVELOP TECHNICAL AND SPECIALIST PROFESSIONAL SKILLS

Services cannot be delivered without people with the necessary specialist skills – whether they are nurses, doctors, engineers, planners or artisans. There is a shortage of professional skills in government, particularly at the local level. Municipalities require engineers to build, maintain and operate infrastructure. Even when these functions are contracted out, municipalities need to have the technical expertise to commission and oversee contractors.

Efforts to extend access to basic services have not been accompanied by a comparable focus on ensuring the emergence of skilled professionals. In the apartheid era, the state played an active role in producing professionals. Graduate engineers and trainee technicians could enter the public service and obtain sufficient recognised experience, under the guidance of a qualified professional, to enable them to register as engineering technicians and professional engineers. As the initiator of many major infrastructure projects, the public sector was best placed to plan such recruitment and training programmes. Many entrants were on public-sector bursaries, with an obligation to work to pay them back. The skills they developed benefited both the public sector and broader industry. Although such bursaries may still be funded, the public service can no longer provide the required professional training since most work is contracted out and there are few qualified professionals available to provide direction and supervision.

The wider problem of ambivalence towards skill in the public service means professionals in government institutions feel undervalued. Tensions arise because professional conduct cannot easily be monitored through standardised systems for performance management. In fields such as engineering, where public safety and related

financial risks are involved, it is important that only professionally registered persons be permitted to undertake certain tasks in the implementation of projects. The profession needs to play a strong role in monitoring, regulating and maintaining its standards through professional councils and associations. This role should be protected and promoted.

We propose the following:

- Strengthen the state's role in developing technical skills
- Develop career paths for technical specialists
- Ensure procurement systems deliver value for money.

Strengthen the state's role in developing technical skills

There needs to be a clear strategy to produce and develop skilled professionals combined with a work environment in which professional expertise is recognised and valued. The production of technical skills is a long-term commitment. Government needs to anticipate skills shortages and develop training programmes accordingly. This will need coordinated planning by government, in conjunction with training institutions and professional councils and associations.

Increased outsourcing has reduced the emphasis on junior posts, without which there can be no production line for producing experienced professionals. The solution needs to start with apprenticeships, where new entrants can learn practical skills. Bursaries should be made available on a competitive basis for those apprentices with the aptitude to engage in further formal training. Graduate training schemes should be linked to the staffing needs of departments, so that trainees have a clear sense of how their career could develop if they perform well.

Experienced professionals need to mentor trainees. Where there is a shortage of potential mentors within departments, experienced professionals will need to be located from elsewhere. This could involve partnerships with professional associations and firms, or employing retired professionals on a part time basis.

Career paths for technical specialists

To retain experienced professionals, South Africa needs career paths that enable experienced technical specialists to continue as practitioners without having to divert into management careers in order to achieve promotions, so that they can focus on project work and training less experienced staff.

Those appointed to management positions that require professional expertise should have sufficient technical knowledge, along with relevant management experience, to understand the challenges faced by technical specialists and to secure their respect. Divisions such as human resources, supply chain, stores and systems should play a supporting and enabling role to operational line management driven by professionals.

Ensure procurement systems deliver value for money

The state's ability to purchase what it needs on time at the right quality and for the right price is central to its ability to deliver on its priorities. Public-sector procurement expenditure also needs to be used to drive national priorities such as localisation and economic transformation. Procurement systems tend to focus on procedural compliance rather than value for money, and place an excessive burden on weak support functions.

We propose five areas to focus on in designing a procurement system that is better able to deliver value for money, while minimising the scope for

corruption. The proposals should be read in conjunction with those in chapter 3, which deal with how procurement can contribute to broader developmental priorities and chapter 14 on tackling corruption.

- **Differentiate between different forms of procurement.** The procurement of goods, services and infrastructure all pose different challenges and the required skills sets vary according to context. For routine purchases of standard goods, framework agreements can be used or it may be beneficial to have a database of approved providers and standard prices – goods could then be procured on a rotational basis from the preapproved suppliers at preapproved prices. By contrast, infrastructure procurement involves conceptual design, structuring contracts and ensuring sustainability. As these decisions involve long-term lock-ins, the quality of decision-making is vital. Work is being done between National Treasury and the Construction Industry Development Board to establish an infrastructure delivery management system to develop systems that better accommodate the particular challenges of infrastructure procurement.

- **Strategise by elevating trade-offs above the project level.** The state's procurement expenditure must be used to push transformation, but it also needs to be realistic about the ability of creaking procurement systems to balance multiple priorities. A long-term perspective would make it easier to reconcile competing priorities. In some cases, long-term contracts with particular suppliers could be linked to requirements for a progressive increase in local content and falling prices. This long-term commitment would make it easier for suppliers and service providers to invest in local production and delivery capacity, while ratcheted targets could then ensure that costs become increasingly competitive. Trade-offs may be easier to reconcile by looking at procurement decisions across a whole sector rather than viewing each project in isolation.

- **Build relationships of trust and understanding.** Supply-chain management entails managing information and relationships throughout the life of the contract. Supply-chain managers need to build constructive relations with private contractors and a strong understanding of particular sectors. Over time, lessons learnt will help improve strategic decision-making within government. To ensure there is adequate insulation from capture, there could be a requirement that tender review committees have one external representative, perhaps from a different sphere of government.

- **Build enabling support structures.** Professional supply-chain management capacity needs to be developed through training and accreditation. This includes a database of registered supply-chain managers and a central list of those who have been barred from working in supply-chain management roles in the public sector. Supply-chain management should support technical and other specialists, and should not displace their involvement in procurement processes. Engineering input is essential for infrastructure procurement where it can contribute to ensuring health and safety, mitigating financial risks, identifying effective solutions, ensuring environmental sustainability and conserving natural resources. Advice and information to support supply-chain managers could include access to information on the prior performance of different companies, the typical cost of particular goods and services and technical expertise from within government.

- **Ensure effective and transparent oversight.** Oversight functions need to assess value for money. This requires that data is compiled, scrutinised and publicly available and that, where possible, clear

benchmarks are set. Effective oversight runs throughout the process and is linked to appropriate support structures where necessary. Such a system could have safeguards built in, so that tenders above a certain amount or which deviate significantly from benchmarks are automatically subjected to additional scrutiny. Oversight could also vary depending on prior performance so that, where problems are picked up in procurement systems, national government could get more directly involved in overseeing and supporting future procurement decisions.

Procurement systems need to be robust, transparent and sufficiently intelligent to allow for the different approaches that are most suited to different forms of procurement. The five principles presented here provide guidelines for ensuring procurement systems are better able to meet these objectives.

STEPS TO DEVELOP TECHNICAL AND SPECIALIST PROFESSIONAL SKILLS

- Use apprenticeships and bursaries to ensure the reproduction of technical skills.
- Use experienced professionals including from professional associations, SOEs and the private sector to mentor trainees.
- Develop technical career paths that allow technical specialists to focus on project work and training less experienced staff.
- Ensure managers have sufficient technical knowledge and experience for the work they oversee.
- Improve the ability of procurement systems to deliver value for money and minimise the scope for corruption by differentiating between different forms of procurement, approaching trade-offs more strategically, building relationships of trust and understanding, building enabling support structures and ensuring effective oversight.

STRENGTHEN DELEGATION, ACCOUNTABILITY AND OVERSIGHT

Measures to professionalise the public service and local government administration need to be accompanied by measures to improve accountability. The proposals in this section deal with the importance of delegation and the structures that support it, and the need to improve accountability to citizens and strengthen parliamentary oversight. The proposals should be read in conjunction with those in chapter 14.

Delegation

Since 1994, South Africa has focused on devolving responsibility to departments and municipalities, so that ministers, premiers, mayors, departmental heads and municipal managers can make, and take responsibility for, decisions. However, this model has been pursued without adequate attention to the systems of support and oversight that enable those in leadership positions to lead effectively and be held accountable when things go wrong. As argued above (see improve the systems for skills development), a false dichotomy has been drawn between centralisation and decentralisation. In practice, decentralised authority requires effective systems of support and oversight.

For the model to be effective, greater attention needs to be given to support functions in areas such as human resources and procurement. The weakness of these functions has resulted in central management seeking to retain control of operational units and a reluctance to delegate. As a result, authority has tended to remain centralised at the top of government departments and

municipalities. The problem is exacerbated because many political principals have not taken full advantage of the opportunity to delegate responsibility for day-to-day administrative matters.

Decentralising authority to ministers and their heads of departments will not be effective unless it is accompanied by greater delegation within departments. Effective delegation enhances staff morale, particularly for middle management who are given the authority to make day-to-day decisions. This requires good managers and strengthened support functions. Human-resources officers need to provide expert advice to managers to help them do their jobs effectively, and ensure they follow appropriate procedures and get the most out of their staff. These functions are not just about the enforcement of rules, but also about using discretion. Staff need to have sufficient confidence in their own abilities to trust their judgement and delegate where appropriate. This needs to be backed up by effective systems for performance management, so that oversight can be maintained and weaknesses identified at an early stage.

The lack of effective delegation slows down decision-making and impedes implementation. Decisions are often out of touch with operational realities, and support services become unaccountable because they operate at a remote centralised level. Accountability is weakened when paperwork has to be signed by multiple people or at multiple stages in the process. Streamlined processes are needed, that maintain checks and balances, while clarifying accountability and making it easier for departments to take decisions. Delegating authority empowers officials to take up grievances and address the concerns of the people they interact with. Where they cannot resolve a problem, they can advise citizens on where best to take up their complaint.

Harness the energy and experience of citizens

Delegation presents an opportunity to strengthen mechanisms of routine accountability, enabling the state to be more responsive to public concerns. Service-delivery protests stem from citizens' frustration that the state is not responsive to their grievances. This is unfortunate, as citizens are often best placed to advise on the standard of public services in their communities and to suggest possible interventions.

There are two main forms of accountability. In the standard hierarchical model, junior civil servants are accountable to their superiors; the public service is accountable to its political principals, who are in turn accountable to the electorate. In the bottom-up approach, citizens hold public officials accountable at the level at which services are delivered. These approaches are mutually reinforcing. Bottom-up approaches are effective where there is a commitment to citizen engagement. Citizen groups cannot be expected to have the time or resources to fulfil a monitoring role, but can highlight shortcomings. Civil society can also play a role in scrutinising government data, while government can encourage such scrutiny by ensuring data is made available in suitable formats.

The Department of Performance Monitoring and Evaluation has primary responsibility for the first form of accountability – each minister is held accountable to the President through a performance agreement, the implementation of which is monitored by the department. This hierarchical accountability would be enhanced by improving everyday bottom-up mechanisms that enable citizens to communicate their grievances and seek redress at the point of delivery. Routine accountability would enable citizens to provide ongoing insights into service delivery.

The Batho Pele principles were introduced in 1997 to encourage public participation and promote citizens' ability to know and claim their rights. They state that "government departments should inform citizens about the level and quality of public services they will receive so that they are aware of what to expect" and that "citizens should be given full and accurate information about the services they are entitled to". These principles emphasise transparency and information as key to accountability. This requires that information is available at the point of delivery and officials are empowered to act. When entering a public building, citizens should be able to see what service they can expect, and where to go and to whom they can talk if they do not get that service. Frontline staff should wear name tags to make it easier for citizens to provide feedback on the standard of service they receive.

The oversight role of parliament and provincial legislatures

In any democracy the link between the legislature and the executive is critical for ensuring that the executive is held to account, that policies are subject to rigorous debate and that questions get asked when things go wrong. Section 55(2) of the Constitution states that the National Assembly should maintain oversight over the executive. However, there are concerns about whether Parliament is fulfilling its role in building an accountable and responsive state. Parliament needs to provide a forum for rigorous debate and champion the concerns of citizens. It needs to scrutinise legislation and, in the case of the National Council of Provinces, this includes paying particular attention to how legislation will impact upon the provinces. It needs adequate support in the form of specialist policy and research staff to support parliamentary committees and brief parliamentarians. The functioning of Parliament is not helped by the separation of the administrative and legislative capitals, which creates inefficiencies in the use of time and financial resources. It also makes it more difficult for ministers to divide their time between their ministries and Parliament.

Provincial legislatures need to be particularly robust in their accountability function to ensure provinces perform their core function in the delivery of basic services equitably, effectively and honestly. They need to shine a light on issues of poor and uneven performance. This will not happen as long as provincial legislatures are seen primarily as a rung on the way to the national level. If provincial legislatures are not seen to fulfil this accountability function, it is inevitable that questions will be asked about their utility to the governance of the country. The oversight role of provincial legislatures in areas of local government service delivery may also need to be clarified.

At both the national and provincial level more could be done to provide support for elected representatives, but these measures will not fulfil their objectives unless legislatures show a genuine will to hold the executive to account. Parliamentarians will need to embrace their leadership role, while political parties encourage and empower them to do so.

At local government level there is no clear separation between the legislative and executive functions as both reside with the municipal council, which can delegate executive functions to an executive mayor or executive committee. The lack of a clear dividing line between the executive and the legislature is a common feature of the local government system in many countries. However, it will be important for councils to develop a clearer understanding of these different roles and how they can best be managed in order to ensure that the oversight mechanism is not undermined.

STEPS TO STRENGTHEN DELEGATION, ACCOUNTABILITY AND OVERSIGHT

- Encourage greater and more consistent delegation supported by effective systems of support and oversight.
- Ensure all service-delivery points provide clear information on where citizens can go and who they can talk to if they are dissatisfied.
- Require frontline staff to wear name tags to make it easier for citizens to provide feedback on the standard of service they receive.
- Strengthen the oversight role of Parliament and provincial legislatures.

INTERDEPARTMENTAL COORDINATION

The challenge of improving coordination runs throughout all sections of government. Too often, departments pursue competing objectives, there are gaps where no department takes responsibility, or areas where departments could be more effective if they worked together and drew on each others' strengths. Coordination problems can be particularly acute where the coordination has to take place both between departments and across spheres.

The temptation is to create new structures such as interdepartmental clusters and implementation forums. While these structures have an important role to play, it is a mistake to assume that all coordination problems can be resolved through high-level coordination mechanisms.

Government is inherently complex. It is unrealistic to expect complete coherence on everything and so prioritisation is important. Coordination mechanisms need to be used sparingly and strategically. High-level coordination meetings are needed where other mechanisms have failed, but this cannot be the standard approach. To improve coordination, we therefore propose a two-pronged approach that distinguishes between routine and strategic coordination.

Routine coordination

Most coordination problems are easier to address if they are broken down into specific issues. These can be dealt with through horizontal coordination between branches, chief directorates and directorates in different departments. This would make it easier to build constructive working relationships at the level where they are needed. Routine coordination is particularly relevant where the problems relate to implementation more than policy formulation. This requires that responsibility is delegated to officials at appropriate levels, together with the necessary guidance. This means moving away from a hierarchical system where it is expected that all coordination agreements will be formalised at the highest level.

Strategic coordination

Some coordination problems arise because of disagreements between departments or gaps that no department is dealing with. In these cases high-level coordination needs to take place on strategic issues. Both the cluster system and the Presidency have a role to play in strategic coordination:

- **The cluster system.** The cluster system was set up to resolve coordination problems, but is not providing a sufficiently strategic approach to coordination. Clusters often operate as a clearing house, with the agenda driven by departmental

submissions. This is partly due to a lack of prioritisation in what is discussed. The creation of implementation forums for the government's priority outcomes provides focused forums for many policy areas. This means clusters could be freed up for more strategic issues. To achieve this, agendas need to be carefully structured to achieve a better balance between discussion of departmental submissions and discussion of cross-cutting issues that otherwise do not receive attention. The cluster system should also be used as a mechanism for promoting routine horizontal coordination on issues that do not need to be debated at cluster level.

- **The role of the Presidency.** Where departments are unable to reach agreement or where issues fall through the gaps between departments, the Presidency needs to bring the different parties together to mediate agreements. As this role is required where other coordination mechanisms break down, it should not be allowed to give rise to an expectation that all coordination problems can be resolved at this level. There needs to be clarity on where in the Presidency this role resides.

