

DIAGNOSTIC OVERVIEW

A close-up photograph of three hands of different skin tones—light, medium, and dark—interlaced in a supportive grip. The hands are positioned with fingers spread, creating a sense of unity and care. The background is a soft, out-of-focus white. In the bottom right corner, there is a small logo featuring a red and green structure, possibly a temple gopuram, with a white base.

Department:
The Presidency
REPUBLIC OF SOUTH AFRICA





Foreword

President Jacob Zuma appointed the National Planning Commission (NPC) in April 2010. The commission consists of 25 part-time commissioners appointed because of their expertise, experience and ability to contribute to a dynamic development plan for the country.

At the inaugural meeting of the NPC on 11 May 2010, President Zuma stated:

The mandate of the commission 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. The commission is expected to put forward solid research, sound evidence and clear recommendations for government.

The commission will also work with broader society to draw on the best expertise, consult the relevant stakeholders and help to shape a consensus on what to do about the key challenges facing us. Government has often taken a sectoral and short-term view that has hampered development. Taking a long-term and independent view will add impetus, focus and coherence to our work.

The establishment of the National Planning Commission is our promise to the people of South Africa that we are building a state that will grow the economy, reduce poverty and improve the quality of life of our citizens.

The commission is an advisory body tasked with preparing recommendations for the Cabinet on issues affecting South Africa's long-term development. In particular, the commission is expected to:

- Draft a vision statement for 2030
- Produce a development plan setting out how this vision can be achieved
- Present reports on issues affecting long-term development, such as infrastructure investment, water resources and inequality.

Given its advisory role, the commission needs to convince the country and Cabinet of its arguments through evidence, well-considered proposals, and ideas that are tested with the public and experts. The mandate of the commission allows it to be objective and, where necessary, critical. These criticisms are made with an understanding of our historical context and an acknowledgement of our achievements so far; driven by a commitment to do better, to fix what is wrong and to deliver a better life for all.

The NPC also plays a role mobilising society around a vision and a development plan. It does this through active engagement with the public, ensuring that experts' views are canvassed on its proposals, and through a wide range of interactions. The commission has to carry out its functions representing all South Africans, taking into account their views irrespective of political outlook.

The public consultation process begins in June 2011, with the release of elements of a vision statement and a diagnostic document for public comment. The principles of the vision statement, drawn largely from the Constitution, including the Bill of Rights, contain the main components that should be realisable by 2030, and that will define the framework of a development plan. The commission aims to release a vision statement for 2030 and a development plan for Cabinet's consideration on 11 November 2011.

This overview introduces a detailed diagnostic report that sets out the key challenges that we confront in fighting poverty and inequality and in achieving the objectives set out in our Constitution. The focus on challenges does not relegate the substantial progress that we have already made. We address these challenges so that we can pay attention to what needs to be fixed, so that we can do better in future.

Our implicit conclusion is that a business-as-usual approach will result in South Africa failing to meet a great many of its objectives, and the diagnostic document highlights the main reasons why this is so. We acknowledge that our growth so far has been insufficiently inclusive. Too many people remain poor and marginalised. We are optimistic that South Africa has the capability to tackle these challenges, but it will require leadership and the support and determination of all South Africans and sectors of society.



Over the next three months the commission will take part in a host of public forums to discuss the vision statement and the diagnostic document. The goal is to secure broad agreement about what is wrong in the country – and why. Achieving national consensus on the vision statement and primary development objectives is necessary to ensure that the long-term plan is robust.

In September/October this year, the commission will release a draft plan that sets out key targets for 2030, and the steps or decisions required to achieve the plan. The public will be invited to comment on, debate and refine the plan. Taking these comments into consideration, the commission will present its vision statement and final plan to Cabinet in November 2011. It will then be up to Cabinet to define the procedures and schedule for considering the plan.

November 2011 will mark the completion of the commission's first set of outputs. In 2012 and beyond, the NPC will produce considerably more detailed reports on issues that affect South Africa's long-term development. The revised Green Paper lists 11 subjects on which the commission may want to release detailed reports: food, water, energy, education, health and demography, spatial planning, infrastructure, transport, defence capabilities, climate change and the economy.

In addition to this overview, we are also releasing five reports as part of our diagnostic exercise. These reports cover:

- Human Conditions
- Material Conditions
- Nation Building
- The Economy
- Institutions and Governance

These can be found at www.npconline.co.za. Comments can be sent to comments@npconline.co.za



Trevor A Manuel, MP
Minister and Chairperson of the National Planning
Commission



List of Commissioners

1. Trevor Manuel, MP Chairperson
2. Cyril Ramaphosa Deputy chairperson
3. Miriam Altman
4. Malusi Marcus Balintulo
5. Hoosen (Jerry) Coovadia
6. Anton Eberhard
7. Tasneem Essop
8. Bridgette Gasa
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22. Joel Netshitenzhe
23. Ihron Rensburg
24. Vivienne Taylor
25. Jerry Vilakazi
26. Karl von Holdt



Elements of the vision statement

One of the tasks of the National Planning Commission is to develop a vision statement for the country for Cabinet's consideration. In September, we will be releasing a draft vision statement for public consideration and opinion. Following this process of engagement, we will release the vision statement in November, alongside the development plan.

We have used the preamble of the Constitution and the Bill of Rights as the basis to develop ten elements of a vision statement. We would like the public to consider these elements when reading through this diagnostic document. We stress that this is not a proposed vision statement, though it does attempt to capture the key issues that should be included in a vision statement.

We welcome comment and opinion on these elements:

1. A democratic state, rooted in the values of the Constitution, working with all sectors of society to improve the quality of life.
2. People are united in diversity, recognising the common interest that binds us as a nation, and we have achieved greater equality for women in all aspects of life.
3. High-quality education and health care, and adequate provision of housing, water, sanitation, energy and transport, give impetus to human development.
4. Comprehensive social security covers all citizens in need.
5. Natural wealth is harnessed sustainably, in a way that protects our environment, using science and modern technology to ensure a growing economy that benefits all.
6. People who are able to work have access to jobs, workers' rights are protected and the workforce is skilled.
7. Business is afforded an environment to invest and profit while promoting the common interests of the nation, including decent work.
8. An efficient state protects citizens, provides quality services and infrastructure, and gives leadership to national development.
9. Individuals and communities, at work and at play, embrace mutual respect and human solidarity.
10. Government, business and civil society work to build a better Africa and a better world.



Chapter I: Overview of the diagnostic

Introduction

The President established the NPC “to take a broad, cross-cutting, independent and critical view” of the challenges and opportunities facing South Africa. The commission is tasked with developing a vision of what the country should look like in 2030, and a plan for achieving that vision. As part of its deliberations, the commission has been looking at the country’s current trajectory to identify areas where focused and strategic intervention is most urgently required.

Significant progress has been made since 1994, notably through the introduction of a democratic system, constitutional and legal provisions that promise people equal rights and provide protection against discrimination, and extended access to basic services. Yet the process of transformation is far from complete. In some areas, constitutional and legal provisions have not been fully implemented; in others, there has been a lack of sustained and effective focus.

South Africa needs to provide opportunities to all, yet historical disadvantages continue to have an adverse effect on tens of millions of citizens. This is particularly true in education and employment, which the commission has identified as the most pressing challenges facing the country.

The economy has failed to create jobs at the pace necessary to reduce extremely high unemployment, and the education system has failed to ensure that equalised public spending on schooling translates into improved education for poor black children. Raising educational outcomes and increasing employment levels would mean more opportunities for young people, higher productivity growth, rising incomes, increased tax revenue, less dependence on grants, reduced scope for the politics of patronage, greater social cohesion, higher levels of investment and more space for creativity.

The commission has identified a set of related challenges that will affect the country’s ability to bolster the quality of education and create more jobs. These include improving the performance of the public service and raising the standard of service delivery, reducing corruption, addressing the legacy of apartheid spatial divisions and bridging deeply rooted social

divisions. The commission was created to address precisely such cross-cutting issues, where the benefits of strategic and focused interventions will deliver widespread benefits.

What is a diagnostic document?