There is a mutually reinforcing relationship between routine and strategic coordination. High-level structures would be more effective if more issues could be resolved at lower levels. Improved strategic coordination would provide the context for this routine coordination and also make it easier to encourage more consistent delegation within departments. For example, if departments liaise over the formulation of new policy, it will then be easier to achieve the day-to-day coordination needed to ensure policies are implemented effectively.

Coordination problems are particularly acute between national departments with overlapping or interdependent responsibilities. This includes departments responsible for governance and administration issues, and microeconomic issues. In the former case, the governance and administration departments could work together more effectively with greater horizontal and routine coordination between branches, chief directorates and directorates. In the case of the microeconomic departments, there are more likely to be significant policy disagreements or contradictions and this requires a greater role for strategic coordination through both the cluster system and the Presidency.

STEPS TO IMPROVE INTERDEPARTMENTAL COORDINATION

- Adopt a less hierarchical approach to coordination with routine issues being dealt with on a day-to-day basis between officials in departments.
- Use the cluster system to focus on strategic cross-cutting issues.
- Where coordination breaks down, the Presidency should bring different parties together to mediate agreements.

IMPROVE RELATIONS BETWEEN NATIONAL, PROVINCIAL AND LOCAL GOVERNMENT

South Africa's intergovernmental framework is still new: the nine provinces were formed in 1994 and the local government system of wall-to-wall municipalities was established in 2000. There have been extensive debates about whether the basic structures set out in the Constitution are the right ones, or whether restructuring is required. This has deflected attention from the pressing question of how to make these structures work effectively.

While it is true that the governmental system is the result of compromise, this is not unique to South Africa. No country can draw up its governmental framework independently of the politics of the time. Furthermore, South Africa's approach of decentralising responsibility for implementation while maintaining national oversight and using centralised funding mechanisms to achieve redistribution is not out of line with the approach taken by many other countries.

The challenge is to ensure that these structures deliver for all. The Constitution sets out the distribution of powers and functions between national, provincial and local government, but no written document can lay out every feature of the intergovernmental system. The Constitution provides a set of principles for how the system should operate, not a manual for turning those principles into reality. These include principles of subsidiarity and differentiation that allow for an important degree of flexibility in how the Constitution is applied. It takes time and experience to identify the best way of realising these principles.

South Africa has frequently witnessed distrust and conflict between the different spheres. This has replaced efforts to collaborate on overcoming obstacles. The costs of such chronic uncertainty are enormous. This paralysis has led to decisions not being taken, as a wait-and-see approach takes hold. For example, the protracted debate on whether to transfer responsibility for electricity distribution from municipalities to regional electricity distributors resulted in municipalities under-investing in the maintenance and upgrading of infrastructure for electricity distribution.

The experience of other countries suggests that building effective relations between the different spheres of government requires considerable time, effort and will. The current arrangement of the three spheres provides foundations on which to build, but the country will need to focus on issues that require urgent and sustained attention if the spheres are to work together effectively. There are five particular issues that need to be addressed if South Africa is to move its intergovernmental relations onto a more constructive plain:

- Improve clarity in a differentiated system
- Regionalisation as a response to capacity constraints
- A coherent set of powers for metropolitan municipalities
- A more focused role for provinces
- A proactive approach to identifying and resolving problems.

At the heart of these priorities is the need to clarify the division of roles and functions, and ensure disagreements are resolved quickly and effectively. This will make coordination and cooperation easier, reducing the areas of potential conflict. Trust and mutual understanding are required to achieve constructive intergovernmental relations. The Constitution refers to the three spheres of government as "distinctive, interdependent and interrelated". No sphere can succeed on its own. The Constitution emphasises the role of national and provincial government in supporting local government, and stresses that this role goes beyond simply producing legislation and regulations. The proposals made in this chapter seek to develop a more constructive form of interdependence through a more proactive approach to managing the intergovernmental system.

The proposals we make here focus on how best to improve performance within the existing system, as this is where gains are most likely to be achieved. However, as long as the current levels of conflict persist, it is inevitable that questions will arise with

regard to provinces and district municipalities. These issues may need to be revisited, and South Africa will need to strike a balance between stability and evolution. This means using reviews and other measures to focus on specific issues rather than trying to recreate the system in one go.

Improve clarity in a differentiated system

South Africa's local government system has to meet varying needs in different parts of the country with differing levels of capacity. This ranges from metropolitan municipalities with substantial financial, administrative and technical resources to rural municipalities that have limited scope to generate their own revenue and lack the capacity to carry out complex tasks. A coherent approach to local government cannot be a one-size-fits-all approach.

Recognising these realities, the Constitution allows for differentiation in the assignment of powers and functions to municipalities through the distinction between single-tier (Category A) municipalities and two-tier (Category B and C) municipalities. There has also been differentiation in the powers assigned to Category B and C municipalities, including provision of bulk infrastructure and network services such as water and sanitation. The funding model for local government recognises the wide variation in revenue-raising capacity at local-government level, as well as levels of access to basic services. Conditional grants allow further differentiation through the targeting mechanisms developed for each grant. This suggests that the intergovernmental framework allows the allocation of powers and functions to evolve over time within broad constitutional principles, but the opportunities this provides are not always used effectively.

A coordinated and cautious approach to differentiation should help to address uneven state performance by ensuring a better and more strategic fit between responsibility and capacity at all levels. This needs to take account of two possible reasons for uneven capacity:

- The first set of reasons relates to the economic, demographic and geographic conditions of the locality. For example, urban and rural municipalities need to carry out different functions because of their different economic and population patterns.
- The second set of reasons relates to administrative capacity. The capacity of local government has been most restricted in some of the poorest areas where the developmental role of local government is particularly important.

This distinguishes between areas where a differentiated role is necessary because of long-term economic, demographic or geographic features and where differentiation is necessary as a time-bound measure because of capacity constraints within the municipality. In the latter case, differentiation needs to be accompanied by a long-term strategy to build the municipality's capacity. In some cases, this may need to be linked to short-term mechanisms to ensure adequate service delivery in the interim. The capacity of provinces to play this role needs to be strengthened.

Regionalisation as a response to uneven capacity: a differentiated approach to district municipalities and regional service providers

The two-tier system of local government was designed to address the limited capacity of many newly created rural municipalities, with district municipalities providing support to local municipalities. District municipalities were initially intended to play a role in redistribution, coordination and planning.

According to the Municipal Structures Act (1998), the functions of district municipalities related to: planning, bulk infrastructure, supporting local municipalities and providing services where a local municipality lacked the capacity to do so. The 2000 amendment to the act made districts responsible for municipal services, but with the option of devolving responsibility to local municipalities. This has created confusion, uncertainty and sometimes resulted in a stalemate. In some cases, the local municipality has the relevant infrastructure, but the district is receiving the funds and is no more willing to transfer the funds to the local municipality than the local municipality is to transfer control of the infrastructure to the district. This results in funding being paid to the wrong tier, adversely affecting the quality of basic services.

Where district and local municipalities are both providing the same service, despite only one of them being authorised to do so, it will be necessary either to ensure that one stops performing the function and transfers its staff and assets to the tier that is authorised to provide the service, or to allow both municipalities to perform the function with funding shared between them. This would require the national and provincial spheres to facilitate agreement on the division of service jurisdictions and funding.

In many cases, district municipalities have failed to build the capacity needed to fulfil their roles effectively. District municipalities frequently lack the skills and capacity to provide the forms of support to local municipalities that were originally intended, and lack of clarity about how responsibilities are divided between the two tiers has created scope for conflict. However, the logic for the two-tier system remains relevant where local municipalities lack capacity and are unable to recruit the necessary expertise.

District municipalities are most important where the capacity of local municipalities is weakest and those local municipalities are poorly equipped to take on extra functions from the districts. Along with metropolitan municipalities, districts could potentially also serve as basic units of strategic planning and spatial integration. However, there is a more limited role for districts in secondary cities and municipalities where districts are not authorised to provide water and sanitation. In these areas consideration should be given to whether it would be appropriate to establish single-tier municipalities. In such cases a local municipality could operate as a single authority with bulk services responsibilities separate from the district.

Regional service providers could play a larger role especially where municipal capacity is weak. The Municipal Structures Act allows scope for flexibility in the division of responsibilities between districts and local municipalities, depending on specific local circumstances. In the former homeland areas, local municipalities fulfil fewer tasks, with more functions being carried out by the districts and Eskom, while secondary cities assume a large range of functions that, elsewhere, are carried out by the district. Similarly, water boards could play a greater role in rural areas where municipalities struggle to develop the capacity required either by providing services themselves or by transferring skills to municipalities. Where regional service providers are used, political accountability must remain with municipal structures. This means regional service providers should not be imposed on local government. Instead, national and provincial government should assist municipalities in developing such a model in response to local circumstances.

A coherent set of powers for metropolitan municipalities

Metropolitan municipalities contain some of the highest levels of wealth in the country, but also high levels of poverty and service-delivery backlogs. These municipalities produce much of the country's economic wealth and therefore need to protect and enhance their economic status. They also need to protect the interests of the poor and marginalised. The challenge is particularly pressing due to the impact of apartheid on urban spatial patterns – many of the poor are located far from places of work in historically deprived areas with limited access to basic services.

Inward migration puts strain on physical infrastructure and basic services, but it also presents opportunities. Urbanisation requires new housing, extended services and improved public transport. The way in which metropolitan municipalities respond to these challenges can either tackle or reinforce the spatial divisions of apartheid, and can either support or retard economic development and job creation. The scope for creating sustainable human settlements depends on the availability of well-located land, a commodity that is scarce in most cities. As a result, the fragmented spatial legacy remains, making it more difficult for metropolitan municipalities to provide services.

To develop cities that are more liveable, economically dynamic and responsive to all sections of society, metropolitan municipalities need to take an integrated approach to the challenges of development. The potential economic dynamism of a metropolitan municipality cannot be achieved without also considering where people live and how they get to work. This means that these municipalities need to think holistically about issues such as housing, transport and spatial planning so that housing can be well positioned with adequate access to public transport. To achieve this, metropolitan municipalities need more comprehensive control over the core built-environment functions.

Different spheres of government have not cooperated effectively around built-environment functions relating to housing, state-owned land and transport infrastructure. The Constitution and relevant legislation allow the necessary shifts in power to be made, but progress has been extremely slow.

Transferring more functions to metropolitan municipalities will not automatically improve urban governance, nor will it remove all coordination problems. While these municipalities tend to have greater administrative and financial resources than other municipalities, they risk being overloaded if additional functions and larger boundaries are implemented too swiftly. Extra functions need to be phased in together with a long-term plan for developing administrative and financial capacity. A degree of differentiation is also required as the variation between metropolitan municipalities means that what is appropriate for the largest metropolitan municipalities may not be appropriate for the smaller ones. For the largest metropolitan municipalities, it may also be appropriate to consider their current positioning in relation to the provinces.

A more focused role for the provinces

The role of the provinces has been a perpetual issue in post-apartheid South Africa. Controversy arises because the function of provinces was negotiated as part of the interim constitution. It is fuelled by wide variations in living standards and government performance. Provinces that incorporated substantial former homelands consistently perform worse than others. However, unequal access to services and uneven government capacity would have been an issue under any institutional

arrangement. Even if provinces did not exist, implementation would still have had to make use of the same structures. The most pressing issue is therefore how provinces can best contribute to building constructive intergovernmental relations and improving service delivery.

Intergovernmental relations will not improve without a positive vision for the role of the provinces. This vision should focus on strengthening the ability of provincial government to carry out its core functions, especially education and health. Section 156(4) of the Constitution requires that responsibilities be devolved to local government where functions are best administered locally and municipal capacity exists. Yet provinces are often reluctant to reassign functions. This is partly because debate about the role of provincial government has led to chronic levels of instability and uncertainty. There is also little clarity on the role of the provinces in economic development and how this relates to national initiatives. Greater devolution to municipalities with capacity would enable provinces to concentrate more effectively on their core functions and support those municipalities where capacity is weakest. The capacity of provincial governments needs to be strengthened, so that they can play this capacity-building role for local government.

As with the relationship between provinces and municipalities, differentiation in the allocation of responsibilities from the national to the provincial sphere would be beneficial.

At the administrative level, there needs to be a relationship of trust between national departments and their provincial counterparts. This is essential for national departments to develop sufficient understanding of challenges at the provincial level and for provinces to have confidence in the support national departments can provide. Routine coordination will help to build this trust (see the section on interdepartmental coordination for more detail), but some additional measures might be of value. For example, it could be mutually beneficial for the director-general of a national department to sit on the selection panel when a new head of department is selected for the equivalent provincial department.

Identifying and resolving problems

As with interdepartmental coordination, the challenge is to address problems when they arise, rather than to eliminate all coordination problems. This requires leadership from national government, particularly from the Department of Public Service and Administration (DPSA), the Department of Cooperative Governance, National Treasury and the Department of Performance Monitoring and Evaluation. These departments need to work together to ensure there is alignment between powers and functions, planning processes and budgetary allocations. In many cases, these departments will not be able to resolve assignment issues on their own, but will need to work with the relevant sector or provincial departments. They also need to work together to identify coordination problems and use their collective influence to ensure disagreements are resolved promptly. In some cases this may require research to assess the effectiveness of particular aspects of the intergovernmental system. However, sweeping reviews of the entire system are unlikely to be effective. Such reviews are much more likely to be productive if they focus on specific issues and use the review process to bring different parties together and build consensus.

A PLAN TO STRENGTHEN LOCAL GOVERNMENT

The vision of developmental local government is central to many of the other objectives in both this chapter and the rest of the plan. However,

STEPS TO IMPROVE RELATIONS BETWEEN NATIONAL, PROVINCIAL AND LOCAL GOVERNMENT

- Strengthen the interdependence of the three spheres through a more proactive approach to managing the intergovernmental system.
- Use differentiation to ensure a better fit between the capacity and responsibility of all spheres.
- Mediate agreements between district and local municipalities where there is disagreement about the division of service jurisdictions and funding.
- Consider establishing single-tier municipalities in secondary cities and where districts are not authorised to provide water and sanitation.
- Consider establishing regional service providers where municipalities lack technical capacity or economies of scale.
- Give metropolitan municipalities comprehensive control over built environment functions provided they have the necessary capacity.
- Provinces focus on their core functions and develop the capacity to support and oversee local government.
- Improve coordination and cooperation between national departments and their provincial counterparts especially at the administrative level. Consider including the director-general of a national department on the selection panel when a new head of department is selected for the equivalent provincial department.
- National departments work together to identify coordination problems and use their collective influence to ensure disagreements are resolved promptly.
- Use reviews and other measures to focus on specific issues and build consensus rather than trying to address everything at once.

municipalities have often found that expectations exceed their administrative and financial ability. This has led to a loss of confidence. To overcome these issues, a clear, long-term and consistent approach is required. This can be achieved through a shift in four critical areas:

- An enabling framework for local government
- A proactive approach to improving inter-governmental relations
- A long-term approach to building capacity
- Mainstreaming citizen participation.

An enabling framework for local government

In response to the problems facing municipalities, the temptation has been to issue more regulations and legislation for local government. However, many of the existing regulations are not implemented. National government needs to shift towards developing a more enabling framework that focuses on developing the systems to strengthen local government. This could include operational guidelines for routine tasks and staffing frameworks for different municipal functions, so that municipalities can tailor their capacity-building strategy and staffing budget to their core functions. Such guidelines could also provide an accountability mechanism, making it easier to identify where resources are being misallocated or processes mismanaged. This should be accompanied by strengthened national and provincial support and oversight for local government.

Only by engaging intensively with local government can national and provincial departments develop an

in-depth understanding of the challenges. National and provincial departments have a constitutional right to intervene, and they should be prepared to utilise this when necessary. However, they are less likely to need to do so and more likely to intervene effectively if they are already engaged in working with the municipality to improve performance. Municipalities also need to strengthen their commitment to improving efficiency and effectiveness, avoiding wasting funds on non-priority expenditure and collecting all the revenues that are due.

A proactive approach to improving intergovernmental relations

Intergovernmental coordination problems have an adverse effect on local government. This plan proposes several changes to the intergovernmental system including that provinces should focus on their core functions and that metropolitan municipalities should be given full control of built-environment functions as long as they have suitable capacity. The most fundamental proposal is a change of approach away from trying to find new structural arrangements, which is destabilising, towards identifying and resolving specific coordination problems. This would include mediating agreements between district and local municipalities where there is duplication or conflict over the allocation of responsibilities and resources. It also includes developing regional service providers where municipalities cannot secure the expertise to provide services themselves. This would be pursued as a voluntary, negotiated approach since an imposed solution could undermine municipal accountability for service provision.

A long-term approach to building capacity

There have been many short-term interventions to build municipal capacity, but capacity building is a long-term process. National and provincial government should promote local government as a career path in its own right through measures such as a local government graduate-recruitment scheme and skills-development strategies for technical specialists. They should also work with municipalities to strengthen their human-resources and management capacity. For this approach to be effective, it is essential that municipalities are committed to improving their approach to recruitment, management and training. This could be encouraged through mechanisms such as the preparation of standard frameworks linking staffing needs to a municipality's core functions. Linking skills plans to a municipality's integrated development plan (IDP) could ensure greater attention is given to capacity building. Other measures are also needed to incentivise municipalities to invest in developing the skills of their staff. In the absence of standardised pay bands, there is an incentive for municipalities to poach staff from each other by offering higher salaries for the same job. This reduces the likelihood of them investing in training their staff. To address this problem, national government should seek to formulate guidelines on standard salary levels. It should also develop standard assessment procedures for different jobs, perhaps in conjunction with the relevant professional associations. Municipalities could then use these assessment procedures when recruiting new staff to ensure new recruits have the necessary skills set.

Mainstreaming citizen participation

Local government is conceived as the most participatory sphere of government. Participation is critical for democratising governance processes and ensuring local government remains responsive to its citizens. However, participation is often a formulaic exercise run by consultants and citizens have little confidence in the value of engagement. Where municipal officials outsource the writing of IDPs to consultants, this reduces the likelihood of councillors and municipal employees being fully committed to delivering on the commitments in the IDP and so also reduces the incentives for citizens to engage with the process. First, the IDP process

needs to be led by the municipality and not outsourced to consultants. Second, participation in IDP processes needs to be deliberative and engage communities in prioritising and making trade-offs. Both of these objectives will be easier to achieve if IDPs are more narrowly focused on the core priorities of local government. Third, local government needs to engage people in their own spaces. Elected representatives and administrative officials should be prepared to go to community organisations, housing associations or business associations rather than expect them to come to governmental forums. Community development workers have an important role to play in facilitating these engagements. These shifts would help local government to focus on citizens' priorities. It is also important that civil society and citizen groups make use of the data that is already available in order to hold local government accountable.

STEPS TO STRENGTHEN LOCAL GOVERNMENT

- Develop systems to strengthen local government, including recruitment systems, operational guidelines for routine tasks, staffing frameworks for municipal functions, standard assessment procedures for recruiting new staff and guidelines on salary levels.
- Municipalities need to tailor capacity-building strategies and staffing budgets to their core functions, and link their municipal skills plans to their IDPs.
- Strengthen national and provincial support and oversight.
- Take a more long-term approach to building local government capacity.
- Focus IDPs on the core municipal priorities and ensure the production of IDPs is led by local government staff.
- Ensure participation in IDPs is deliberative so communities are engaged in prioritising and making trade-offs.
- Municipalities need to engage communities in their own spaces.

THE DEVELOPMENTAL POTENTIAL OF STATE-OWNED ENTERPRISES

SOEs are central to advancing national objectives through providing economic and social infrastructure. If this is done in an equitable and cost-effective way, SOEs can contribute to both economic growth and overcoming spatial inequalities. While considerable attention has been given to the transformation of SOEs, less attention has been given to the transformative or developmental role that SOEs can play.

By 2030, South Africa needs to be served by a set of efficient, financially sound and well-governed SOEs that address the country's developmental objectives in areas where neither the executive arms of government nor private enterprises are able to do so effectively. These enterprises must deliver a quality and reliable service at a cost that enables South Africa to be globally competitive. To live up to these expectations, SOEs will require clear public-interest mandates, which are consistently enforced.

To improve the performance of SOEs, their task needs to be simplified. Asking enterprises with limited capacity and resources to address too many different priorities at once is setting them up to fail, particularly when they have to work through complex or unpredictable governance structures.

They need a stable and straightforward governance structure that allows them to focus on their long-term objectives. The challenge is to develop better ways of working so that the multiple and competing priorities that are recognised in formal documents can be prioritised effectively.

Three broad sets of reforms will ensure sustainable improvements in the performance of SOEs:

- **A clear mandate.** Each SOE needs a well-defined and transparent mandate that sets out its role and how its activities serve the public interest.
- **A clear and straightforward governance structure.** This involves clearly identifying and managing the government's roles in policy-making, ownership of utility assets, and regulation of prices and quality of utility services. Consideration needs to be given to how these different roles are allocated to ensure a sustainable balance between short-term and long-term priorities and coordination between different policy priorities.
- **Deal with capacity constraints.** A long-term strategy must be formulated to develop the policy and technical expertise that SOEs need to carry out their mandate.

Mandates to clarify the role of SOE's

SOEs need a clear mandate. The closest thing to this at the moment is the stakeholder compact required by the Public Finance Management Act. The most important function of the mandate is to specify why the SOE is needed. Given that these enterprises exist to serve the public interest, it is important that the mandate is precise about what public good the SOE provides and how it serves the public interest. For the large SOEs involved in economic infrastructure provision, their mandate should also include the imperative of financial viability and sustaining their asset base and balance sheet in order to maintain and expand services. Attention also needs to be given to the range of development-finance institutions. Greater clarity about the respective niche filled by each development-finance institution and improved coordination between these agencies could help to maximise their developmental impact.

In formulating a public-interest mandate for an SOE, it is important to recognise that:

- The reason some SOEs were created may no longer be relevant, because the character of both government and the market changes over time. This would arise if the gap they were set up to fill has either ceased to be of policy significance or can now be dealt with in an equitable and sustainable way without public-sector involvement.
- The focus of an SOE's activities may have shifted, expanded or contracted over time. This may be an appropriate adaptation to changing circumstances, but it may also be mission creep, where an SOE expands into activities that may not serve the public interest or distract from its core purpose.

This mandate is an important mechanism to hold individual SOEs accountable for how they use public resources. Each SOE's mandate should be scrutinised by the appropriate policy ministry and parliamentary committee. The mandate should be publicly available online, so that other stakeholders can assess its performance. The renewal, refinement or revocation of each public-interest mandate will enable greater consensus between SOEs and their respective departments on how the enterprise furthers the objectives of the policy department. The mandate of each enterprise should be reviewed periodically to ensure there is consensus about its principal objectives and how these are to be met. Review processes should also take into account that new enterprises may need to be created to attend to unmet public interests. While reviews are important, they should not be done too frequently, as the activities of many SOEs

require predictability to make long-term investment decisions.

Other reforms could include improved transparency and flow of information, such as comprehensive annual reports and financial statements; making performance contracts available; and publishing results, investment and coverage plans, prices, costs and tariffs, service standards, benchmarking reports and customer surveys. Information needs to be credible, coherent and timely. The requirement, under the Companies Act (2008), for companies to establish a social and ethics committee provides an opportunity for SOEs to look at how they ensure transparency both in terms of progress in meeting their core objectives, and in terms of their broader social and ethical impact.

A clear mandate can provide the basis for a more detailed assessment of the SOE's performance. A shareholder compact (or performance contract) usually lays out the shareholder ministry's objectives for the utility. Performance contracts are negotiated agreements, clarifying objectives and addressing tariffs, investments, subsidies and non-commercial (social or political) objectives and their funding. The effectiveness of performance contracts is not guaranteed. The information asymmetry between managers and owners can allow managers to negotiate performance targets that are easy for the utility to achieve. Contracts can also be incomplete or fail to anticipate events and contingencies. Government can renege on commitments, including promised budgets for social programmes. Performance contracts should only be used if government is willing to deal with the challenges of information asymmetry, effective incentives and credible commitments.

Clarify and simplify governance structures

The governance structure of SOEs arises from the need to treat these enterprises differently to executive government departments or privately owned commercial enterprises. They exist to serve the public interest, but they are also expected to generate at least some of their own revenue. The governance structure needs to reconcile their commercial objectives with their public-interest objectives.

There is no single model. Some large SOEs involved in economic infrastructure and identified pre-1994 for privatisation were separated from their policy-making ministry and placed under what became the Department of Public Enterprises as the SOE shareholding ministry. In these cases, the Minister of Public Enterprises represents the interests of government as the shareholder, while the relevant policy ministry has the main interest in the services delivered by the SOE.

The division of responsibilities can help to create a healthy tension between the services provided by the SOE and its financial sustainability. The joint ministry model requires that:

- The shareholder ministry should be responsible for ensuring SOEs are viable and financially sustainable, and that their assets are maintained and renewed. Designing effective shareholder compacts and monitoring the performance of large SOEs requires professional expertise that is best located in a central department, either the Department of Public Enterprises or a division within the National Treasury.
- The policy ministry should be concerned with whether the SOE is serving policy objectives.

For this division of responsibilities to be effective, there needs to be coordination and clarity around policy priorities and sound financial management. The policy and shareholding ministries need to work together to frame the objectives and

performance measures embedded in the shareholder or performance compact. However, effective coordination is not easy to achieve and, where it is missing, split reporting can easily confuse the lines of accountability. If the split reporting model is to work effectively, it will need to start from a clearer delineation of each department's responsibilities, to make it easier to determine the specific issues that need coordination and how this should take place. In some countries, including New Zealand, the two departments are joint shareholders with joint responsibility for appointing the board. This could help to institutionalise coordination and ensure more effective reconciliation of different priorities, especially if the performance contract is designed jointly by the two ministries.

Smaller SOEs, with no substantial commercial purpose or base, could report directly to their policy ministries.

Many of South Africa's SOEs have seen frequent change in board composition and leadership. Effective governance requires stability in the powers and appointment of the boards of SOEs. Many different approaches have been adopted internationally. As with the appointment of directors-general, the most important issue is to achieve credibility in the appointment process and greater stability in appointments. The Commission is of the view that the optimal approach is for the shareholder and policy ministries to jointly appoint the boards and the boards to appoint their chief executives. This enables a clear line of accountability between government and the board, and between the board and the chief executive.

The relationships between SOEs and independent regulators have frequently proved problematic. The conditions for a regulator to be effective have tended to be onerous and adequate regulatory capacity cannot be built overnight. For independent regulators to be effective, they must have clearly defined powers and adequate human and financial resources (see section on regulation and the role of regulators in chapter 4). Sector regulators need to be drawn into the process when shareholder and policy departments design performance contracts.

Address capacity constraints

Clear governance structures and focused mandates will reduce the burden on limited human and financial resources. However, there also needs to be a long-term strategy to develop the skills required by SOEs and to ensure that they are financially sound.

SOEs require administrative, policy, managerial and technical skills. Government needs to have a strategy for how these skills are going to be produced and developed. The skills needs of individual SOEs must be identified. Where gaps exist, government needs to formulate recruitment and training strategies to develop a new generation of skills.

Salary levels have risen rapidly in many SOEs, particularly at senior levels, but there is no evidence that high salaries enable these entities to obtain and retain the best people. High salaries are a costly and ineffective alternative to developing the skills base and ensuring working environments recognise and value professional skills. Instability in policy approaches and organisational structures aggravates the difficulty of attracting and retaining appropriate people to address the challenges of strategic direction (typically the role of the board) and of operational effectiveness (senior management). In most cases, leaders lay the foundation for future success in their first three years in office; this means stable leadership is a prerequisite for improving performance.

SOEs need a funding strategy that is reliable and

consistent to ensure they are able to recover their operating costs and provide for capital replacement and expansion. However, there is often a mismatch between the funding dynamics of government and the enterprises it owns. Some SOEs can look to private investment. Mixed-capital enterprise arrangements also encourage increased stakeholder involvement. These can be established either by selling a minority or non-controlling equity stake to private investors or through private debt markets. Shareholders and bond-holders can provide additional pressure to perform well. Credit agencies provide financial discipline over managers, who fear a credit downgrading and an increase in capital costs. Even where private finance is used, government needs to create the necessary conditions to attract and secure investment.

SOEs that provide goods and services for which charges are levied should where possible recover their operating costs through those charges. However, pricing decisions have public consequences and government may have an interest in subsidising the provision of some goods. Such decisions should be based on a clear understanding of the different commercial, social and developmental objectives. For example, Eskom has a mandate to provide reliable and competitively priced electricity to mining, industry and business, but it also has a mandate to extend affordable access to electricity services to poor households. The former should generally pay a tariff that reflects the full cost, whereas the latter may be eligible for subsidies for their connection fees and possibly a portion of their energy-consumption costs. It can be disastrous to the financial sustainability of SOEs to confuse these mandates and provide services at below cost if the gap is not covered by an alternative source of finance.

CAPABLE, DEVELOPMENTAL, PROFESSIONAL AND RESPONSIVE: THE STATE IN 2030

Between now and 2030, South Africa needs to

STEPS TO ACHIEVE THE DEVELOPMENTAL POTENTIAL OF SOE'S

- Develop public interest mandates that highlight an SOE's core purpose. Make these publicly available to promote accountability.
- Clarify the responsibility of policy and shareholder ministries.
- Improve coordination between policy and shareholder ministries by making them jointly responsible for appointing the board.
- Ensure appointment processes are credible and that there is greater stability in appointments.
- Ensure regulators have clearly defined powers, and adequate human and financial resources.
- Formulate a long-term plan to develop the policy and technical expertise that SOEs need to fulfil their mandates.

move towards a developmental state that is capable, professional and responsive to the needs of its citizens. Progress needs to be pursued most rapidly in those areas where state capacity is at its weakest. The plan has set out proposals to unlock opportunities, tackle major problems and put South Africa on the right path for building the state's capacity to promote the objectives of eliminating poverty and reducing inequality.

The implementation of these proposals will depend on the commitment to drive them forward and the willingness to tackle problems as they arise. This requires a willingness to learn from experience and build on what works. This means initiating policies on a small-scale, developing an understanding of the obstacles to effective implementation, and scaling up where measures prove effective.

CHAPTER FOURTEEN

Fighting corruption

KEY POINTS

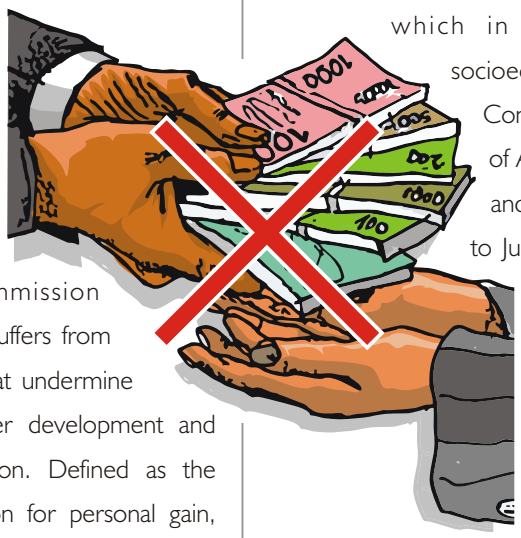
Corruption undermines good governance, which includes sound institutions and the effective operation of government in South Africa. The country needs an anti-corruption system that makes public servants accountable, protects whistle-blowers and closely monitors procurement.

These efforts to eradicate corruption need to include the private sector and individuals by increasing public awareness and improving access to information.

A strategy is needed to strengthen the independence of the judiciary, through improving the quality of judges and scaling up judicial training.

INTRODUCTION

Poor governance can critically undermine national development. For a more effective state, there must be accountability. Accountability refers to institutionalized practices of giving account of how assigned responsibilities are carried out and public resources used. In a democracy it is crucial for political leaders and public officials to account to the citizens for their actions. This is achieved through a system of institutional checks and balances including Parliament, oversight institutions and the judiciary. The Constitution calls for public servants to maintain a high standard of professional ethics. Political leaders and public officials should conduct themselves at all times in a manner that would bear the closest public scrutiny. Building integrity is an essential component of achieving good governance.