The diagnostic document aims to identify the main challenges confronting the country and to examine their underlying causes. The diagnostic is not a plan – it provides the basis for a plan. South Africa needs an informed discussion about the major issues confronting the nation. The diagnostic document serves to advance this discussion. If South Africa is able to reach broad consensus on its principal national challenges, it will stand a better chance of coming up with sensible and achievable solutions.

This overview provides a summary of the key issues in the diagnostic report, which is composed of five supporting chapters that examine the broad issues of economy, human conditions, material conditions, nation building, and institutions and governance. Underlying this diagnostic report are more than 40 commissioned papers and a countless number of papers, articles and documents that we have considered. The commission also held dozens of workshops with experts in various sectors. These papers, and some of the workshop materials, can be found on the NPC website. The commission urges the public to comment on this diagnostic document to strengthen our analysis of what is wrong and what needs to be fixed.

The commission’s methodology includes the following:

- Harvesting of existing research and analysis, accompanied by rigorous debate on the available evidence
- Commissioning of further research and analysis
- Engagement with experts from the public and private sectors and civil society
- Meeting with government departments, agencies and institutions
- A weeklong online discussion forum that encouraged young South Africans to discuss nation building was hosted with an average of 5 500 young people participating each day.

The NPC’s methodology emphasises cause and effect. It recognises that public policy has multiple dimensions. Trying to



piece together the root causes of any specific issue is difficult; drawing links is even harder. Nevertheless, this is precisely what the commission has undertaken to do.

Key shaping forces

South Africa's future will be shaped by a number of forces, both external and internal. Over the period to 2030, which is the current focus of the NPC, these will include:

The global economy - In the short term, the impact of the recent international downturn will continue to affect South Africa's large trading partners in Europe and North America. In the longer term, however, it is likely that a substantial shift in global economic power will continue with rapid growth in Brazil, Russia, India and China and other middle-income countries. These changes will have significant direct implications for South Africa's economy as well as for the wider African region.

Energy transitions, food security, climate change and new technologies - A combination of rising energy prices, a desire for energy security and the threat of climate change will continue to drive changes in the way societies work. Similarly, rising demand for food is likely to result in higher food prices globally. Beyond their direct impact on South Africa, these drivers will have profound effects for our economy and society, both offering opportunities and posing threats. Beyond the transition to new energy technologies, developments such as the convergence of nanotechnology, biotechnology, information technology and cognitive science in new configurations will almost certainly reshape economies, societies and lifestyles.

African development - Sub-Saharan Africa has posted strong rates of economic growth in recent years, although much of this growth is off a low base. If current trends continue, South Africa's regional dominance will decline over the planning period. Already, competing sub-regional development poles are emerging in Nigeria, Angola and the East African community.

Demographic change - Most of the children who will be entering the work force in 2030 have already been born, so the size of this critical group can be predicted with some certainty. Since this group will also be the parents of future

generations, the number of children in South Africa is expected to stabilise over this period. However, while the overall size of the population can be predicted and be planned for with a reasonable degree of certainty, changes in its distribution across the country is less certain and will depend in part on what policies are adopted and whether they are successful. Furthermore, international migration is difficult to predict because the socioeconomic and political factors driving it are complex and uncertain.

Many of the impacts of these drivers are addressed in the current diagnostic work. In its further work, the commission will consider how these factors should be addressed in policy and planning. To support the development of the development plan, further research will be undertaken to provide more detailed projections and improve understanding of how these factors are likely to play out.

The diagnosis: cross-cutting issues

Progress made since 1994

In assessing our country's progress we need to start earlier than 1994. After centuries of colonial conquest, followed by many decades of protest, resistance and brutal repression, our country negotiated its way to full democracy, and laid the foundations for a non-racial, non-sexist state. In so doing we defied almost all commentators and analysts and have offered the world a model of how deeply divided societies can move forward.

The unbanning of the liberation movements, the negotiation process (most notably the Convention for a Democratic South Africa process), our first democratic election and the adoption of our country's first fully entrenched Constitution together with a Bill of Rights were critical parts of this transition. They have made it possible for all South Africans to live with dignity and aspire to full participation in their country.

Since 1994, significant progress has been made towards making South Africa a more just and inclusive society. Access to primary and secondary education has been expanded to include almost all of the age cohort. A reception year has been introduced. Ten million people have been accommodated in formal housing. Primary healthcare has been expanded. Access to electricity and water has been significantly expanded. Enrolment in higher education has almost doubled

and, in terms of its race and gender demographics, is more representative of our nation.

Our country's political institutions have been entrenched through four national and provincial elections, and four municipal elections. These elections have been vigorously contested by a wide range of political parties, campaigning peacefully across our country. The elections have been effectively conducted and administered, and the results accepted by all parties.

Economic performance has been mixed. The South African economy has grown by about 3.3 percent a year between 1995 and 2010, following almost two decades of stagnation. Positive developments include the successful restructuring of public finances, over a very short time, which helped the country avoid a debt trap. South Africa successfully instituted an effective tax system, and built an independent and credible central bank. The economy has grown, public revenues have increased, the number of people in employment has risen and the economy is more diverse today than it was in 1994. While racial inequality remains a stubborn reality for the vast majority, the proportion of black people in the top 20 percent of income earners has risen from about half to well over two-thirds between 1995 and 2009.

Racially segregated administrations in provinces, "homelands" and "self-governing territories" have been merged into a more streamlined and racially integrated system of national and provincial governments. A comprehensive network of municipalities covers the entire country. The legal and political framework that supports this intergovernmental system is imperfect, but far more democratic and responsive than in the past.

We have in place several constitutional institutions, a judiciary, a free media and state institutions supporting our constitutional democracy, as established in Chapter 9 of our Constitution, including the Public Protector, Auditor-General, Human Rights, Gender and Electoral Commissions.

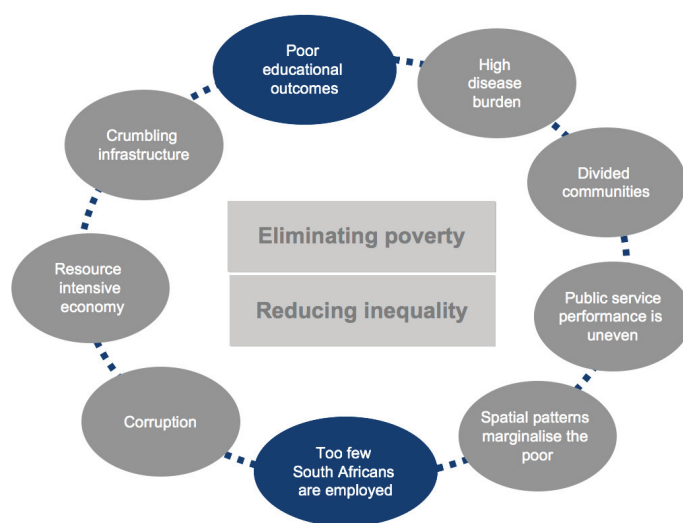
Though divisions of race, gender and class remain, with inequality more often than not reflecting these lines of division, law, government policy and a broad social consensus are seeking to remove these inequities, rather than entrench them as was the case in the apartheid era. It is an important

achievement that ethnic politics have largely been eschewed in South Africa since 1994.

Continuing challenges

Our successes so far are significant given both our history and international comparisons. These successes should in no way be underestimated or glossed over. Despite these successes, our conclusion is that on a business-as-usual basis, we are likely to fall short in meeting our objectives of a prosperous, united, non-racial and democratic South Africa with opportunity for everyone, irrespective of race or gender. Our task is to identify the weaknesses and challenges that we confront and to explain the underlying causes of these challenges. For those South Africans who are excluded from the formal economy, live in informal settlements, depend on social services which are either absent or of very poor quality; the political transition is yet to translate into a better life.

Eliminating poverty and reducing inequality are key strategic objectives



The continued social and economic exclusion of millions of South Africans, reflected in high levels of poverty and inequality, is our biggest challenge. In our view, these high levels of poverty and inequality have a historical basis in apartheid and are driven principally by the fact that too few people work and that the quality of education for many black people remains poor. Central to addressing these challenges sustainably over time is our ability to create jobs for more people and to improve the quality of education, especially for poor black people.