The diagnostic report of the National Planning Commission indicates that South Africa suffers from high levels of corruption that undermine the rule of law and hinder development and socioeconomic transformation. Defined as the misuse of an official position for personal gain, corruption occurs in both the public and private sectors. The costs of corrupt practices fall most heavily on the poor because they degrade the quality and accessibility of public services. State systems of accountability have been uneven, enabling corruption to thrive. This is not specific to the public sector. It is a broader societal disease. To address this comprehensively, anti-corruption efforts should target the bribe-maker, as well as the bribe-taker.

Overcoming corruption and lack of accountability in society requires political will, sound institutions, a solid legal foundation and an active citizenry that holds public officials accountable.

ACHIEVEMENTS SINCE 1994

Corruption was widespread during apartheid. Research by the Institute for Security Studies provides extensive evidence of "grand corruption" before 1994, concluding that "when the apartheid state was at its most repressive, it was also at its most corrupt".[1] South Africa cannot hope to tackle corruption today without understanding its origins.

In the democratic era, steps have been taken to counter corrupt practices and put in place accountability mechanisms. Appreciative of the role of transparency in creating an accountable, responsive government, the Bill of Rights includes access to information and administrative justice, which in turn enable other socioeconomic rights in the Constitution. The Promotion of Access to Information Act and the Promotion of Access to Justice Act were passed in 2000 to give effect to these rights. These laws provide a foundation for open, transparent and accountable government. Together with the Prevention and Combating of Corrupt Activities Act (2004), Public Finance Management Act (1999) and Municipal Finance Management Act (2003), these laws form a solid legislative basis to fight corruption.

In addition to progressive laws, South Africa has created a number of institutions that deal with corruption and hold public officials to account. These include oversight institutions such as the Auditor-General and the Public Protector that were established in terms of chapter 9 of the Constitution to strengthen democracy. Several anti corruption agencies are operating with solid skills and political commitment.

VISION 2030

Our vision for 2030 is a South Africa that has zero tolerance for corruption. In 2030, South Africa will be a society in which citizens do not offer bribes and have the confidence and knowledge to hold public and private officials to account, and in which leaders have integrity and high ethical standards. Anti-corruption agencies should have the resources, independence from political influence, and powers to investigate corruption, and their investigations should be acted upon.

How South Africa will achieve its Vision 2030

The Commission has singled out four areas in which policies should be implemented towards an accountable state:

- **Building a resilient anti-corruption system.** Anti-corruption efforts should create a system that can operate freely from political interference and can be supported by both public officials and citizens. In a resilient system, designated agencies have the capability and resources to investigate cases of corruption, leaders take action when problems are brought to their attention, citizens resist the temptation to pay bribes because they recognise that their individual actions contribute to a bigger problem, the private sector does not engage in corrupt practices, citizens speak out against corruption and the media fulfils its investigative and reporting function to expose corruption in the public and private sector.

- **Strengthen accountability and responsibility of public servants.** South African public servants should be made legally accountable as individuals for their actions, particularly in matters involving public resources.

- **Create a transparent, responsive and accountable public service.** State information, including details of procurement, should be made openly available to citizens. Furthermore, an information regulator should be established to adjudicate appeals when access to information requested is denied.

- **Strengthen judicial governance and the rule of law.** Ensure the independence and accountability of the judiciary. Establish clear criteria for the appointment of judges and scale up judicial training to improve the quality of judges. The extension of community service to law graduates, to increase legal representation for the poor and speed up the administration of justice, should be considered.

BUILDING A RESILIENT ANTI-CORRUPTION SYSTEM

Fighting corruption requires an anti-corruption system that is well-resourced, operates freely from political interference and has the support of citizens. The proposals in this section deal with how to create a strong anti-corruption system that is suited to the South African context. The Commission proposes the following:

- Strengthen the multi-agency anti-corruption system
- Strengthen the protection of whistle-blowers
- Greater central oversight over the awarding of large tenders or tenders with long duration
- Empower the tender compliance monitoring office to investigate corruption and the value for money of tenders.

Strengthen the multi-agency anti-corruption system

South Africa has a number of agencies mandated to fight corruption. These are the South African Police Service (including the Directorate for Priority Crimes Investigation), the Special Investigations Unit, the Assets Forfeiture Unit (based in the office of the National Director of Public Prosecutions), and the Public Service Commission. The Public Protector and the Auditor-General also investigate

corruption, although this does not form part of their core mandate. Some have argued that the multiplicity of anti-corruption agencies undermines the fight against corruption as it divides resources and has resulted in an uncoordinated approach.

There has been much debate about whether South Africa should have a single anti-corruption agency.[2] Hong Kong's Independent Commission Against Corruption (ICAC) is a successful model for a single-agency system. It has been adopted in a number of countries including Australia, Botswana and Singapore. However, there are doubts about whether the model can be transposed into South Africa. Specific conditions in Hong Kong include "a relatively well-regulated administrative culture alongside a large, and again, well-resourced police force under a political and legal framework which supports anti-corruption activities".[3] While there are ongoing efforts to develop South Africa's administrative capacity and improve the criminal justice system, as detailed in other chapters in this plan, the country does not have the institutional foundation to make the ICAC a viable option.

A functioning anti-corruption system requires "sufficient staff and resources with specific knowledge and skills; special legislative powers; high level information sharing and co-ordination; and operational independence".[4] Independence entails insulating institutions from political pressure and interference. A single-agency approach is less resilient in this respect because if the lone anti-corruption body faces political capture, the independence of the entire system is compromised. A multiplicity of agencies provides the checks and balances that are essential in the South African context and develops a systemic resilience against interference.

The institutional independence of anti-corruption agencies is contentious, since they are all accountable to the Executive. This may leave them vulnerable to political pressure and interference. Another issue is overlapping mandates and poor coordination between agencies. Duplication between agencies indicates that a clearer demarcation of functions is needed. Furthermore, weak coordination undermines their ability to investigate and prosecute corruption. The Commission proposes a review of the mandates and functions of all agencies with a view to some rationalisation. The autonomy of each agency should be reinforced to insulate them from political pressure.

Strengthening the anti-corruption system requires increasing the agencies' specialist resources. More capacity should be created for corruption investigations – more funding is required to employ skilled personnel and sophisticated investigative techniques. While thousands of cases are investigated, few get to court. Specialised teams of prosecutors and special courts should be established to expedite the resolution of corruption cases.

Public education drives are needed to communicate the effect of corruption on the delivery of services, and the mechanisms through which cases of corruption can be reported. Agencies should be required to conduct public awareness campaigns. This would require adequate resources and partnerships with non-governmental organisations.

South Africa pioneered a multi-sector approach to fighting corruption with the establishment of the National Anti-Corruption Forum in 2001. This forum is composed of members from government, business and civil society. It was established to coordinate sectoral strategies against corruption, to advise government on the implementation of anti-corruption strategies, to share information and best

practice, and to advise sectors on the improvement of sectoral anti-corruption strategies. Unfortunately, there has been insufficient commitment and continuity from the different sectors in the forum and the institution is underfunded. The National Anti-Corruption Forum has a valuable role to play in combating corruption at all levels in society. Therefore efforts should be made to strengthen it with the necessary resources in order to be more effective.

To tackle corruption, there must be political will and support for anti-corruption agencies. Political will refers to not only public statements of support, but a commitment to providing sufficient resources and taking action against corrupt officials. Political parties must strive to maintain ethical conduct among their members. Political leaders must realise the effect of their behaviour on the integrity of the political office they hold.

Take a societal approach to combating corruption

Corruption is a broader societal problem. The private sector plays a role on the supply side of corruption, for example through paying bribes for government contracts. There are incidences of corruption within the private sector itself such as price-fixing and collusion between businesses, as well as charging inflated rates for government contracts. When exposed, corruption is often investigated quietly and kept out of the public domain. Investigations often lead to dismissal but rarely result in or include criminal prosecution. An obligation must be placed on the private sector to use the criminal justice system, not merely administrative sanctions, to deal with corrupt activity. Consideration must be given to establishing a structure to which private sector non-compliance with the law can be reported. Additional consideration could be given to making it a requirement for businesses to include corruption cases in their annual reports to increase transparency and build public trust.

Some businesses have set up independent ethics complaints facilities to allow employees to report corruption anonymously. Business Leadership South Africa has developed a Code of Good Corporate Citizenship for its members, committing them to ethical conduct in regard to customers, competitors, suppliers, government, regulatory authorities and their own employees. The business sector in the National Anti-Corruption Forum has proposed developing integrity pacts as a tool in public contracting. The pact is essentially an agreement between government and all bidders for a public contract that stipulates that neither side will pay, offer, demand or accept bribes, collude with competitors to obtain the contract, or engage in such abuses while executing the contract. These anti corruption initiatives must be encouraged and extended across the private sector.

Corruption is a societal ill and requires the commitment of all members of society. Citizens and companies in the private sector should stop offering bribes to government officials. South Africans must make the connection between the petty incidents of corruption they participate in daily – such as the "cold drink" to a traffic officer to avoid a fine – and the grand corruption they see reported in the newspapers. The country must create a shift in attitude towards corruption. In this regard, the Commission welcomes Corruption Watch, which provides a place where citizens can report corrupt behaviour within the public and private sector. Anti-corruption, ethical behaviour and integrity should be a component of any social compact. An independent media also increases public awareness by investigating and reporting on cases of corruption.

Strengthen protection of whistle-blowers

Protection for whistle-blowers creates a culture of exposing wrongdoing. While the Protected Disclosures Act (2000) provides some protection, it does not do enough. The percentage of people who identify themselves as prepared to "blow the whistle" has dropped by 10 percent over the last four years.[5] The legislation has several weaknesses.

The scope of protection in the law is too narrow. The Protected Disclosures Act is limited to "occupational detriment", which needlessly restricts the application of the act to whistle-blowers in a formal permanent employment relationship. It excludes all persons in other commercial relationships with the relevant organisation. In addition, the range of bodies to which a protected disclosure may be made is limited to the Auditor General and Public Protector. Disclosures to sectoral complaints mechanisms or professional bodies are not regarded as protected disclosures by the PDA.

The possibility of conditional amnesty for whistle-blowers implicated in corruption is not clear. Currently the Protected Disclosures Act does not guarantee immunity against civil or criminal liability for making a disclosure in good faith. This could discourage people. Adequate security for whistle-blowers has not been established and the act does not ensure the confidentiality of whistle-blower identity. Opinions vary on what constitutes "adequate protection". Confidentiality may be required to protect whistle-blowers from victimisation. Physical and economic protection may be required in some cases. Further policy research is required to strengthen whistleblower protection.

There is no public body tasked with providing advice and promoting public awareness, and no public body dedicated to monitoring whistle-blowing. Many government departments have not implemented the act and regulations to direct them on implementation have yet to be published.

In response to these gaps, the Commission recommends the following:

- A review of the Protected Disclosures Act. This review should consider expanding the scope of whistle-blower protection outside the limits of "occupational detriment", permit disclosure to bodies other than the Public Protector and the Auditor-General and strengthen measures to ensure the security of whistle-blowers.

- Regulations to the Protected Disclosures Act should be developed as soon as possible and government departments must develop policies to implement the act.

Improve oversight over procurement procedures for increased accountability

The chapter on building a capable and developmental state contains a number of proposals on designing procurement systems to deliver value for money and enable effective government. In addition, a tiered system of review for tenders, depending on their value, with differentiated safeguards and procedures should be considered. Automatic safeguards could be built in, so that tenders above a certain amount are reviewed by the Auditor-General and the Parliamentary Standing Committee on Public Accounts, with a public hearing to exercise oversight over the award process.

Empower the tender compliance monitoring office to investigate corruption and the value for money of tenders

The vast range of tender opportunities in the public service has come with increased opportunities for corruption for both officials and contractors. The

government is conscious of these challenges and has put some measures in place to introduce greater accountability in supply-chain management practices. The Office of the Accountant General in the National Treasury is responsible for promoting and enforcing the effective management of revenue and expenditure in departments, as well as monitoring the proper implementation of the Public Finance Management Act and the Municipal Finance Management Act by state institutions. This includes setting and monitoring procurement standards and practices.

The Commission also proposes that the office investigates the value for money of tenders. This would entail, for example, auditing the bill of quantities for projects to ensure that the unit costs of materials is not excessive and that the state institution derives maximum utility from the service procured.

Strengthen accountability and responsibility of public servants

Public officials and elected representatives are responsible for administering public resources on behalf of the society. It is in the best interests of civil society that these resources are managed in an efficient, transparent and accountable fashion. The proposals in this section deal with improving integrity systems in order to strengthen the individual accountability of public servants. Measures to enforce the accountability of public servants should promote the principles of Batho Pele. These proposals should be read in conjunction with those in the building a capable and developmental state chapter on strengthening delegation, accountability and oversight in the public service.

South Africa has developed several mechanisms to manage integrity and promote ethical conduct in the public service. This includes the public service code of conduct in the public service regulations, Financial Disclosure Framework and supply chain management prescripts. However the implementation of these measures has been poor leading to frustration about the delayed response of departments in preventing and combating corruption.

Implementation and adherence to the code of conduct is limited with departments sometimes taking months to institute disciplinary processes against offending officials. Reports by the Auditor-General indicate that a large number of government employees and their spouses have been involved in government contracts raising suspicion of abuse of office. This is despite there being rules in place in the public service code of conduct to prevent officials from engaging in transactions that may result in improper personal gain or are in conflict with the execution of their official duties.

The financial disclosure framework compels senior managers to disclose their financial interests. However non-compliance is endemic. Managers are seldom sanctioned for failing to disclose their interests and departments do little with the information they receive, besides forwarding it to the Public Service Commission. In addition the limited application of the framework to senior managers has resulted in 'unregulated public servants' having business interests which conflict with public interest. Recent Auditor-General reports indicate that the majority of public servants with business interests are those excluded by the financial disclosure framework.

The practice of "javelin-throwing", in which public servants use their office to set up future business opportunities, is a problem. It is also common for officials found guilty of corruption in one department to surface in another.

Strengthening the accountability of public service requires more consistent implementation of existing rules.

The Commission recommends the following:

- An accountability framework should be developed linking the liability of individual public servants to their responsibilities, in proportion to their seniority.

- Rules restricting the business interests of public servants should be made more specific and clearer. The Commission recommends a study to investigate expanding existing regulations and improving the institutional processes and capacity to manage the rules.

- Restraint-of-trade agreements should be considered for senior civil servants and politicians at all levels of government. Exit interviews and proper record-keeping would enable the restraint of trade agreements and prevent corrupt officials from moving around the public service.

- Corrupt officials should be made individually liable for losses.

Create an open, responsive and accountable public service

Transparency is an important element of public accountability. Dissatisfaction about lack of access to information on service delivery is prominent in public protests. Section 32 of the Constitution enshrines the right of access to information. The Batho Pele principles state that government should inform citizens about the services they are entitled to and government administration must be open and transparent. However in practice, the state has been poor at making information available timeously and in a form accessible to all citizens. Government officials are often reluctant to provide information when it is requested. Requests for information are routinely ignored, despite the existence of the Promotion to Access to Information Act. There is endemic lack of compliance.[6]

Ineffective implementation of the Promotion of Access to Information Act is due to wilful neglect, lack of appreciation of the importance of the right, an institutional culture of risk aversion and/or secrecy and a lack of training. The absence of a useable enforcement mechanism is one of the primary obstacles.[7] Unlike most modern access to information laws, the act does not create a specialist adjudicatory body, such as an information commissioner or commission. Such a body should be established to dispense quick, accessible and inexpensive access to justice for those appealing decisions to withhold information, or so-called deemed refusals where no answer comes in response to a request.

The Commission proposes the following:

- The Protection of Personal Information Bill seeks to establish an information regulator covering certain aspects of information and personal data. This regulator should be equipped with the necessary resources to do its job properly and independently. The body should strike a balance between its responsibilities to protect personal data and providing recourse to those claiming their right of access to information.

- More "open data" should be made available. Open data is information that is made actively available without a request from an individual. This is provided for in the Promotion of Access to Information Act, but generally not implemented due to lack of expertise. Examples of information that should be made available would be tender information, environmental impact assessments and mineral licences.

Strengthen judicial governance and the rule of law

Without a reliable, honest, efficient court system, there can be no access to justice, no confidence on the part of investors in the economy and little prospect of holding powerful private and public actors to account.

Although generally sound, South Africa's rule of law could further realise the transformative promise of the Constitution. Challenges such as court administration inefficiencies that denude people of their right to access justice, and judicial appointments that call the impartiality of selection processes into question must be addressed.

Judicial governance concerns both the independence and the accountability of the judicial branch of government, and encompasses issues such as selection and appointment, ethics, leadership and management, and the administration of the courts. The selection and appointment of judges is the responsibility of the Judicial Service Commission (JSC); the administration of the courts falls under the Department of Justice. The previous chief justice established a body to review policy on court administration in order to move towards a system of judiciary-led court administration. This would increase both administrative and financial efficiency in the courts, judicial accountability and independence. The establishment of the office of the chief justice is a welcome first step towards the achievement of this goal but the Commission recommends that the process be accelerated.

For the law to be an agent of change, it must be interpreted and enforced in a progressive,[8] transformative fashion. This requires a judiciary that is progressive in its philosophy and legal inclinations. The selection and appointment of judges affects socioeconomic transformation, as well as the rule of law and the independence of the courts. Unfortunately, there is little or no consensus in the Judicial Service Commission (JSC) or in the legal fraternity about the qualities and attributes needed for the bench.

Although the Constitution stipulates general criteria for the appointment of judicial officers; it is important for the JSC to elaborate further guiding principles to build consensus on the qualities and attributes of the "ideal South African judge"[9]. The criteria should include a progressive philosophy and an understanding of the socioeconomic context in which the law is interpreted and enforced. While the JSC published a broad list of criteria for judicial appointments in September 2010, they require further development and a clear understanding of their meaning and application.

The training of judges also requires attention. The South African Judicial Educational Institute (SAJEI) commenced operations in January 2012. It has conducted a series of training programmes for different levels of judicial officers. The Commission welcomes this development. The SAJEI must be given all the support it requires and be well-resourced to enable it to develop a cohort of judges equipped to play the transformative role required by the Constitution.

Further reforms include the composition of the JSC itself, which is argued to be too large to function effectively, and to be hamstrung by political interests. The JSC's role is expanding and consideration should be given to whether it is optimally structured to fulfil its responsibilities.

Access to justice and speedier resolution of court cases are important for working people who struggle to get time off to attend court. Long court rolls lead to unnecessary delays and postponements and many poor people cannot

afford the transport to court. The heads of court set up a Judicial Case Management Committee which has made a number of recommendations to implement a new case management system. A pilot project will be launched in 2012 to test this. The Small Claims Court plays an important role in civil matters involving smaller claims. It should be strengthened and resourced to be able to serve the whole country, including rural areas.

The cost of justice for the poor presents a barrier to accessing justice; it can lead to the unintended miscarriage of justice when bail is unaffordable and the accused are not adequately represented. Legal Aid South Africa does laudable work representing litigants who cannot afford legal assistance. The Commission recommends that this institution is adequately resourced so as to improve access to justice. Law graduates should also be viewed as a resource to increase access to legal representation and speed up the administration of justice in the lower courts. An audit of unemployed graduates should be done to place them where they are needed and consideration should be given to extending compulsory community service to law graduates.

The Commission proposes the following:

- Accelerate reforms to implement a judiciary-led independent court administration.
- Establish clear criteria for appointment of judges, with emphasis on the candidates' progressive credentials and transformative judicial philosophy and expertise.
- The SAJEI must be given all the support it requires and be well-resourced to fulfil its mandate effectively.
- Consider whether the current structure of the JSC is adequate to fulfil its expanding mandate.
- Extend compulsory community service to law graduates.

CONCLUSION

In order to achieve its developmental goals, South Africa must develop a society with zero tolerance for corruption, in which citizens are able to hold their leaders to account. Leaders in government, business and civil society should conduct themselves with integrity and be held to high ethical standards. Achieving this requires strengthening the accountability institutions that are already in place and tackling corruption across society. Sanctions must be applied impartially to those who betray public trust or break the law. With political will and consistent application of the right strategies corruption can be significantly reduced and public trust restored.

The existing instruments set up by government should be strengthened and supported by the whole society. Civil society response to corruption should be welcomed and lauded.

By 2030 the language in South Africa should have shifted from fighting corruption to increasing integrity. To achieve this, the nation has to commit to the values of the Constitution and engage as active, responsible citizens to achieve the vision of 2030.

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4. Camerer, 1999.

5. Ipsos Markinor (2010). *Whistle blowing, the Protected Disclosure's Act, accessing information and the Promotion of Access to Information Act: Views of South Africans, 2006–2010*.

6. The South African Human Rights Commission's 2009/10 report states that "an analysis of compliance with Section 32 reports for multiple levels of government over the decade since PAIA's passage into law has provided clear evidence of poor levels of compliance with its provisions. These levels of compliance point to a low level of awareness, a lack of accountability for non-compliance and the importance (or lack thereof) accorded to PAIA in the sector" (p 158).

7. Asmal et al (2007). *Report of the ad hoc committee on the Review of Chapter 9 and associated institutions*. Report to the National Assembly of the Parliament of South Africa.

8. "Progressive" in this context means having "a deep commitment to constitutional values on a range of issues including, empathy and compassion, access to justice, socioeconomic rights and judicial deference." Taken from Cowen S (2010). *Judicial Selection: A Timely Debate*. Available at: http://www.dgru.uct.ac.za/usr/dgru/downloads/Judicial%20SelectionOct2010.pdf (accessed 3 August 2011).

9. Ibid.

CHAPTER FIFTEEN

Transforming society and uniting the country

KEY POINTS

- To make it easier for South Africans to interact with each other across racial and class divides, the country needs to improve public spaces and public services.
- It is important for all South Africans to be active citizens and exercise leadership throughout society.
- A social contract could help propel South Africa onto a higher developmental trajectory as well as build a more cohesive and equitable society.

Unity in diversity will be fostered by a shared commitment to constitutional values. The values entrenched in the Constitution and its Preamble and further expanded upon in the Bill of Responsibilities are part of children's education and should also be promoted amongst adult South Africans.

South Africa needs to build a more equitable society where opportunity is not defined by race, gender, class or religion. This would mean building people's capabilities through access to quality education, health care and basic services, as well as enabling access to employment, and transforming ownership patterns of the economy. Redress measures that seek to correct imbalances of the past should be strengthened.

INTRODUCTION

This plan is about transformation and contains recommendations to achieve a virtuous cycle of confidence and trust, a growing economy and broadening of opportunities. This chapter discusses broader proposals to support nation building and ways in which the values enshrined in the Constitution can be realised. It deals with implementing redress, promoting economic and social inclusion, social cohesion, active citizenry and broad based leadership and, the crafting of a social compact.

The fundamental relationships that define us as South Africans are vitally important. They will bind the country together in moving towards a shared future. The most important uniting elements are our shared geographical space and shared history. The progressive Constitution is a testament to that history. It is a national compact that defines South Africa's common values and identifies our rights and responsibilities as people living together. The Constitution is also the vision for South Africa and offers a blueprint for the establishment of a prosperous, non-sexist, non-racial and democratic society.

South Africa has made significant progress since 1994. South Africans walked away from the precipice of war and bloodshed to create a democratic state based on a progressive Constitution. The end of apartheid provided for the restoration of dignity to all South Africans. Free and fair democratic elections are held regularly. In addition to establishing the legal and institutional underpinnings of an inclusive society, South Africa has made significant progress in extending access to services such as education and housing. The economy has performed better, with rising incomes and employment.

Problem statement

Despite progress since 1994, South African society remains divided. Many schools, suburbs and places of worship are integrated, but many more are not. South Africa remains one of the most unequal economies in the world. The privilege attached to race, class, space and gender has not been fully reversed. Despite rapid improvements in access to basic services, the quality of services continued to be affected by who you are and where you live.

When opportunity is skewed for centuries, this tends to produce a distribution of financial, human and social capital that continues to reinforce inequality of opportunity even if the legal elements of discrimination have ended. Opportunity continues to be defined by race, gender, geographic location, class and linguistic background. "Inequality hardens society into a class system, imprisoning people in the circumstances of their birth. Inequality corrodes trust among fellow citizens, making it seem as if the game is rigged."[1] This is particularly true where, as in South Africa, class is aligned with non-economic factors such as race, so that the social order as a whole seems not only profoundly inequitable but also unfair. Deep inequalities and the associated low levels of trust have a highly negative impact on economic development and make it harder to forge a social compact that could move South Africa onto a higher developmental trajectory.

In a modern economy, earnings are largely

determined by human and social capital. Globally, the rates of return to education have increased steadily. High levels of human capital allow people to work and families to accumulate assets. These earnings then enable families to invest in better quality education. This creates a cycle where richer people are able to increase productivity and earnings, at a much faster pace than the poor. The outcome is that the historical inequities continue to adversely affect the lives of most black South Africans.

Unemployment is high particularly among black youth. In addition to the historical inequities that reduced opportunities for black people, the way in which the labour market has evolved, locking out new entrants, adds to the lack of opportunities. The economy has not generated new opportunities in the form of employment and openings for new enterprises, on the hoped-for scale.

Other aspects of identity also impact on inequality of opportunity. Women suffer from discrimination in both the education system and in the labour market. They are less likely to be able to access jobs that provide learning opportunities or personal growth. The net effect is that women are particularly likely to be locked in a cycle of poverty. There is evidence of increasing female participation in the labour force since 1994, but much more needs to be done to eradicate patterns of inequity.

Many rural communities live in areas far from economic activity. While access to public services has improved in rural areas, infrastructure remains weak and the quality of education and healthcare is often poor. The result is that many rural households are trapped in poverty. The relative decline in agriculture and the consequent fall in agricultural employment have further reduced earnings capacity in rural areas. The social grant system has contributed to stabilising household earnings but is not a substitute for a wage or a salary.

In urban areas, apartheid spatial patterns mean the poor often live far from places of work. This makes it harder to find work and raises the cost of transport. Inefficiencies in the housing market and poor public transport limit mobility of workers, effectively banishing the poor to distant townships with few work prospects.

The Constitution outlines principles of non-racialism, non sexism and equality before the law. The social, psychological and geographic elements of apartheid; continue to shape the lives and outlook of many South Africans, even though apartheid no longer exists on the statute books. This systemic racism must be confronted by society as otherwise it will be reproduced and reinforce itself across generations. It is this inherited psyche of racial prejudice, breakdown in values, inequality of opportunity and massive poverty, as well as competition for scarce resources, which helps fuel racism and, more recently, xenophobia.

Discrimination on the grounds of sexuality and homophobic violence are also a major problem. More needs to be done protect the constitutional and legal rights of sexual minorities.

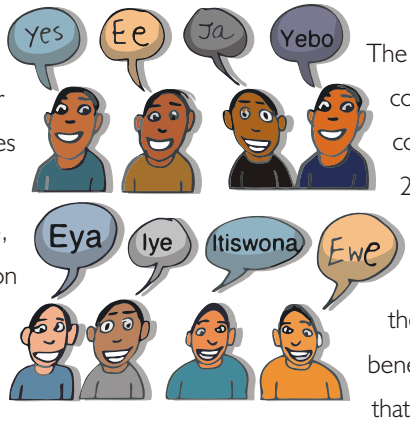
Open displays of opulence are a growing scourge in South African society. Their offensiveness is particularly marked because of South Africa's high levels of inequality and unemployment. Society should have balanced and appropriate incentive systems consumerate to the individual's contribution to society. Excessive displays of wealth as well as unjustified differentials in income distort these incentives.

We cannot look only to the state to ensure the fulfilment of the Constitution. The Constitution underpins the provisions of socio-economic rights.

Many clauses in the Chapter 2 of the Constitution are styled as: "Everyone has the right to....." followed by the "the state must take reasonable legislative and other measures, within its available resources, to achieve the progressive realisation of these rights". The interpretation that has developed from these clauses is that people demand and the state delivers. It is important that the government fulfils its responsibilities, but, equally, all South Africans have roles as responsible and active citizens to be agents of their own development.

VISION 2030

In 2030, South Africans will be more conscious of the things they have in common than their differences. Their lived experiences will progressively undermine and cut across the divisions of race, gender, space and class. The nation will be more accepting of peoples' multiple identities. In this South Africa there will be:



- Broad-based knowledge about and support for a set of values shared by all South Africans including the values contained in the Constitution.
- An inclusive society and economy. This means tackling the factors that sustain inequality of opportunity and outcomes by building capabilities and redressing the wrongs of the past.
- Increased interaction between South Africans from different social and racial groups.
- Strong leadership across society and a mobilised, active and responsible citizenry.

FOSTERING CONSTITUTIONAL VALUES

The Constitution is the supreme law of the land. It aims at transforming South Africa into a more equitable, integrated and just society. The Constitution has embedded in it, values of human dignity, non-sexism, non-racialism and the rule of law. These values:

- Provide the basis for a new South African identity
- Set out a vision for how South Africa can overcome its history and build a society based on equality, freedom and dignity
- Enable South Africans to have a common bond and provides normative principles that ensure ease of life, lived side by side.
- Afford broad standards by which particular actions are judged to be desirable and right.

The Constitution is also a national compact. The essence of this compact can be found in Chapter 2 of the Constitution, which declares that "everyone is equal before the law and has the right to equal protection and benefit from the law". It also states that the country may pass laws that protect or advance people disadvantaged under apartheid. These two clauses form the nub of the agreement that brought democracy and freedom in 1994. The Constitution declares that:

- South Africa belongs to all who live in it and seeks to build a society where opportunity is not defined by race, gender, class or religion.
- Redress is essential. Interventions include affirmative action, black economic empowerment (BEE), preferential procurement, land reform and redistributive patterns of public spending.
- Removing the shadow of apartheid by developing the capabilities of the historically disadvantaged is necessary. This means that good quality education, basic services such as health, water, sanitation, public transport, safety and social security are all vital to address deprivation.

The values in the Constitution cannot be achieved through legislation alone. Laws are unlikely to be

adhered to unless people's attitudes also change. It is unsurprising, therefore, that legislation designed to prevent discrimination and address historical inequalities is often observed either cynically or not at all. This will not be resolved by passing more laws. Families, communities and schools all have a role to play in bringing up children who respect the rule of law and understand the values in the Constitution.

A partnership between the Department of Basic Education and Lead SA has produced the Bill of Responsibilities, which sets out responsibilities that come with the rights outlined in the Constitution.

The Bill of Responsibilities urges young people to accept the call to responsibility that comes with the many rights and freedoms enshrined in the Constitution of the Republic of South Africa. The Bill is designed as a tool to change behaviour. Although this bill targets the youth, government should broaden the campaign to all South Africans, including adults.

The plan aims to inspire South Africans to be proud citizens and to live the non-racial values in the

FIG 15.1 SUMMARY OF THE BILL OF RESPONSIBILITIES

My responsibility	What it means
My responsibility in ensuring the right to equality	Treat every person equally and fairly, and do not discriminate unfairly.
My responsibility in ensuring the right to human dignity	Treat people with reverence, respect and dignity.
My responsibility in ensuring the right to life	Sanctity of human life, protect and defend my life and that of others.
My responsibility in ensuring the right to family or parental care	Honour, respect and help my parents, and my family.
My responsibility in ensuring the right to education	Attend school regularly, to learn, and to work hard, cooperate with and respect teachers and fellow learners.
My responsibility in ensuring the right to work	Work hard and do our best in everything we do. Living a good and successful life involves hard work, and anything worthwhile only comes with hard work.
My responsibility in ensuring the right to freedom and security of the person	Solving any conflict in a peaceful manner, no bullying.
My responsibility in ensuring the right to own property	Not to take what does not belong to me without permission, giving generously when able to.
My responsibility in ensuring the right to freedom of religion, belief and opinion	Respect the beliefs including religious beliefs and opinions of others.
My responsibility in ensuring the right to live in a safe environment	Conserve and preserve the natural environment, protect animal and plant-life, prevent pollution and no littering.
My responsibility in ensuring the right to citizenship	Obeying the laws of our country, ensuring that others do so as well, and contributing in every possible way to making South Africa a great country.
My responsibility in ensuring the right to freedom of expression	No spreading of lies, and to ensure others are not insulted or have their feelings hurt.

constitution. We must constantly guard against narrow nationalism, dislike of 'others' or the development of a superiority complex in relation to people from other countries or continents. Nationalism, taken to an extreme, engenders new forms of racism, discrimination and chauvinism.