Political change brings no guarantee of social, economic, or indeed political progress. Throughout history many civilizations, empires and countries have experienced dramatic decline rather than progress. The Hapsburg Empire in Europe, Argentina in Latin America and a number of African states in post-colonial Africa all bear witness to this. The indicators most often associated with decline include:

- Rising corruption
- Weakening of state and civil society institutions
- Poor economic management
- Skills and capital flight
- Politics dominated by short-termism, ethnicity or factionalism
- Lack of maintenance of infrastructure and standards of service.

Elements of these indicators are already visible in South Africa, though their strength and prevalence is uneven and differs from sector to sector. If they become more prevalent, the country's progress could be stalled, its gains reversed and even the foundational aspects of democracy unravelled. If these threats are not tackled, the probability of decline will increase.

A number of the key continuing challenges are set out below.

The commission has identified these challenges in the belief that we need to make significant progress in all these areas if the vision of our post-apartheid transition is to be realised. They are also identified in the deep conviction that significant progress is perfectly possible in all these areas. How to do this will be central to the commission's programme of intensive engagement with South African society over the next three months of its work. This engagement will inform the specific proposals, or elements of a national plan, that the commission hopes to release by the end of this year.

Widespread poverty and extreme inequality persist

Our key strategic objectives are the elimination of poverty and the reduction of inequality. South Africa is considered an upper middle-income country by virtue of the average national income per person or GDP per capita. However, this status masks extreme inequality in income and access to opportunity. Deep poverty is widespread, and constrains human development and economic progress.

Slow growth in per capita incomes is one explanation for poverty levels. As seen in Figure I.1, GDP per capita stagnated at about R38 000 between 1967 and 1993 (in 2010 rand). This noticeably improved from 2001, and reached almost R50 000 by 2008. Average per capita incomes grew by only 1.2 percent per annum over the 50 year period from 1960 to 2010, and by 2 percent annually between 2001 and 2010, dampened recently by the economic downturn. The acceleration of economic growth is not yet sufficiently high or sustained to make a meaningful impact after many years of population growth and economic stagnation.

The recession has reduced hard won gains, with per capita income and employment falling by about 4 percent and 1 million jobs between the last quarter of 2008 and 2009. While growth has resumed, the long-term impact of the global economic downturn is still uncertain, as is the path to employment recovery.

Other developing countries such as Mexico, Korea and Malaysia overtook South Africa's level of income per capita in the 1980s. If we wanted to achieve a similar per capita income to Poland or Portugal today, it would take 35 years at current growth rates, but if per capita incomes grew by 4 percent annually it would take just 17 years. At our current GDP per capita growth, we would need 90 years to achieve a level similar to the United States.

Figure I.1: GDP per capita in year 2010 rands



Source: South African Reserve Bank. Note: Figures are in 2010 rands.



Per capita income growth is only one indicator of a country's wellbeing. It tells us how much income there is to share, but does not communicate the distribution of that income. Although South Africa does not have a single official poverty line, \$2 a day or R524 a month per person (in 2008 prices, updated to 2010) can be used as a rough guide. Using this indicator, the proportion of people living below the poverty line was about 53 percent in 1995 and fell to 48 percent in 2008. This is a very high level of poverty for a middle-income economy. The diffusion of social grants was the most important contributor to falling income poverty from 2000.

The share of the poorest 40 percent of the population in national income has remained largely stable at about 6 or 7 percent, but the composition of this income has changed quite dramatically. The contribution of wage income and remittances to household income fell, and was replaced by social grants, accounting for about 2 percent of GDP.

South Africa is a highly unequal country. This was true for much of the past century and remains so today. According to the Income and Expenditure Survey, the Gini coefficient was 0.67 in 2005, which is very high by international standards. The incomes of both the richest and the poorest 20 percent of the population both rose by about 45 percent between 1995 and 2005. The distribution of income to the richest and poorest sections of society did not change significantly between 1995 and 2005. The poorest 20 percent of the population earns about 2.3 percent of national income, while the richest 20 percent earns about 70 percent of the income.

There continues to be a substantial difference in average incomes by race group. The majority of low income households are black. In 1995, median per capita expenditure amongst Africans was R333 a month compared to whites at R3 443 a month. In 2008, median expenditure per capita for Africans was R454 a month compared to whites at R5 668 a month.

The proportion of Africans in the top 20 percent of income earners increased from 39 percent in 1995 to 48 percent in 2009. Inequality within the African population has increased sharply.

Poverty tends to be concentrated in rural areas and especially former bantustans. However, deep poverty is also found in cities with inward migration in search of work. Poverty rates

among women-headed households are higher than the average and women continue to earn less than men, even though differences in years of education have been narrowed.

Service delivery programmes can have an important impact on living standards in a context of deep income poverty. Since 1994, government programmes have improved quality of life and living standards for the poorest South Africans. These include expanded access to housing, water, sanitation, schooling, primary health care and electricity. It is difficult to quantify the financial value of these benefits because some are assets received once off (such as a house, or a water pipe and tap) and others are services (such as schooling or free water) provided on an ongoing basis. Clean running water in or near a household cannot be captured by measures of income or GDP, but it has a profound impact on livelihoods, especially for women who bear the brunt of collecting water.

The concept of a social wage can be used to measure government support to poor households – a package of measures ranging from free schooling to free water and electricity. In a context of high unemployment and low earnings from work, these contributions are essential in a commitment to ensuring a social floor or a minimum acceptable standard of living. If social grants are included, the social wage now accounts for about a quarter of government spending. Concerns regarding value for spending, as discussed in other parts of this report, mean that assessing the experience of service delivery at the household level will be essential to assessing real impacts on the standard of living.

While increasing per capita income is important, there is substantial room to improve South Africa's level of human development *within present income levels*.

I. Too few South Africans are employed

South Africa has extremely high rates of unemployment and underemployment. A large proportion of out-of-school youth and adults are not working. Those in low income households that are working support many dependants and earn little relative to the cost of living. This is a central contributor to widespread poverty. Inactivity of broad sections of society reduces our potential for economic expansion. By definition, inclusive growth must involve the participation of a broader section of working age people.

Unemployment was allowed to grow over many years, after many years of economic stagnation and “separate development” policies. Over 25 years, there was no net job creation for a growing African population. Strict unemployment peaked in 2001 at 31 percent. Broad unemployment, referring to people who would like to work but have become discouraged, is also a critical challenge, mostly affecting young black women living outside of urban areas. Positive and sustained growth between 1997 and 2008 did finally make inroads into unemployment, falling to 23 percent. The global economic downturn now poses uncertain challenges towards efforts to further reduce unemployment.

Why did unemployment expand so dramatically?

The roots of South Africa’s high rates of unemployment, poverty and inequality can be traced to more than a century of colonial exploitation and apartheid – denying African people access to land, and the right to run businesses, to own certain assets, to quality education and to live in well-located areas. Decades of racial discrimination in the workplace led to social stratification based on skin colour, with social and economic institutions largely reinforcing these inequities. From the earliest days of the discovery of diamonds and gold in South Africa, state policy destroyed the African peasantry, and by the early 1930s there were relatively few subsistence farmers in rural African communities. Land ownership patterns, settlement patterns and home ownership policies made it difficult for black people, particularly Africans, to accumulate assets, amass wealth and become entrepreneurs. In particular, the “homeland” system banished millions of Africans to the poorest parts of the country, characterised by water scarcity and poor-quality soil, which made small-scale farming unviable. The small African middle class was largely comprised of professionals (nurses, teachers, police), not business people or farmers.

One of apartheid’s greatest crimes was the provision of substandard education to black people. Access to public education was limited and quality was poor.

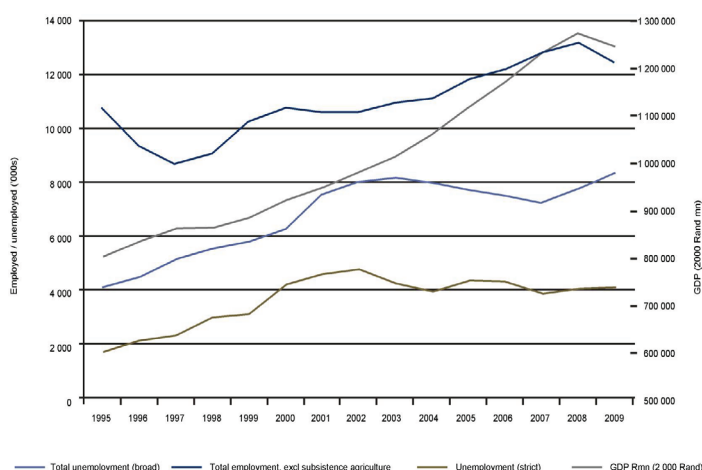
Decades of racial discrimination, especially in the workplace, confined the majority of black people to menial labour. Low wages and low productivity, combined with poor-quality schooling that limited social mobility, led to low levels of income. Stringent policies limiting ownership of land and influx-control measures that limited access to the cities prevented an entrepreneurial class from developing.

Between 1970 and 1994, the economy slowed significantly. During this time, employment grew by just 17.6 percent in total, while the population nearly doubled. African employment in the formal sector was static in absolute terms from 1970 to 1995, resulting in the unemployment rate for Africans remaining higher than other race groups. Economic and employment stagnation resulted from isolationist policies, industrial concentration and lack of investment in human development. These were accompanied by active attempts to exclude the population, constrain skills supply, and diminish the circulation of goods and services. Capital intensive investments were in line with the policy of economic self-sufficiency.

How has unemployment altered?

Between 1997 and 2008 both economic and employment growth accelerated. There has been much debate about whether South Africa experienced job-creating or jobless growth since the mid 1990s. The evidence weighs in heavily towards job-creating growth, as measured by positive employment expansion and by falling rates of unemployment. Between 1997 and 2008, for every 1 percent growth in GDP, employment expanded by 0.6 to 0.7 percent. By comparison, the average ratio of employment to GDP growth in successful emerging economies is generally about 0.3 to 0.5 percent. Job-creating growth means that employment grew substantially in line with GDP growth, and that the unemployment rate did fall as a result. This is what happened in South Africa.

Figure 1.2 - Trends in employment, unemployment and GDP growth



Source: October Household Survey, Labour Force Survey, Quarterly Labour Force Survey

However, this is not very satisfying for poor households. The sheer scale of inactivity, the long pre-existing queue of unemployed, and the large and growing cohort of labour market entrants means that it will take a long time to get to full employment and to make a major impact on household incomes nationally. In the immediate term, more needs to be done to convincingly activate a larger section of the labour force.

For a number of years, growth in the labour force outstripped employment creation. Demographic shifts contributed to this development, as large numbers of women and young people entered the workforce. As a result, strict unemployment peaked at 31 percent by 2001. Accelerated job creation finally saw unemployment falling to 23.2 percent by the third quarter of 2008.

High rates of unemployment anchor widespread poverty. Poor households tend to have high dependency ratios, with few earners supporting multiple dependants. Only 41 percent of the working age population is working, well below the average of similar countries. South Africa's cost of living reflects its status as a middle-income economy, and wages are comparable to those found in other middle-income countries. However, because many low-wage earners have to support so many people, many working households live near or below the poverty line.

Unemployment is mostly experienced by youth. About two thirds of all unemployed are below the age of 35. Youth unemployment rates fell dramatically between 2002 and 2008. For example, Table I.1 shows that the unemployment rate for 15–24 year olds fell from 55.9 percent to 46.6 percent over this period. These figures mask the significantly higher unemployment rates for black youth. Almost all of the job losses in 2009/10 were experienced by those under the age of 30, and with less than a grade 12 education. About half the cohort falls within this category, dropping out of school mostly after grade 9. Young people are poorly prepared for further training and work.

Table I.1: Unemployment rate by age, percentage (2002–2010)

Age cohort	2002	2004	2006	2008	2010
15 – 24	55.9	51.8	50.2	46.6	51.3
25 – 34	34.1	29.8	28.5	26.2	29.1
35 – 44	21.0	18.2	18.2	16.6	17.8
45 – 54	16.1	11.9	12.4	9.3	12.4
55 – 65	10.0	7.2	6.9	6.5	7.3
Total	30.4	26.2	25.5	23.2	25.4

Source: Development Indicators based on Labour Force Survey (Sept figures only)

What are the sources of employment growth? Economic growth and industrial change

Under apartheid, the industrial path was intentionally capital intensive. Between 1970 and 1995, agriculture and mining employment shrank by 46 percent or 1.4 million. In a context of economic stagnation, there was not a concomitant opening of opportunities for low and semi-skilled workers in new industries. From 1997, low and semi-skilled opportunities expanded rapidly in the services sector, mostly arising out of market liberalisation and the entry of a plethora of new activities especially in security, cleaning, personal services, construction and business services. South Africa is a mineral exporting economy, which supports a sophisticated services economy. The minerals exporting element creates distortions that makes the expansion of labour absorbing tradables difficult. A highly volatile currency is but one example. While South Africa diversified its mining exports and export profile more generally from the late 1980s, mining and related products still account for a large percentage of total exports, but only make a small contribution to total employment. Between 1996 and 2006, the global market share of South Africa's exports fell in volume terms. The country has been buffered since 2002 by rising commodity prices, which have raised our global market share in value terms. Our long-term success will depend on raising our global share of value-add. Instead, South Africa is experiencing rising incomes because of higher commodity prices, not because we are producing or exporting more. This appears to be to our benefit while commodity prices are rising, but in the long run, it can undermine the ability to manufacture the kinds of products that are needed for long-term expansion.

The structure of industry was also highly concentrated, limiting competition and efficiency gains. Although the economy is



still marked by high concentration and mark-ups in some industries, the corporate landscape has changed dramatically. For example, corporate unbundling and foreign listings meant that the controlling share of JSE market capitalisation by the top five companies fell from 81.2 percent in 1990 to 18.4 percent in 2009. There have been major foreign investments in South African companies such as Absa (Barclays), Standard Bank and Edcon. A mass expansion in non-listed black-owned companies has emerged. The racial composition in ownership of listed and non-listed corporates has been altered, largely as a result of black economic empowerment schemes.

While it can have some benefits, the high level of concentration in the South African economy creates the basis for uncompetitive practices, such as price collusion, artificial barriers to entry and slow adaptation to new technologies. It is also subject to debate whether the private sector has taken advantage of sufficient opportunities, both in South Africa and abroad that have come with the advent of democracy.

It is worth making special mention of the limited expansion of small- and medium-scale enterprises. In successful economies, it is in these firms where most job creation takes place. South Africa has not yet been successful in laying the ground for faster small, medium and micro enterprise (SMME) entry and expansion. Special concerns relate to an onerous regulatory environment, limited access to finance and working capital, and concentrated markets with limited niche opportunities. Globally, services are contributing to a rising share of output and trade. Despite the sophistication of our financial, business and construction services industries, our share in these global exports has not kept up with developing countries such as China, Korea, Malaysia or the Philippines.

Growth in South Africa over the past decade was largely fuelled by consumer spending. Consumption led growth benefits short-term job creation, especially through services such as retail. However, a small economy cannot sustain consumption-led growth for long. This growth is either fuelled by imports (which must be paid for somehow) or by backward linkages into domestic production. A small country will have difficulty achieving scale economies in a broad cross-section of products, and so specialisation is essential. A key recommendation of the New Growth Path focuses on the shift from consumption-led to investment-led growth. However, it must be recognised that this shift, while being essential, is disruptive and will entail difficult trade-offs.

The regional and global contexts are critical to shaping our thinking. The global context is one of shifting balances. The global recession and an uncertain path to recovery have especially affected our main markets in the West. The rapid recovery in Brazil, Russia, India and China has positive implications – China and India's demand may fuel a commodity super-cycle for Africa, increasing both demand and prices for our exports. These gains will only be durable and sustainable if South Africa can use these revenues to improve education, invest in infrastructure and support labour-absorbing industries.

Regionally, we know that there has been a rapid recovery in many sub-Saharan countries and there is much emphasis on taking advantage of that growth. However, it must be remembered that this growth is off a small base, in countries that themselves have high rates of unemployment similar to ours. Regional growth often depends on a more developed pivotal state that stimulates activity in surrounding countries as it spills over – in terms of investment, production, technology, services and know-how. Regional integration has stalled; yet this will be an essential ingredient to economic expansion and the attraction of foreign direct investment.