The role of family

Family can be defined as a social group related by blood, marriage, adoption or affiliation. This definition allows for all forms of families, including single-headed families, cohabitation, multigenerational families, single-sex families and the nuclear family. The family plays a critical role in shaping independent, productive and responsible people. However families are subject to many pressures and these include:

- The racially separated communities created by apartheid mean that people live far away from work. This limits the time available to perform all the functions of the family.
- Impoverished families find it difficult or impossible to ensure adequate education and healthcare for children or to provide for the elderly and disabled.
- There is a high incidence of HIV/AIDS and an increasing numbers of orphan-headed households.[2]
- South Africa has a high incidence of interpersonal violence. A high proportion of this is between family members. Interpersonal violence is ranked as the second highest cause of morbidity in South Africa.[3]
- Families may not necessarily assert the non-racial and non-sexist values of the Constitution. Discrimination, especially on the basis of gender, often takes place within family structures. Racism is imparted by parents onto their children.

The Commission suggests further analyses of challenges facing the South African family. This would provide a basis for identifying appropriate policy interventions to make families better able to provide a loving, supportive, and safe environment; an environment in which values such as tolerance, diversity, non-racialism, non-sexism and equity are fostered.

Fostering constitutional values using schools and the school curriculum

Schools have an important role to play in building social cohesion, particularly given near-universal school enrolment. Schools can foster common values across language, culture, religion, race, class and space. Schools should help to produce inquiring minds – people who are empowered to question and challenge prejudice whenever and wherever they encounter it. It is therefore important that children are empowered to:

- Appreciate diversity through respect and tolerance
- Cope in an ever-changing environment
- Understand that rights come with responsibility
- Help transform the national character of South Africa

In a democratic South Africa, schools should promote the values embedded in the Constitution. The constitutional value of human dignity advancing

equality, human rights and freedoms informs the South African Schools Act (1998). The 2002 *Schools Values Manifesto* set out the values which should permeate the education system. These are: democracy, social justice and equity, equality, non-racism and non-sexism, ubuntu, human dignity, an open society, accountability, responsibility, the rule of law, respect and reconciliation. The School Values Manifesto and the Bill of Responsibilities outline methodologies to promote values in schools.

To foster these values effectively, all teachers must integrate them in their everyday practice and interactions with colleagues, learners, the school management team and parents. Pre-service training, continuous school-based professional development and teacher-support programmes must be instituted, to help teachers develop knowledge and skills to teach values in their learning areas and across the curriculum. Syllabuses should mainstream democratic values in the curriculum, as well as encourage the understanding that actions speak louder than words. Teachers and students who live these values must be rewarded.

All schools should use the Constitution and the Bill of Responsibilities to develop and implement a school value policy and broadly communicate. The process is as important as the outcome, because it will help the school and its community (education department officials, school governing bodies and parents), develop a common understanding of what values are embedded in the Constitution and the national curriculum.

The preamble to the Constitution embodies values of the Constitution. To build a common understanding of what South Africa stands for, all schools should recite the Preamble to the Constitution at assembly, in a language of their choice. Similarly, workplaces should be encouraged to display the Preamble on their walls.

We, the people of South Africa,
Recognise the injustices of our past;
Honour those who suffered for justice and freedom in our land;
Respect those who have worked to build and develop our country; and
Believe that South Africa belongs to all who live in it, united in our diversity.
We therefore, through our freely elected representatives, adopt this Constitution as the supreme law of the Republic so as to: ¬
Heal the divisions of the past and establish a society based on democratic values, social justice and fundamental human rights;
Lay the foundations for a democratic and open society in which government is based on the will of the people and every citizen is equally protected by law;
Improve the quality of life of all citizens and free the potential of each person; and
Build a united and democratic South Africa able to take its rightful place as a sovereign state in the family of nations.

The role of the media

Access to information via print, broadcasting and the internet are vital for building an informed citizenry. It also contributes to education and economic development.

The media has an impact on the values that people hold and the lives they aspire to. "Radio, television, film, and the other products of the culture-industries provide the models of what it means to be male or female, successful or a failure, powerful or powerless. Media culture also provides the materials out of which many people construct their sense of class, of ethnicity and race, of nationality, of sexuality, of 'us' and 'them'." The outputs of media organisations are not value-neutral. They carry the

values and ethos of their owners, the staff and readers.

In South Africa, the Constitution and society give the media extensive freedoms. In turn, media organisations have a responsibility to use these freedoms sensibly and in accordance with the Constitution. The media have a responsibility to give adequate space to the voiceless and the marginalised, without which an informed public discourse in not possible. The media plays a critical role in nation building and building non-racialism and non-sexism. They also play a role in building an informed, education and opinionated society and in holding government to account. These are critical for democracy to function. The media should play all these roles while at the same time, breaking down racial and gender stereotypes. The media must promote the Constitution and also promote the non-racial, non-sexist and democratic ethos of the Constitution. One way the media could do this is by instituting a Constitutional Friday on the first Friday of every month.

Legislation does support the electronic media in promoting progressive values. However the legislative and policy regime has become outdated and narrow, given changes in technology and media platforms. The current broadcasting policy review process must ensure that the mandate to build the nation and promote constitutional values is strengthened.

The independence and autonomy of media institutions and regulatory bodies including the South African Broadcasting Corporation, the Independent Communications Authority of South Africa, the Press Council of South Africa and the Advertising Standards Authority should be protected.

EQUAL OPPORTUNITIES, INCLUSION AND REDRESS

Equal opportunity is about reducing the impact of factors such as gender, ethnicity, place of birth and parental income and wealth and family background on people's life chances. Success in life should depend on people's choices, effort and talents, not their circumstances at birth.

Apartheid systematically and purposefully restricted the opportunities available to the majority of South Africans. Apartheid also restricted the majority from meaningful participation in the economy. Assets of millions of people were directly and indirectly destroyed and access to skills and to self-employment was racially restricted. The accumulation process under apartheid confined the creation of wealth to a racial minority and imposed underdevelopment on black communities. The result is an economic structure that today, in essence, still excludes the vast majority of South Africans. In addition, networks play a major role in finding work. Evidence suggests that about one third of people get jobs through a family or a friend. In communities with very high unemployment rates, many unemployed people know very few employed people. In contrast, in richer communities more people are themselves

employers or know someone who has an opening.

The economy has neither grown rapidly enough nor transformed to ensure that all of society can progress. Low growth combined with poor quality education and low labour absorption has resulted in failure to create an environment in which an adequate share of benefits accrue to the poor or historically disadvantaged. Sectors that employ low-skilled people, such as agriculture, mining and construction, have either shed jobs or, at best, provided temporary employment in line with the cyclicality of these sectors. Sectors such as retail and security have drawn in more labour, but not enough to offset the fall in low-skill employment. Sectors such as financial services, Information Technology and business services have grown employment, but predominantly for skilled people. Added to the mix is a critical shortage of skilled labour, which pushes up the salaries of skilled people. These trends have contributed to rising wage inequality and inequality in society. Meanwhile, persistent inequalities in themselves generate conflict over social and economic policies, so that people with capital do not feel comfortable taking long-term investment decisions.

How can South Africa enter a more virtuous cycle of improving education, rising confidence, greater investment, increasing employment and incomes and ultimately leading to falling levels of inequality? Government needs to provide the catalyst for this virtuous cycle. It needs to remove the obstacles to faster economic growth, increase infrastructure investment, and improve service delivery (especially quality education). This would help to build confidence and encourage business to invest with a view to the long-term. Building trust and confidence takes time and effort.

- Young people, women, people with disabilities and people living in rural areas face the highest levels of unemployment and exclusion. The plan attempts to reduce hindrances to inclusion. Inclusion related proposals presented in detail in other chapters of the Plan include:
  - Reversing apartheid geography by establishing new spatial norms and standards – densifying cities, improving transport, locating jobs where people live, upgrading informal settlements and fixing housing market gaps (see chapter 8).
  - Strengthening the social wage and social security such that no South African lives below a minimum standard of living (see chapter 11).
  - Growing the economy and employment so that 11 million jobs are created by 2030; providing a tax incentive to employers to reduce the initial cost of hiring young people as well as a subsidy to the placement sector to identify, prepare and place matric graduates into employment opportunities. Business should devise its own plan to increase access for young job seekers (see chapter 3).
  - Implementing a rural development strategy that ensures that jobs are created in the agricultural sector through effective land reform, extending irrigation, improving basic services in rural areas to enable people to develop their capabilities, developing industries such as agro-processing, tourism, fisheries and small enterprises (see chapter 6).

Only by reducing poverty and inequality through broadening opportunity for all can the country achieve transformation. This transformational vision, which calls upon the use of resources, skills, talents and assets of all South Africans, is about adequately advancing social justice and addressing historical disparities. It is also about facilitating the emergence of a national consciousness that supports a single national political entity, and helps to realise that goal.[4] This vision flows from the Constitution and its Preamble.

Economic transformation is defined by the Broad-Based Black Economic Empowerment Act (2003)

(BBBEE Act) as the empowerment of African, Indian and Coloured people, as well as women, workers, the youth, people with disabilities and people living in rural areas, through:

- Increasing the number of black people that manage, own and control enterprises and productive assets.
- Facilitating ownership and management of enterprises and productive assets by communities, workers, cooperatives and other collective enterprises.
- Human-resource and skills development.
- Achieving equitable representation in all occupational categories and levels in the workforce.
- Preferential procurement.
- Investment in enterprises that are owned or managed by black people.

Equalising opportunity and building capabilities

The task of creating equal opportunities and building capabilities should begin with ensuring that everyone has access to quality basic services (see chapter 4), quality health care (see chapter 10) and quality education and improved access (see chapter 9). Equal opportunity requires equitable access to social infrastructure and basic services.

Quality education and skills training play a major role in tackling poverty. The government must urgently deal with infrastructure backlogs. A minimum infrastructure standards framework already exists and the government should develop a plan towards achieving universal infrastructure equity in the basic education sector. Ensuring that all schools have the minimum infrastructure standards will require financial, logistical or planning capacity. Delivery must be accelerated so that all children living in South Africa feel they truly belong and matter. The private sector could be encouraged that through their corporate social investment to adopt a school especially those in formerly disadvantaged areas. The government should develop clear proposals to improve school performance in poor schools, focusing on teacher development, school accountability and parental involvement (see chapter 9). The state must continue to skew education funding to schools in poor communities and to students from poor families.

The state must guarantee all poor students who get a university entrance pass, and who qualify for the National Student Financial Aid Scheme, financial assistance in the form of loans for entry to higher education. Learners from no-fee schools who get a university entrance pass should also automatically qualify for financial assistance. This should include full funding assistance covering tuition, books, accommodation and living allowance (in the form of loans and bursaries) to all students. The National Student Financial Aid Scheme already defines the grounds on which a student may qualify for financial assistance. Students who do not qualify should have access to bank loans, backed by state sureties and recovered through arrangements with the South African Revenue Service. The only condition for keeping the scholarship should be successfully completing each year.

Financial assistance must also be available for students entering further education and training

institutions. This is in line with the drive for artisanal skills.

Righting the wrongs of the past

In recognition of the injustices of the past, the Constitution and its Preamble specifically calls for redress. The democratic government then came up with policies such as the Employment Equity Act of 1998, Skills Development Act of 1998, Broad Based Economic Empowerment Act of 2003 and the Land Reform Policies.

Employment equity and workplace opportunity

Employment equity is a key element of the country's plans to broaden opportunities for the historically disadvantaged. Since 1994, it has also been one of the more successful programmes, contributing to a rising black middle class. Premised on the fundamental acceptance that opportunity was distorted by apartheid, the policy has a firm moral and constitutional basis.

The Employment Equity Act (1998) states that if two candidates have the same qualifications, similar competencies and experience, then the black person or the woman should be selected. It does not encourage the appointment of people without the requisite qualifications, competence or potential. The Act would enjoy broader support and appeal among citizens if these provisions were implemented more consistently and fairly.

The intent of the Act is for firms to develop their own human potential, spending time and resources mentoring and developing their staff. Staff training, career-pathing and mobility in the workplace will grow both the person and the firm. South African employers spend too little on training their staff and investing in their long-term potential. The Skills Accord, facilitated by the Economic Development Department and signed in 2011, is a step in the right direction. If more firms train staff, the economy does better and the incentive to job-hop is reduced. Short-term solutions, such as overpaying for scarce skills, are counterproductive to the longer-term development of both the individual and the firm.

For at least the next decade, race should continue to be given the greatest weight in defining historical disadvantage. Individual business should develop plans to at least double the size of their business, and set employment targets that include employment equity targets.

The government may need to review the present incentive structure embodied in the Skills Development Act (1998) to ensure higher spending on staff development.

Career mobility and rising incomes are more likely in an economy that is growing rapidly. Selecting suitable black and female candidates will be easier if the education system produces ever greater numbers of skilled black and female work entrants.

Transforming ownership of the economy

BEE largely focuses on broadening ownership and control of production assets. It aims to deracialise the top echelons of the business community. A thriving economy creates more opportunities for entrepreneurs and for the growth of small businesses. The details of the plan for the economy are laid out in chapter 3.

Preferential procurement, as well as BEE charters, the codes and the BEE scorecard, drive the empowerment of the historically disadvantaged. Legislation requires that major companies meet targets on the seven elements of BBBEE: ownership, management control, employment equity, skills development, preferential procurement, enterprise development and socioeconomic development. Companies with turnovers of between R5 million and R35 million, called qualifying small enterprises, must comply with four of the seven elements. Those with turnovers of less than R5 million are exempt.

The present model of BEE has not succeeded to the degree that was intended in broadening the scope of ownership and control of large firms. Impediments include:

- Lack of capital to acquire ownership or control of major parts of the economy. This has encouraged debt-driven deals that are only likely to work when the economy is growing rapidly. Many debt-driven deals provide a veneer of empowerment. Even in cases where black people are preferred in the awarding of licences to extract rents, such as in the mining or telecommunications sectors, fronting and lack of capital lead to poor participation and raise the cost of capital for other participants, or lead to an excessive reliance on debt, thereby undermining investment in capacity and production.

- An emphasis on narrow BEE in old procurement models at the expense of local procurement. The effect is that a few people make money by importing cheaper products. New approaches to promote local procurement in both the public and private sectors aim to broaden the economic benefits that accrue from economic growth. At the same time, sensible procurement policies can enable black entrepreneurs to grow more quickly and more visibly.

- Misaligned targets and definitions between the BBBEE Act and the codes and the charters that flow from that BBBEE Act and other redress legislation, such as the Employment Equity Act 1998.

Proposals for transforming the ownership of the economy contained in Chapter 3 include:

- Creating an enabling environment for small, medium and micro enterprises and entrepreneurs

to thrive. This includes inculcating the spirit of entrepreneurship in schools, lowering the cost of doing business in the economy, and reducing barriers to entry in various value chains.

- Ensuring that there is alignment amongst all BBBEE legislation and the codes and charters that flow from the BBBEE Act. This process has begun and should continue to ensure that the state procurement lever is used more effectively to advance socioeconomic targets in specific areas and industries.

- Mandatory targets for socioeconomic development and job creation as well as local procurement should be introduced for all tenders above R10 million.