Labour markets

South Africa's labour market is highly segmented, with a core (especially public servants and well-organised sectors), a larger periphery of vulnerable unorganised and low-paid workers in the formal and informal sectors, and a marginalised group of unemployed.

Labour regulation takes account of the first two groups by providing basic protections and rights, such as sector minimum wages, the requirement of employment contracts and the right to organise. Dispute resolution mechanisms were introduced to reduce the role of courts and attorneys' fees, yet these measures seemingly resulted in rising costs to firms in terms of time and income foregone, and the mechanisms are often log-jammed with those that are least vulnerable, such as professionals.

While labour regulations have had several positive effects, most notably the protection of workers' rights, the extension of second-tier social security benefits and the ending of unfair discrimination, there have also been negative unintended consequences. These include making it difficult to sanction poor performers in the workplace, thereby limiting the



incentive for firms to hire inexperienced workers. Relatively high starting salaries in some sectors and the disincentive to hire inexperienced workers are at least part of the explanation for high youth unemployment.

Skills acquisition is out of line with the needs of a modernising economy. Higher education institutions are not producing the number of skilled personnel that the economy requires – which raises the cost of people who do have skills. The economy generates large numbers of low- and semi-skilled jobs, but these do require a basic set of capabilities such as reading comprehension. As the number of matric graduates expands, employers increasingly require this qualification at a minimum, when less than a matric previously would have been sufficient. This is “credential inflation” without a concomitant rise in earnings or skills requirement.

Employers are turning away from those who have left school early or failed, and are accessing the elite group of matric graduates. The cost of preparing and further training young people is therefore high relative to their contribution to output, because the basic competence upon which further skills would be developed is often not there. This lack of job readiness is a strong disincentive to hiring young people, and when people cannot get stable employment before they reach the age of 24, the chance of them ever getting a permanent, stable job falls dramatically. The inability to support young people to make the school-to-work transition is probably the biggest challenge in the labour market.

Wage inequality is high, in the third quarter of 2008 half of all employed people earned less than R2 500 a month, and over a third earned under R1 000 a month. The cost of living is an important contributor to wage levels. Diffuse settlement patterns and weak public transport systems undermine job search and the “cost of working”. Other factors that raise the cost of living include limited access to affordable food and to high-quality public services. In the context of low household incomes, reducing the cost of living must be addressed in national planning.

The persistence of high unemployment is a great challenge and will be a core focus of the NPC’s work. Achieving full employment is a multi-faceted and complex objective. South Africa would have to achieve several objectives simultaneously. We have to grow low-skilled employment, mainly because the bulk of the unemployed are poorly skilled. The public sector can play an important role in creating such jobs, but the big and

necessary adjustment lies in changing the economic incentives in the private sector to use more labour. We have to upgrade our economic and industrial infrastructure to support the needs of the existing economy, promote growth in newer, more labour-absorbing and knowledge-intensive sectors and improve the resource efficiency of our economy. Thirdly, we have to raise productivity through better education and training, better and less onerous regulation, more competitive pricing and an improved logistics system.

2. The quality of education for poor black South Africans is substandard

Since 1994, education in South Africa has undergone several broad reforms. Access to and participation in education has increased, and is now nearly universal. There are just over 14 million learners of which approximately 12 million are in publicly funded or government schools and others are in independent schools and tertiary institutions. Public schools cater for over 96 percent of all learners. In 2007, the gross enrolment ratio was 98 percent for grades 1–7 suggesting near universal coverage, and 85 percent for grades 8–12. The gross enrolment ratio for the secondary phase shows that many learners drop out before completing grade 12. The overall gross enrolment ratio is 92 percent which shows a high level of participation. Education is compulsory up to the age of 15 years.

Providing some education to many more people is an important accomplishment and is reflected in the steady increase in basic literacy rates since 1994. Equity in school funding has been improved to address the legacy of inequality. In 1994, for every two rand spent on an African child, government spent about five rand on a white child; today, recurrent per capita public spending is higher for African than white children. Public spending per learner is now about R11 000 a year.

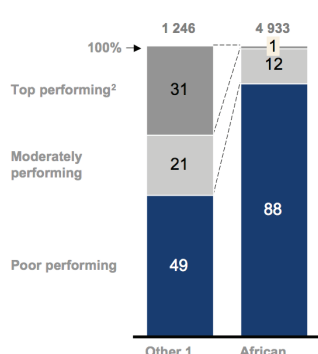
Equity in expenditure per pupil has several positive consequences, including broadly uniform average class sizes; more equivalence in teacher pay; an increase in the number of teachers in largely African schools who have at least a three-year qualification (from 50 percent in 1994 to 80 percent today); and a funding model that supports provision of school books, teacher support materials, equipment and

school meals in poor schools. Notwithstanding these efforts, the quality of physical assets and infrastructure at school level remains highly unequal. There are still many schools without toilets, electricity, desks and chalkboards. In 2006 the number of schools without electricity stood at roughly 5 000, while 1 500 schools were without on-site toilets.

Efforts to raise the quality of education for poor children have largely failed. Apart from a small minority of black children who attend former white schools and a small minority of schools performing well in largely black areas, the quality of public education remains poor. Literacy and numeracy test scores are low by African and global standards, despite the fact that government spends about 6 percent of GDP on education and South Africa's teachers are among the highest paid in the world (in purchasing power parity terms).

Learners in historically white schools perform better, and their scores improve with successive years of schooling. In contrast, in the majority of schools with black learners, the learner scores start off lower, and show relatively little improvement between grades 3 and 5. While there have been some improvements as measured by the pass rate of those who sat the 2010 matriculation exam which was 67.8 percent, this hides the fact that only 15 percent achieved an average mark of 40 percent or more. This means that roughly 7 percent of the cohort of children born between 1990 and 1994 achieved this standard (Department of Basic Education 2011, Sheppard 2010).

Distribution of high schools by performance in Senior Certificate for Mathematics; 2004



1. These were schools that were formerly reserved for whites, coloureds or Indians under the previous apartheid regime
 2. Top performing schools produce at least 30 maths passes in the examinations, with at least 20% at the higher grade; moderately performing schools produce at least 30 maths passes, mostly at standard grade; poor performing schools fail to achieve 30 passes in math
 SOURCE: Simkins (2005)

Learner performance is not solely determined by what happens in school. Educationists often argue that most of a child's deductive ability is formed before they enter school. Several long-term studies from developed countries suggest a correlation between literacy and numeracy scores at age seven and earnings at age 30. The factors that influence school scores at age seven are not entirely understood, but associated factors include the presence of both parents in the household, whether parents can read and write, the prevalence of books in the house, adequate nutrition and micronutrient intake, and generally stimulating environments for children.

To address the unevenness of household background, many countries have introduced early childhood education as a relatively low-cost means of raising education standards. Such programmes were almost unheard of in black communities before the mid-1990s. Since then, the introduction of grade R for five-year-olds and the expansion of early childhood education have resulted in an impressive increase in learner numbers. Today, about 80 percent of learners aged five are enrolled in grade R and about half of children below this age receive some form of preschool education. The phasing in of a reception year (grade R) has resulted in a huge increase in the participation rate of five- and six-year-olds. In 2007, 80.9 percent of five-year-olds were enrolled in an educational institution compared to 45.6 percent in 2001 and only 22.5 percent in 1996. Among six-year-olds, participation improved from 49.1 percent in 1996 to 70.3 percent in 2001 and then to 91.4 percent in 2007 (National Treasury 2010).

However, the quality of early childhood education and care for poor black communities is inadequate and generally very poor. Early childhood development is underfunded by government and is largely provided through support provided by donors to nongovernmental organisations. Despite the policy commitment to early childhood development, implementation in the poorest communities lags behind. This shows up in development indicators on children.

One of the first programmes to be announced by former President Nelson Mandela was a school feeding programme. Today, most children in the poorer half of the schooling system receive a meal on most school days. Although this programme is far from perfect, several studies suggest that nutrition levels have improved in poor communities.