- A recommended statutory body to regulate BEE verification should be established and the Department of Trade and Industry be empowered to revoke the accreditation status of verification agencies that deviate from officially defined processes of accreditation.

- The National Empowerment Fund should have sufficient resources to execute its mandate. It must strengthen its support for black owned small and medium-sized enterprises as well expand the provision of finance and other support for new and emerging sectors, black industrialists and entrepreneurs. This should include facilitating market access, and the removal of administrative and regulatory burdens on small businesses.[5]

- The state must craft a model enabling South Africa to optimise returns from its natural resources. Te optimised returns from mining companies should be used to drive an accelerated development agenda that has skills development and sustainable job creation at its core.

Land reform

The Constitution protects property rights and prevents confiscation of property without due compensation, but it also provides a legal, political and moral basis for redress measures such as land reform. The White Paper on South African Land Policy (1997) allows for land redistribution, land restitution and tenure reform. The principles underpinning land reform are threefold:

- Deracialising the rural economy
- Democratic and equitable land allocation and use across race, gender and class
- A sustained production discipline for food security.

Overall progress has been slow. In 1994, the target for redistribution based on all three pillars was for 30 percent of land to be redistributed within five years. By 2011, only 4.1 percent of land had been redistributed, most of which was state land. The redistribution of productive land has been even slower: only 3.7 percent of agricultural land since 1994.

Chapter 6, dealing with an integrated and inclusive rural economy, provides specific proposals to raise agricultural production and accelerate land reform in a way that focuses on the capabilities of farmers and communities to earn an income. The chapter also makes specific recommendations on land tenure in communal areas. These balance traditional authority with greater certainty for female-headed households to invest in farming.

Living free from discrimination

The Constitution stipulates that neither the state nor any person may discriminate against anyone on the basis of race, gender, sex, pregnancy, marital status, ethnic or social origin, colour, sexual orientation, age, disability, religion, conscience, belief, culture, language or birth. However, the historical legacy of discriminatory legislation means

that there is still much work to be done to turn these constitutional principles into reality. Relatively comprehensive legislation exists; the problem is ineffective implementation and enforcement.

Non-sexism

Gender discrimination remains a major problem in several social and economic settings, including the workplace, the family and educational institutions. This is despite a number of vibrant gender activists organisations and a number of state institutions whose purpose is to promote gender equity – including a dedicated ministry and legislation devoted to ensuring women's equality.

The institutions dedicated to promoting gender equity have not been functioning optimally. The mandate of the Commission of Gender Equality overlaps with that of the Ministry of Women, People with Disabilities and Children. For example, the monitoring and evaluation function is both the mandate of the ministry and the statutory mandate of the Commission on Gender Equality. This results in role confusion and political conflicts over authority. The National Gender Policy does not set clear priorities and targets from which a programme of action could be developed. The gender mainstreaming approach is proving too difficult to put into operation, because it demands a high level of gender expertise and high-level political commitment.

The National Planning Commission calls for clarity on the roles and responsibilities of the different components of national gender institutions:

- The country needs sustained campaigns that focus on changing attitudes and behaviour in relation to racist, homophobic and xenophobic tendencies. It needs to strengthen existing campaigns for non-racialism and gender equity, and against gender violence.
- The Commission of Gender Equality and the ministry should develop joint targets, indicators and timelines for monitoring and evaluating progress towards gender equality. These must be realistic, and should be accomplished through proper gender mainstreaming in departments. The government must address gaps and weaknesses in legislation. For example, the Traditional Leadership and Governance Framework Act (2003) entrenches patriarchal values and limits women's participation in traditional governance. Rather than a separate Gender Equality Bill, the Electoral Act (1998) could be amended to require political parties to ensure gender parity in electoral lists.
- Local government should include more women at representative level, as well as in shaping budgetary priorities. Women are frequently marginalised in local politics and excluded from decision-making processes. Women's participation in integrated development planning is uneven.
- All vulnerable groups including women, children, rural communities, gay and lesbian people and African immigrants should enjoy equal protection and their vulnerability to be addressed through effective and coordinated responses by the police, business, community and civil society (see chapter 12 for details).
- The fostering of Constitutional values though schools and the media should help create a tolerant and gender-sensitive South Africa. These institutions should empower people to challenge prejudice and discriminatory practices.
- Public employment should have a specific focus on women.
- Social, cultural, religious and educational barriers for women to enter the job market should be addressed. Concrete measures should be put in

place to address these barriers and the results should be evaluated over time. Improved access to safe drinking water, electricity and quality early childhood education, could reduce the burden of domestic work and so make it easier for women to seek job opportunities. This is particularly so for rural women.

- Security of tenure should be created for communal farmers, especially women.

Non-racialism

An important pillar of nation building is that South Africa confronts the systematic racism within society. Sustained campaigns should focus on changing attitudes and behaviour in relation to racist and xenophobic (afrophobic) tendencies. This could include holding dialogues at community (ward) level, where communities discuss their experiences of racism, and how it could be addressed. The Department of Arts and Culture could run such an initiative in partnership with civil society bodies and non-governmental organisations operating in this area. Many anti-xenophobia initiatives already exist. For example, opposition to xenophobia at the ward level has also become an integral part of the Community Work Programme.

In South Africa, language and race largely go together. The Constitution recognises 11 official languages, and promises them equitable status and use. Given the ineluctably growing importance of English, lines of inclusion and exclusion will be shaped by the degree of competence that individual South Africans possess in this world-dominant language. By 2030, every South African should be functionally literate in English. However, South Africans must continue to make daily use of languages other than English. It is vital that these languages, which are used in family and social networks, grow and flourish. This will only happen if other languages are cherished by their language communities, and continue to be vital in both the spoken and written word. If stories are still told, poems written, songs sung, then the language will live, and its speakers will become multilingual citizens. Both the government and society have to take active steps to ensure that this happens. For example, the government should fund arts and culture programmes that seek to promote South Africans' knowledge of one another's cultures.

Since a few non-African South Africans speak any African language, a second challenge is to encourage those for whom an African language is not a mother tongue to develop at least a conversational competency in one of these languages. This will enrich the experience of the language learners. Both government and society should promote and celebrate this form of multilingualism. Knowing each others' languages can play a profound role in promoting understanding and developing social cohesion.

The Commission therefore proposes that every South African should study at least one of the nine official African languages at school. To achieve this aim will require, as a first step, there should be urgent development of effective and appropriate second-language curricula, materials and educators in the African languages. Adults who do not speak an African language should also be encouraged to learn one. Business should reward employees who develop a level of conversational competence in an African language.

Equality before the law

The Bill of Rights states that all South Africans are equal before the law. Yet in practice, people experience the law differently. Upper middle-class households are often better served by municipal, provincial and national government than their working-class counterparts. Schools provide a better education to middle-class learners, streets and parks in middle-class areas are better maintained, and refuse collection and other municipal services are of better quality. Access to wealth enables people to experience better treatment before the law because they can afford better lawyers. Chapter 14 provides practical proposals that will help poor people access justice. The suggestions include:

- Extending community service to law graduates. This will increase access to legal representation – especially for the poor – and speed up the administration of justice in the lower courts.
- Developing an accountability framework that directly links individual public servants to their roles and responsibilities, in proportion to their functions and seniority.

PROMOTING SOCIAL COHESION ACROSS SOCIETY

The key to the country's unity is embracing the reality that all South Africans have many identities, and yet are South African. The Constitution, and the values it sets out, is based on South Africa's diversity. Similarly, all the imagery used in the South Africa's coat of arms is distinctly South African, and the motto, in a distinct break with the Latin that is so frequently used, is from one of the extinct San languages. It says, "!Ke e: /Karra //Ke", meaning "united in our diversity". Being South African has never been premised on the notion of a melting pot. South Africans need to work continually to build unity in diversity.

The totality of this Plan, particularly the issues summarised in this Chapter, aim at building a new nation and promoting social cohesion. The National Planning Commission agrees with the declaration of the July 2012 Social Cohesion Summit that dealing with the challenges of unemployment, poverty and inequality is critical to building social cohesion. Yet we also need society to unite around a vision of a better South Africa, the attainment of which would not be possible if we do not work together.

As we continue our task of nation-building, we also

need to understand the context of globalization and transnational movement of people. As chapter 2 explains, South Africa has a significant minority of individuals with transnational identities that span the borders of any one country. Their skills together with the cross-border networks to which they belong can provide both economic and cultural opportunities for South Africa's development.

Daily interactions on an equal basis build social cohesion and common understanding. These interactions will be promoted effectively when South Africans share more public spaces, as was the case briefly during the 2010 soccer world cup. At the moment, the country is divided by the services people use, with economic wealth gradually replacing race as the key driver of differentiation. Improved public services, including better public transport, and more integrated housing, will make it easier for South Africans to break out of their immediate communities and share common experiences.

Sport teaches discipline, is an integral component of a healthy lifestyle and enables South Africans to share common space. Unfortunately, instead of sharing common spaces, and developing common loyalties and values through sport, South Africans and South African sport were systematically segregated and underdeveloped under apartheid.

The transformation vision for sports in 2030 is that:

- Participation in each sporting code begins to approximates the demographics of the country.
- South Africa's sporting results are as expected of a middle-income country with a population of about 50 million and with historical excellence in a number of sporting codes.

For the vision to be realised, school sports must be adequately resourced. The government must ensure, that there are adequate facilities for the majority of the population to play sport and that these are adequately maintained. This does not need expensive buildings, but recreational environments with basic facilities that can function as community hubs. Communities should organise sporting events, leagues, championships and generally look after the sports facilities once they are installed or developed. Corporate investments in grassroots sport should also be encouraged.

Cultural activities and art can also play a major role in facilitating the sharing of common spaces. In addition art can foster values and facilitate dialogue and healing, thus restoring pride among African, Indian and Coloured South Africans. This can only happen if the country supports and encourages the production of stories that facilitate healing, nation building and dialogue, as well as tell the histories and stories of South Africans. Artistic works can portray progress in building a united nation, but also by presenting the country's blemishes they can challenge South Africans to aim higher as individuals and as a nation.

The creative arts sector should be supported by government and by the private sector as a sector that has a great potential for growth and job creation over and above its role of facilitating dialogue for nation building. The broadcast media, in particular the national broadcaster, should air programmes that popularise narratives and visions of a non sexist, non racial equal and democratic South Africa. In addition, commercial distribution networks could be incentivised to distribute and/or host art that contributes to nation building and dialogue, as well as healing.

Cultural workers usually face insecure employment and incomes and often exploitative working conditions. Chapter 11 identifies the lack of social protection for those working in the informal sector. Beyond public employment schemes, the

government should support compulsory contributions to smooth income for cultural workers. It should also develop a sectoral determination legislation framework to protect the more vulnerable employees in the arts sector, in addition to the protection already accorded child actors.

ACTIVE CITIZENRY AND LEADERSHIP

For these and other proposals in the plan to become reality, all South Africans must contribute and work towards realising the vision of a cohesive society. The government needs citizens to speak out when things are going wrong. Several objective conditions can contribute to citizen activism and solidarity.

To start with, the government needs citizens to speak out when things are going wrong. This accountability mechanism is most effective where everyone depends on the same public services. Where the middle class opts out of public services, it no longer takes an interest in improving their quality. Investing in people's capabilities makes them more empowered. As people's skills and opportunities develop, they are better able to strengthen the work of the state by speaking out against malpractice or poor performance.

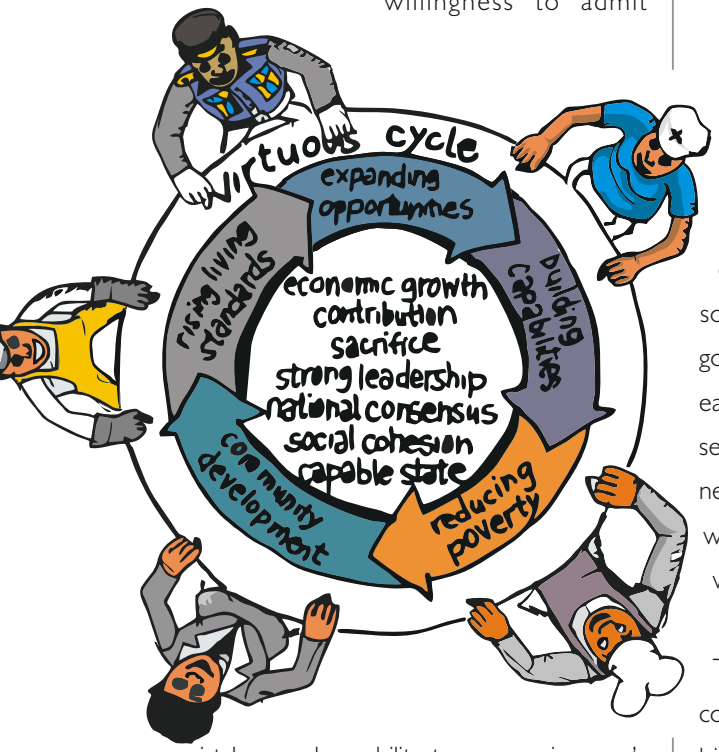
Participatory governance is a central tenet of post-apartheid legislation on local governance. The White Paper on local government (1998) encourages municipalities to find ways of structuring participation to enhance, rather than impede the delivery process. While formal, generalised structures of participation were established through legislation, municipalities were also encouraged to develop their own mechanisms to enable the mayoral executive, municipal management, the local council, ward committees and communities to participate together in decision-making. Many municipalities still need to make it happen and are encouraged to do so. Chapter 13 goes further and suggests that the state should focus on engaging with people in their own forums rather than expecting citizens to engage with forums created by the state. National, provincial and local spheres of government can enhance citizens' participation through a variety of two-way information gathering and sharing forums and platforms between citizens and government. While these platforms can enable government to inform, they also enable citizens to give feedback to government and to monitor performance. In addition, these channels will allow all development actors (the individual, communities, NGOs, government and even the private sector) to use this information flow to develop strategies together that enable citizens to best claim their rights and exercise their responsibilities as envisaged by the Constitution. For this to happen there should be some level of trust among all the development actors involved and the information gathered should be salient, credible and be seen as legitimate by all.

Citizen participation has an important role to play in bringing about transformation. South Africans need to use the avenues provided for in the legislation and others to help shape the development process and hold the government to account for the quality of services it delivers.

Active citizenship requires inspirational leadership at all levels of society. Leadership does not refer to one person, or even a tight collective of people. It applies in every aspect of life. In particular, community leaders and public figures should demonstrate leadership qualities that include:

- The ability to lead by example and to follow rules that apply to everyone.
- Honesty, integrity and trustworthiness. Leaders are able to combine the ability to hold fast to a core set of values as enshrined in the Constitution with embracing change and

- agitating for transformation
- The capacity to innovate, manage change, build enough support to drive an "essential" and not necessarily popular agenda, communicating with people, keeping them interested and informed.
- The ability to listen, especially to those with a different opinion, perspective and or priorities. Leaders should be able to create conditions that allow everyone to communicate in open dialogue. This requires tolerance, patience, openness to giving and receiving criticism, a willingness to admit mistakes, and an ability to re-examine one's own presuppositions. Leaders must make the constitutional mandate of public participation much more real, creating shared understanding by building processes that allow stakeholders to participate in decisions.
- Ability to promote meaningful inclusion, helping to overcome barriers associated with class, ethnicity, gender, disability and other factors of exclusion. Leaders must seek to empower the otherwise powerless, building bridges to other sectors of society, including business, civil society, and faith-based communities, as well as to all levels of government.
- This is all-encompassing leadership that empowers people and places them at the centre of development. It is the visionary leadership required to take the country to its goals for 2030. It can act as a catalyst for change. In the interests of shared responsibility for development, South Africa must pay attention to the way that disputes are settled. It is vital to promote values of responsible citizenship and solidarity. Nation building will come from diverse people working together, managing tensions creatively.



FOSTERING A SOCIAL COMPACT

There are various understandings of the concept of a social contract. However, at the core is an agreement among individual people in a society or between the people and their government that outlines the rights and duties of each party while building national solidarity. The settlement that was produced through the negotiations in the 1990s and the Constitution, which includes political and socioeconomic issues, were effectively national compacts.

There is now an urgent need to craft a social contract that will enable South Africa to achieve higher growth and employment, increase investment and savings. The idea of a social compact is a relatively simple one: all stakeholders buy into a clearly articulated vision; have a shared analysis of constraints and are committed to finding solutions; and parties understand the objective of the compact. The compact should offer attractive (indeed compelling) benefits to each party and all parties should believe that the necessary sacrifices are relatively equitably shared amongst all participants.

There is a fairly standard approach to social contracts internationally. In its simplest form, workers agree to accept lower wage increases than their productivity gains would dictate. In South Africa, there would have to be scope to address very low pay in some industries and occupations in this context. In return, business agrees that the resulting increase in profits would not be taken out of the country or consumed in the form of higher executive remuneration or luxuries, but rather reinvested in ways that generate employment as well as growth.

Government plays a key role in lowering the cost of living for workers (mainly as measured by the average inflation rate), implementing a social wage and reducing the cost of business to further raise profitability. It must also find ways to monitor compliance and discipline parties if they fail to keep up their part of the bargain.

The complexities that make the crafting and implementation of a social contract difficult in South Africa include:

- Insufficient trust between the parties to ensure that the compact holds:
  - Workers do not trust that business leaders will use higher profits for investment purposes rather than taking the money out of the country or increasing executive remuneration. They have good reason to be suspicious. Several studies, most notably Aghion and Fedderke, argued that profit margins are already very high in South Africa, even in the manufacturing sector. The high profits have not generated higher investment levels because many of these markets are highly concentrated with low levels of competition. In other words, low profits may not actually be the reason for low levels of investment. There may be a series of other economic and political reasons. Some of these need to be tackled by government, sometimes to the chagrin of existing players (business and labour). This may mean the social contract may not be based on increasing profit margins.
  - Given deep inequalities, workers do not see why they should accept wage restraint. This concern can only be overcome if there is a clear return in terms of employment creation and growing equality across the economy.
  - Business does not trust labour to keep to its word of low income increases for a sufficiently long period to ensure sustained higher profits. Moreover, business may be

- less concerned about pay than about excessive legalism in labour relations, especially around disciplinary and productivity issues, and about shopfloor disruptions linked to hostile labour relations. The "hassle factor" is often much more of a problem for employers than wage increases.
- Business does not trust government to be an independent arbiter given the relationship between the ruling party and the unions.
- Government too is suspicious of business' ability or willingness to keep profits in the economy and to reinvest in the productive parts of the economy. Indeed in the era of globalisation, is it possible for any government to be able to discipline capital? Capital is mobile and is more easily able to avoid reinvesting locally than labour is able to move. This gives it more power in the political economy realm and distorts any attempt to enforce a social compact.
- The state may not be able to lower costs for workers and firms. On the one hand, strengthening the social wage could require raising taxes, which then reduces profitability. On the other, the state has been unable to discipline the various spheres and even national departments to reduce unnecessary costs to the economy.

- The state may not be capable of acting as an independent arbiter willing and able to punish parties who break either the letter or spirit of a compact. State capability issues bedevil the chances of success.

- Representation may not be credible, institutions established for such engagements may no longer be useful and alternative institutions and methodologies may need to be crafted.

- The leadership of all parties may be unwilling to take risks and this is largely linked to lack of trust.

Nonetheless, a social contract would contribute substantially to providing the political, economic and social conditions for long-run development. The resultant accord must enjoy wide public support. It is also important to build confidence in the process of social compacts by making initial gains to balance sacrifices required and to audit and report on progress and shortcomings. For example even as negotiations continue government should invest more on social and economic infrastructure and deliver an expanding social wage to the poor, business should take a longer term perspective by investing more, and increasing employment and training. Labour has to recognise that some wage moderation is required and efforts to raise productivity are essential.

CONCLUSION

The shadow of history still lingers. The country is still divided along race and class lines. Social divisions are underpinned by massive inequalities.

The fostering of constitutional values is critical to ensure that the country is able to emerge with a new identity rooted in the Constitution.

Faster and more inclusive growth, redress and equalising opportunity will facilitate healing, reduce the need to fight for significance and enable inclusion. Employment does not just ensure that they have access to the means of subsistence, but also that they can develop the sense of empowerment that comes with a degree of economic security and the sense of contributing actively to society.

Government provides basic services and invests in people's skills in order to build capabilities. A capabilities approach to development, with its focus on what people are able to do, including people's

ability to help monitor government is fundamental to broadening opportunities, an essential element of the nation-building process.

Ensuring that South Africans are able to interact across race and class will facilitate social cohesion.

The crafting of a social contract will enable all South Africans to aim towards a higher development trajectory.

To build an inclusive nation, the country needs to find ways to promote a positive cycle, where an effective state, inspirational leadership across all levels of society and active citizens, reinforce and strengthen each other. The preconditions for this positive cycle were put in place in 1994, when South Africa started to grapple with the legacy of unequal access to services and opportunities. The Reconstruction and Development Programme embarked on the daunting task of extending basic services to all South Africans. These services matter, not only for their own sake, but also for what they enable people to do. Access to quality health care not only facilitates a healthy life, it also removes the fear and insecurity that could come from suddenly being thrown into debt by medical expenses. Education empowers individuals and opens up new opportunities, not just in terms of employment, but also through the increased confidence that literacy brings.

Transformation is indeed about turning around the legacy of apartheid, equalising opportunities, building capabilities and making real the vision embodied in the Constitution of the Republic of South Africa; that is the establishment of a non racist, non sexist, democratic and prosperous society.

NOTES

1. Packet G (2011). The Broken Contract: Inequality and American decline. United States of America: Council on Foreign Relations.
2. National Planning Commission (2011). Diagnostic Report.
3. ibid.
4. Bentley K and Habib A (2008). Racial Redress and Citizenship in South Africa. Cape Town: HSRC Press
5. Mazwai (2012) Presentation to National Planning Commissioners Meeting 26 March 2012

A conversation with South Africans

The establishment of the National Planning Commission presented an opportunity to get South Africans thinking, talking and debating about the South Africa they wish to see in 2030. The mandate of the Commission as outlined in the revised green paper is to:

- Take a broad, cross cutting, independent and critical view of South Africa; to help define the South Africa we seek to achieve in 20 years time and to map out a path to achieve those objectives.
- Put forward solid research, sound evidence and clear recommendations for the government.
- Work with broader society to draw on the best expertise, consult relevant stakeholders and help shape a consensus on how to tackle the key challenges facing our country.

To support and advance this mandate, President Jacob Zuma made it clear in his speech at the inaugural meeting of the Commission that the commissioners "must not be apologetic to government and they must not try to be loved by government. South Africa is looking at a commission that is going to deal with issues very frankly. Not seeking favours from government but seeking to help this country and its people".

We have demonstrated to the world that it is possible to have sensitive and difficult conversations about our country's challenges and identify solutions. Our Constitution, which is loved and protected by many, illustrates what can come out of a nation that is able to engage in constructive dialogue. The ability of a state to have conversations with its people and vice versa is an art form that South Africans cherish and nurture. It is a democratic practice that lays the foundation for a South African social compact.

From its inception the Commission understood that it would have to adopt an inclusive and participatory process to allow South Africans to engage with the Commission and, most importantly, with each other. The plan and vision belong to all South Africans and so it was important for a broad range of people to input into the formulation of the plan.

The conversation began in 2010. Since then South Africans have been debating the kind of South Africa they wish to see in 2030. The Commission has listened to and shared in people's life experiences. The process speaks of a nation that is able to work together. Balancing views was not an easy task. Difficult trade-offs had to be made. Nevertheless, through dialogue South Africans were able to participate in producing this national development plan. It is a story about planning together.

STRATEGIES USED FOR PUBLIC PARTICIPATION

The Commission used a range of strategies to engage with a broad range of South Africans. These strategies included traditional print and electronic media (newspapers, television, radio), and innovative forms of electronic media (online Jam, Facebook, Twitter, Mxit, YouTube). Many people visited the NPC's website, www.npconline.co.za, to find out about the work of the Commission. The website provided readers with different ways of contacting the Commission and making comments. There were also direct engagements with a broad range of groups including Parliament, government, the judiciary, business, civil society, trade unions, religious organisations, institutions of learning and community based organisations.

Following the release of the diagnostic report on 9 June 2011, lead articles written by commissioners were published in all major newspapers. These articles generated debate in the letters columns and editorial pages, as well as responses from social

commentators. In addition to lead articles, the Commission placed a popular version of the diagnostic overview in the most widely read weekend newspapers.

Commissioners appeared on both SABC and ETV platforms, including a structured dialogue over four weeks. The Commission worked closely with the SABC and made a specific effort to ensure that commissioners were interviewed and participated in talk shows in all indigenous languages. Commercial talk radio stations featured commissioners on a regular basis. Commissioners were also interviewed on a range of community radio stations. As part of the mobilisation towards the NPC Jam, the Commission used a simultaneous broadcast over 65 community radio stations.

Engagements with different sectors of society were used to engage in dialogue about the content of the plan and seek inputs. The leaders of political parties represented in Parliament were briefed on a consistent basis. . The Commission visited all provinces in the country. The visits to the provinces reached members of the provincial executive committees, senior government officials, mayors and municipal managers. In all provinces, broader forums were held with labour, business, civil society, youth formations, traditional leaders and religious formations.

The Commission established a Facebook page and set up a Twitter account. These have provided a forum for people to raise issues as well as a mechanism to keep people informed about the work of the Commission. A dedicated Facebook dialogue on the theme of nation building was also convened and sparked significant participation. To reach a youth audience, two live chats were hosted through Mxit providing an opportunity for users to engage with the draft plan.

To capture the essence of the plan in visual form, three animated videos were produced. There have been over 30 000 visits to Youtube to view these animations, with "Thandi's story" proving the most popular. The animations were also shown at numerous meetings, including in parliament, and also broadcast on the SABC during a Morning Live breakfast show in partnership with The New Age. Media, university, non-governmental organisations and others have placed the animations on their websites.

IDENTIFYING THE KEY CHALLENGES

Once the Commission had been appointed, it started by conducting a detailed analysis of the challenges facing the country. The Commission established a number of thematic working groups, which held consultations with a broad range of experts. The intensive early work by the Commission gave birth to the diagnostic report. This was tabled in Parliament.

The Commission visited all nine provinces. Discussions were held with provincial executives and local government officials who are at the coal-face of delivery, traditional leaders, political parties, religious organisations, business and trade unions and civil society. The Commission met men and women who have to negotiate daily an overburdened health system, crumbling infrastructure, race and class inequalities and exclusion, whose children are the victims of poor quality education, men and women who are jobless. Based on these engagements the Commission decided to include additional chapters in the draft plan to cover social protection, regional integration, rural development and community safety.

THE NPC ONLINE JAM

The Commission in conjunction with IBM hosted a 72 hour online discussion, known as the NPC Jam, the first of its kind in Africa. Inputs from the NPC Jam helped to inform the draft national development plan, which was handed over to the President and Deputy President on the 11th November 2011.

Profile of participants

The Jam was launched at the University of Johannesburg with a call on young people to look ahead and shape the future of South Africa. The Commission encouraged the youth to take up the baton of leadership and own the plan for their future. Given that many South Africans do not have access to the internet, the Commission reached out to universities, the National Youth Development Agency and LoveLife to make their ICT infrastructure available for all South Africans who were interested in participating in this online brainstorming event.

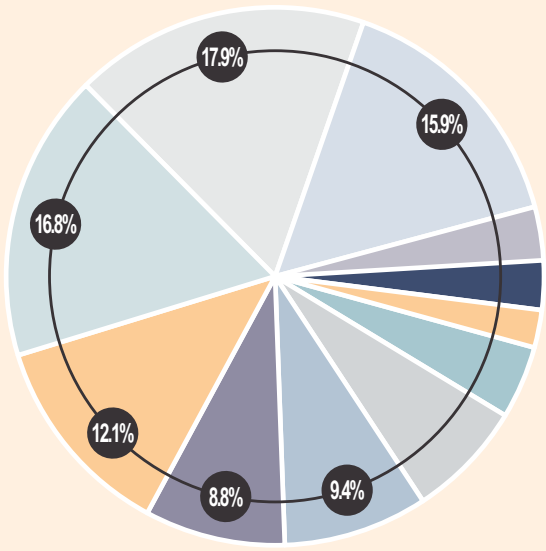
Over 10 300 logins and 8 700 individual posts were recorded during the Jam. Every district within South Africa was represented. South Africans engaged as individuals from their homes and offices, and as groups from many venues including high schools, Walter Sisulu University and Orange Farm LoveLife centre. Within the first three hours of commissioners going online, the Jam attracted high levels of participation and conversation.

The youth were well represented throughout the jam with 38 percent of posts coming from people under 30.

Hot topics

The Jam held ten parallel discussion forums, covering the nine challenges identified in the diagnostic document as well as the vision for 2030. The top three discussion forums, by posts, were education and training, the economy and jobs. The graphic below highlights the issues raised most frequently in the Jam. Education received the greatest attention. Significant attention was also given to issues relating to employment and the quality of public services.

FIG A.1 TOTAL POSTS



UNDER 18 YEARS	335
18 - 24 YEARS	1,431
25 - 29 YEARS	1,604
30 - 34 YEARS	1,508
35 - 39 YEARS	1,084
40 - 44 YEARS	789
45 - 49 YEARS	848
50 - 54 YEARS	547
55 - 59 YEARS	395
60 - 64 YEARS	211
65 + YEARS	182
TOTAL	**8,974**

CONSULTATION ON THE DRAFT NATIONAL DEVELOPMENT PLAN

On receiving the plan, the President commended South Africans for their participation. He reiterated the role of South Africans in the crafting of the plan by calling upon the Commission to hold six months of public consultation to build consensus and refine the plan.

There was extensive discussion about the plan in the media. Commissioners participated in radio and television discussions and engaged in an extensive range of meetings. Over this period the Commission held 60 meetings with government departments, government structures and agencies within the three spheres of government; dialogues with state-owned enterprises and development finance institutions; engaged with trade unions; held meetings with parliamentary committees, organised business, academic institutions and international organisations. Commissioners also briefed the national and provincial leadership and management of the Independent Electoral Commission.

The Commission met with the national structures of all political parties represented in Parliament, religious formations and civil society structures. The Commission held a training workshop with the Kwa-Zulu Natal Community Development Workers to assist them to propagate the draft plan in their communities. Many companies encouraged their employees to send comments directly to the Commission. In total the Commission held over 160 direct engagements in a period of six months.

Over 1 000 email comments were sent to the Commission as well as letters and faxes.

CRITICAL ISSUES EMERGING FROM THE CONVERSATIONS

During these engagements it became clear that there was broad support for the draft plan as a basis for taking the country forward. People recognised the complex nature of the challenges we face and the areas where we need to make steady progress. There was strong agreement with the Commission's identification of jobs and education are the country's two biggest priorities. Word clouds generated from the written submissions received and comments on Facebook indicate that education and employment are major concerns for many South Africans.

Word cloud generated from submissions[1]

Word cloud generated from Facebook[2]

CONCLUSION

The public participation initiative has enriched the national development plan. There has been clear agreement with the Commission's view that the most pressing challenges are that too few people work and the poor quality of our education outcomes. There was also strong support for the need to build a capable and developmental state.

The revised national development plan presents an opportunity for South Africans to continue engaging with each other. The Commission has highlighted the importance of an active citizenry for the successful implementation of the plan. It will be important for debate to continue on how the plan can be implemented and what role each and every citizen needs to play to eliminate poverty and reduce inequality by 2030.

NOTES

1. This word cloud represents the frequency of words used, in response to the diagnostic overview and draft national development plan, in the written submissions received, print media coverage, the TV and Radio interview transcripts as well as the two Mxit dialogues.

2. This word cloud represents the frequency of words used in the comments posted on the NPC Facebook page.

national planning
commission
Department:
The Presidency
REPUBLIC OF SOUTH AFRICA