Micronutrient deficiencies persist, though food fortification programmes are working to remedy this.

Low literacy levels among parents, poor nutrition, violence and social fragmentation are factors that explain why the performance of school children from poor communities remains low relative to their wealthier peers. Yet these factors do not fully explain why test scores of poor learners in South Africa are so much lower than the scores of poor learners in other African countries. Research evidence highlights the significance of factors or problems within the education system itself. These include the ongoing changes and amendments to curricula, the type of teacher training, inadequate support to teachers, teaching time compared to other activities and the availability of learning and teaching materials such as text books. Several other complex issues play a role in the quality of education. Curriculum design; language issues; the use of technology; the efficacy of the bureaucracy; the balance of power between parents, schools and the bureaucracy; and high levels of violence against women and children are all relevant factors. Without dismissing any of these factors, our conclusion is that the main problems lie in teacher performance and the quality of school leadership.

School performance is crucially linked to the leadership role of teachers, of principals and of parents. Comparative studies on school performance in South Africa and studies of successful practices in countries facing similar challenges suggests that teacher performance and the quality of school leadership (the principal) are the most important factors in South Africa's poor school results. In-depth studies on factors that contribute to poor school outcomes for learners in South Africa conclude that teachers spend too little time in contact with learners, possess inadequate subject knowledge and lack basic pedagogical ability, especially in subjects such as languages, science and mathematics. Furthermore teachers are poorly supported by the administration within education departments. Their task is made harder by the sporadic provision of books and other learning materials. Several efforts to upgrade teachers' skills have been largely ineffective.

A study by the Human Sciences Research Council found that almost 20 percent of teachers are absent on Mondays and Fridays. Absentee rates increase to one-third at month-end. Teachers in African schools teach an average of 3.5

hours a day compared with about 6.5 hours a day in former white schools. This amounts to a difference of three years of schooling. In addition pupils who come from households without both parents, without income support and whose daily lives are shaped by violence, alcohol and substance addictions and abuse require counselling and support services that are not available in schools in poor communities. Social workers, school nurses and parent-teacher committees as well as broader engagements with community organisations are not part of the school system. The social and environmental conditions outside of the classroom for the poorest learners have as much impact as do those within the school system.

Strike action, sometimes unofficial, consumes as much as 10 days a year (5 percent of school time) and holding union meetings during school time is often the norm in townships schools. Procedures for dismissing teachers for misconduct are complex and time-consuming – and rare as a result. School districts and the Department of Education have not provided adequate means to address allegations of extreme misconduct involving teachers. These and other concerns cannot be fixed without the active participation and engagement of teachers, their unions and parents. This implies active participation in the life of the school, including holding teachers and school management accountable for performance.

Where performance has improved in schools in poor communities, studies found that the presence of a good school principal is critical. Good principals run efficient and disciplined schools, support their teachers, mentor less-experienced staff, involve parents in the education of their children and constantly seek opportunities to promote their schools in the broader community. Several reforms announced in the past two years – testing learners for numeracy and literacy, distributing workbooks, simpler work plans and introducing a teacher evaluation and development framework – are positive steps that deserve support. Significant concerns arise in how young people are able to make the transition from schooling to post school learning and vocational opportunities. Approximately 1 million young people exit the schooling system annually, of whom 65 percent exit without achieving a grade 12 certificate (JET 2011). The largest percentage (50 percent) of those who exit the schooling system do so post grade 11; they either do not enrol in grade 12 or they fail grade 12. Only a small number of those who leave the schooling system enrol in

further education and training colleges or have access to any post-school training. In 2011 only 115 000 enrolled in general-vocational programmes in further education and training colleges. The further education and training college system is characterised by limited growth in enrolments and poor throughput rates. The challenge facing post-school education in South Africa is to find ways to assist the vast majority of school-leavers who do not qualify for direct entry into higher education or employment.

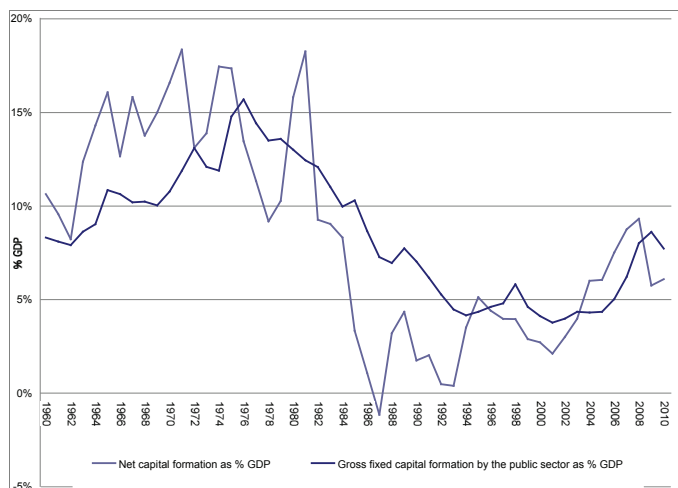
Race remains a major determinant of graduation rates in our higher education institutions. For contact universities in almost all areas, the black student completion rate is less than half the white student completion rate. The figures are particularly bad for first generation students of whom only one in five graduated in regulation time. The difficulties black students and first generation students have in completing their degrees on time have major implications for social mobility and the effectiveness of the education system at creating the equitable skills base that will be essential for overcoming the inequalities of apartheid.

Despite the significant increases in enrolment a number of challenges remain. Throughput rates have not improved as fast as enrolment rates. Problems in the schooling system have transferred the problem to ill-equipped further education and training and tertiary institutions which are failing to cope with the increased number of learners and demands for academic support. The net effect of the myriad of problems results in a system that is not able to produce the number and quality of graduates demanded by the country.

3. Poorly located and inadequate infrastructure limits social inclusion and faster economic growth

Successful countries generally invest at high rates and are continually modernising public infrastructure to suit their economic, settlement and trade patterns. But South Africa has effectively missed a generation of infrastructure modernisation. Public investment in both new and existing infrastructure falls far short of what is needed to meet the country's economic and social requirements. Net capital formation (gross investment less consumption of fixed capital) fell sharply after the boom of the early 1980s, only to recover somewhat after 2003. Public sector capital formation as a proportion of GDP fell until 2003.

Figure 1.3: Capital formation as a share of GDP, 1960 to 2010



The hurdles in economic infrastructure are complex, partly because of the cost of modernising infrastructure while also helping to shift the production structure to suit the needs of a dynamic economy. As discussed below, South Africa has to expand infrastructure to suit mining and other traditional activities while at the same time investing in the facilities required for a more labour-absorbing, knowledge-intensive economy. The enormous distances between South Africa and its major trading partners in Asia, Europe and the Americas contributes to high costs, and African infrastructure networks are inadequate and poorly maintained, raising costs and hindering trade.

Given these considerations, South Africa needs an even more efficient logistics system than would otherwise be the case. This will require higher levels of investment, institutional arrangements that bring in private money and a political understanding of the need for super-efficiency, especially in Transnet. The state might want to consider subsidising the logistics system, given the disadvantage of distance, but subsidies sometimes result in inefficiency and rent-seeking rather than lower costs to the user of the service. Logistics lines taking iron ore and coal to ports are important, but improving the freight line between Johannesburg and Durban is probably more important. Similarly, South Africa's infrastructure networks must lead north to reach growing markets throughout the continent. This will require not just financial resources, but political will and a commitment to reduce non-tariff barriers.



Linked to the logistics challenge is the state of the information and communication technology (ICT) sector. Growth in South Africa's ICT sector has not been accompanied by a realisation of the primary policy objectives of affordable access, for all, to the full range of communications services that characterise modern economies. South Africa has lost its status as continental leader in internet and voice connectivity, with its place on global ICT indices also usurped by former comparator countries, such as Malaysia, Turkey and Korea (DBSA 2011b). Where Korea and South Africa were comparatively placed on ITU ratings 15 to 20 years ago, Korea is now a top global performer (Gillwald 2011). South Africa's ranking on the ITU ICT Development Index has slipped from 72nd in 2002, to 92nd in 2008 (DBSA 2011b). While ICT is driven primarily by private investment and private operators, it is guided by national regulatory frameworks which, judged on the basis of their outcomes, have not proven to be particularly effective.

In energy, the 2010 Integrated Resource Plan sets out a strategy for our energy mix over the next 20 years. It takes a step in the right direction, balancing the need for economic pricing with the need for energy supply and lower carbon emissions. Perhaps it could have been more aggressive on energy efficiency. South Africa needs to debate the future of nuclear energy as nuclear provides a low carbon energy source but is considerably more expensive than other sources. The missing element is the institutional arrangements to plan the procurement of these inputs over time in the most cost-effective way. An independent buyer is a critical element of such a system, both to give certainty to Eskom and to bring in independent producers on a fair basis. We accept that these are complex institutional reforms that entail significant risk for the country, and therefore deserve careful consideration.

While the broader challenges of water as a national resource are discussed below, there are some specific areas in which water management is impacting on economic activity. While the national resource planning process has identified the supply needs and management alternatives, in an increasing number of cases this knowledge is not being translated into timely action with supply reductions in areas such as the Nelson Mandela Bay Metro. The delay in producing the 2nd edition of the National Water Resource Strategy, the equivalent of the energy sector's IRP2010, is symptomatic.

Given the country's low savings ratio, capital is relatively scarce. South Africa has to be careful about what and how it builds, and what risks it takes. Making the correct decisions will require a level of institutional coordination between government and state-owned enterprises that has yet to be achieved. In addition, providing effective guidance through policy and regulation to support the financing, delivery and maintenance of infrastructure requires sound and effective institutions and leadership. Infrastructure is not just about bricks and mortar; it is about people and the systems involved to plan, design, build, maintain and operate complicated and expensive systems over a long period of time. Where government and private sector have to collaborate, the institutional frameworks become even more important.

Moreover, many of South Africa's challenges, such as managing water and ecosystems, reducing the effects of climate change, and developing infrastructure (road, rail, water, energy and broadband) require both a regional perspective and regional initiatives.

4. South Africa's growth path is highly resource-intensive and hence unsustainable

Many colonial development models were based on the apparent abundance of natural resources, which colonial rulers exploited for export, using little for domestic consumption and development. South Africa's development path was a special case of this natural resource colonialism. While a more diversified domestic economy was built to support the settler population, it was still based on the exclusion of the indigenous people and funded by natural resource exploitation, particularly of the nation's rich mineral resources which remain an important endowment.

South Africa's economy and society today, continues to reflect and reproduce this dependence on natural resource exploitation: in the location of our cities and people in the structure of our economy, and in the many dimensions of social fragmentation and exclusion that still characterise the country, including unemployment and low educational and skills levels.

While natural resource exploitation has provided a basis for local as well as foreign accumulation, it also makes us particularly vulnerable to external forces. Historically, international commodity price cycles exacerbated local booms and busts.



Today, the energy and transport demands of the minerals sector are placing heavy demands on economic infrastructure. In the future, the energy-intensive coal-based nature of the economy is likely to be penalised as the world seeks to mitigate climate change by reducing emissions of carbon dioxide.

South Africa's renewable resources, the environmental base on which our society depends, are also challenged. Only 13 percent of South Africa's land is considered arable, with just 3 percent of high agricultural potential. There is very little natural forest and the scope for plantation forestry is limited by lack of rainfall and competition with other land and water users.

The country's exceptional biodiversity is internationally recognised and its economic and social importance is reflected in reasonably well-functioning institutions in formally protected conservation areas which support an important tourism industry. However, there are also substantial threats from industrial, commercial and residential development, over-exploitation of resources and the impact of invasive alien species, while climate change poses longer-term threats.

Water resources are another constraint. South Africa is the 30th driest country in the world and the "intensity" of South Africa's water use, at 31 percent of the available resource, is high by world standards, far greater than other countries in the region. As water use approaches 40 percent of average annual availability, South Africa will face a binding water constraint. Already, although there is still a surplus of water in the country as a whole, there are deficits in many regions and an extensive infrastructure network is needed to store and transport water between and within river basins. As a result of climate change, parts of the country are expected to become dryer while rainfall variability, which is already high, may be aggravated. Water demands will increase as communities and their economies develop and living standards rise and it will become more difficult and expensive to meet domestic needs and supply water to agriculture and industries. As well as building new infrastructure to increase supplies and reuse more water, action is also needed to improve water resource management, promote more efficient municipal, agricultural and industrial usage and protect the resource from pollution. Implementation of these reforms is proving to be challenging, given the diverse and complex nature of the country's water resources and their use.

Given these challenges, there are thus already good reasons to seek to build a new development path that is more inclusive, less dependent on the exploitation of non-renewable resources and that uses renewable resources more sustainably and strategically.

The urgency is aggravated by external forces. While the rise of the BRIC (Brazil, Russia, India and China) economies is boosting demands for minerals, concerns about the price and availability of energy, notably oil, as well as about climate change are driving major technological transformations which create threats as well as opportunities for South Africa. Food prices are rising as a result of growing global populations with rising standards of living as well as the use of agricultural products to produce energy.

While national action alone cannot address climate change, South Africa has an interest in promoting effective global action since the country and the African region more generally are particularly vulnerable to its potential impacts. This requires that South Africa be willing to join with other countries in taking action to reduce carbon emissions, on a just and equitable basis, and to make the necessary domestic reforms.

South Africa has already expressed this commitment by inscribing in the United Nations Framework Convention on Climate Change COP 16 Cancun Agreements its voluntary commitment to reduce its emissions below a "business as usual baseline" by 34 percent by 2020 and 42 percent by 2025, the extent of which will be dependent on financial, technological and capacity-building support by developed countries. This commitment will present challenges for our current fossil fuel dependent economy and for the design of a more appropriate development path. South Africa has high potential to use solar energy and other renewable sources, but these are currently still expensive. Southern Africa has significant hydroelectric power potential, but for both technical and political reasons, it will be many years before the opportunity that these offer can be developed to its full extent.

Medium-term development proposals for investment in electricity generation have recently been formalised which highlight the broader development challenge. As the energy system is transformed, new opportunities will arise for job creation. However, these additional jobs must be set against



the potential job losses in the mining industry as more expensive energy constrains its activities. Because the export earnings of the mining sector currently help to fund our imports (including the inputs for the development of new industrial sectors) as well as creating a large number of low-skilled jobs, Government and industry would need to look at innovative ways in which to support and transform the sector as it changes to a low carbon future.

The country faces similar, complex challenges with respect to agriculture. While not as important in terms of its contribution to the economy, agriculture provides many of the low-skilled jobs that will be needed over the medium term and also provides some price stability and security in food supply. Yet sustaining production while sharing the benefits more broadly will also be difficult.

A critical future challenge for the NPC will thus be to balance the potential benefits from further development of our natural resource and mineral endowments with a less energy-intensive development path that is more environmentally sustainable and which offers more opportunities for currently marginalised sections of the population.

This will not be easy or straightforward. The costs of this transition will not fall evenly on the entire population: export sectors will suffer because of their resource-intensity; so too will poorer households living in poorly insulated, badly located housing. Is it possible to reduce carbon emissions and environmental impacts and still remain a competitive commodity exporter? How quickly can the economy shift from being a high resource-intensive one to a more knowledge-intensive or labour-intensive one? How does the country balance the need for infrastructure to suit today's economy, without locking in the present resource-intensive development path?

These are some of the questions that should be debated in public, because they are likely to have a profound impact on South Africa for many years to come.

5. Spatial challenges continue to marginalise the poor

The spatial legacy of apartheid continues to weigh on the entire country. In general, the poorest people live in remote rural areas. In the cities, the poorest live far from places of work and economic activity. Although it was identified as a

particular focus for attention even before 1994, the situation has probably been aggravated since then, with many more people now living in poorly located settlements. This adds to the challenges, already discussed, of providing infrastructure in support of economic activity.

Reversing the effects of spatial apartheid will be an ongoing challenge in the decades ahead.

In urban areas, a fundamental concern is the failure to coordinate delivery of household infrastructure as part of a broader process of building vibrant and viable human settlements. Currently, provinces deliver housing, schools and clinics; municipalities are responsible for planning and for delivering water, electricity, sanitation and refuse removal; while national government delivers protection services, bulk services and part of the transport network.

It has already been recognised that this fragmentation results in coordination failures, inefficiencies and slow delivery. In the cities, one response has been to shift the housing function to municipalities – a process that is already under way in some areas. This will help align the task of providing municipal services with housing.

But the solution does not lie in complete centralisation or decentralisation. Rather, it lies in strengthening the planning responsibilities of municipal government, to ensure that national and provincial government's sectoral infrastructure initiatives are aligned with municipal plans. The capacity of municipalities to plan effectively is a significant challenge that needs to be addressed, supported by the efforts of national and provincial government.

Even with a stronger and more coherent planning framework, there will still be no easy solutions for the challenges of spatial marginalisation. In the cities, should government move poor people to better located land? Existing settlement patterns have been driven in large measure by land costs. How can government help people to access better located land?

Similarly, reliable and affordable public transport is needed to enable poor people to participate in the life of the cities and towns. Is it feasible to provide this, given great distances and low population densities? Is it viable to move economic activity and opportunities closer to poor communities?



The challenges in rural areas are even greater and raise difficult issues and tradeoffs. Present policy is taking a more comprehensive view of rural development by focusing on incomes, employment opportunities and enterprise development, alongside existing programmes of infrastructure and land reform. But where and how should services be provided? And, since even basic municipal services are costly to build and operate in rural areas, what type and level of services should be provided, and where?

Recent data suggests that in addition to processes of rural-urban migration, there is considerable mobility within rural areas with the expansion and densification of rural informal settlements. In some former homeland areas, there is an emerging trend for “rural” populations to concentrate along transport corridors. What infrastructure could improve basic livelihoods by enhancing the economic potential of rural areas? Should basic household infrastructure be combined with roads, access to water and irrigation services, improved extension services and complementary social infrastructure to support agriculture or should it rather focus on the emerging “corridors of opportunity”?

To answer these questions, it will be necessary to have a coherent vision of the role of agriculture. Based on the experience of other countries, South Africa's agricultural sector could provide substantial livelihoods for more people than it does today. But does South Africa have the capacity, the will and even the desire to do this? Or have we already made the “agricultural transition” that, in other countries, has seen the number of people engaged in agriculture shrink dramatically?

6. The ailing public health system confronts a massive disease burden

Total deaths in South Africa have increased sharply, with the numbers approximately doubling in ten years up to 2008. The rise in total deaths, low life expectancy and high infant mortality are all evidence of a health system in distress. The overall picture is one of a country going through a devastating set of epidemics – the increase in deaths is as large as the number of deaths at the baseline just ten years earlier.

Our score on the United Nation's Human Development Index shows the impact of South Africa's quadruple disease

burden on all aspects of society. The first burden is the HIV pandemic; the second is that of injury, both accidental and non-accidental; the third epidemic consists of infectious diseases such as tuberculosis, diarrhoea and pneumonia, which interact in vicious negative feedback loops with malnutrition and HIV; and the fourth burden of disease is the growing epidemic of lifestyle diseases related to relative affluence. South Africa's health outcomes are poor by world standards, and the country faces several epidemics:

- South Africa has 0.6 percent of the world's population, 17 percent of the world's HIV infections and 11 percent of the world's tuberculosis cases.
- There is a scourge of trauma cases resulting from violence and road accidents (injury death rate of 158 per 100 000 population is nearly twice the global average).
- Infant and maternal mortality rates (43 per 1000 live births and 625 per 100 000 live births respectively) are extremely high and higher than other middle income countries.
- Non-communicable diseases such as diabetes and heart disease are rising sharply (non-communicable diseases in 2004 relative to baseline value in 1997 showed a fivefold increase).

In all these areas, South Africa's rates exceed global averages – in some cases by a significant margin. Many epidemics are not new, but the evolution of HIV has completely changed the nature of the disease burden in South Africa, especially in the past decade. Another plight that is seldom mentioned is the incidence of foetal alcohol syndrome, of which South Africa has the highest rate in the world. One of the only positive health outcomes in the past 17 years has been the reduction of smoking.

There is a dramatic increase in AIDS-related deaths among young adults, which is more marked for young women than men. In 1997, 20- to 39-year-old men were 1.6 times more likely to die than women of a similar age, mostly due to fatal injuries. By 2007, 20- to 39-year-old men were marginally (0.95 times) less likely to die than women of the same age (Statistics SA 2009). It is likely that AIDS and HIV-related TB account for all of the increase in deaths from communicable disease, as well as a considerable part of the added mortality classified as non-communicable.



While the country's disease burden is rising, the health system is collapsing. This collapse is partly attributable to the nature of the disease burden; its breakdown lies also in institutional issues and implementation failures over a long period of time. The quality of health care for black people was mediocre to start with, but because the disease burden was more manageable, health outcomes were steadily improving. Government has not dealt effectively with policy and implementation reforms needed in the health system and several mistakes are evidence of this. Errors in the management of human resources in the sector include over-centralisation of certain basic institution-level functions and a correct but badly implemented strategy to shift the patient burden to primary health care facilities. Alongside the problems within the public health system, government has not managed the relationship with the private health sector effectively.

The most severe of these policy lapses concerns the treatment of staff, particularly professional staff in the public health service. The status and role of professionals in the health system is undermined. The rise of silo-based management systems eroded discipline and management authority. On the supply side, training capacity for all levels of health professionals was reduced. Today, there is a massive shortage of skilled staff in the health system. While these personnel-related challenges are recognised by policy-makers the response has been ad hoc and in many instances inappropriate, resulting in the system lurching from crisis to crisis.

Government has correctly tried to shift the burden of care to the primary health care sector. The state has built over 700 new clinics since 1994. Theoretically, a well-functioning primary health care sector should have relieved patient loads on hospitals, shifting the sector towards preventative rather than curative modes. Earlier diagnosis and treatment should have resulted in better health outcomes. In practice, though, the quality of care in the primary sector is unsatisfactory and clinics often run out of essential medicines. Legitimate public perceptions of substandard care also prevent people from using these clinics. As a result, the shift of resources out of the hospital system has not achieved better health outcomes or lower patient loads.

These assertions are not made lightly, but are based on a series of studies that investigated all levels of health care. In

general, the Ministry of Health supports this assessment of the health sector.

The collapse of the public health sector prompted a portion of the population to opt out of the public health system. About 17 percent of South Africans are covered by private medical insurance at a significant cost, and about a quarter of South Africans use some forms of private health care, at least periodically. The cost of private medical care is almost 5 percent of GDP, a staggering amount given how few people are covered. Furthermore, the quality of private care is highly variable, with a significant over-reliance on hospital care and strong evidence of over-servicing.

The private sector has also competed with the public sector for skilled personnel. While remuneration for doctors and specialists is significantly higher than in the public sector, remuneration of nurses is now lower. The private sector argues that it plays a role in training nurses and helps discourage doctors and nurses from working overseas. Heavy workloads and demanding working conditions in the public sector are also a push factor for many nurses and doctors. Although competition for skilled staff is certainly a factor, it cannot explain poor health outcomes in the population in general, or the poor quality of public health care. Efforts to improve health outcomes have focused on two broad areas – improving the quality of care in the public sector, and introducing a national health insurance model. Improving health outcomes depends on several determinants:

- Stabilising and reducing substantially HIV and TB infections, and treating people who are already infected
- Changing lifestyles to limit HIV infections, and promoting healthier diets and exercise
- Reducing levels of violent crime, domestic violence and road accidents
- Improving nutrition levels and tackling micronutrient deficiencies, especially among children
- Improving the quality of water and increasing access to sanitation
- Improving the quality of primary health care, especially for pregnant women and very young children
- Raising the number of people trained throughout the health system (and ensuring that they are retained in the country).



Public health spending is about 3.5 percent of GDP. While this is roughly equal to most other middle-income countries (Brazil, Mexico, Chile), this level is probably too low given South Africa's significant disease burden. More resources are required, but it is not clear whether the financing model itself needs amending. In 2005/06 health financing came from general taxation (40 percent), medical aid contributions (45 percent) and out-of-pocket payments (14 percent). In general terms health financing in South Africa is progressive, even though healthcare access and outcomes are not progressive. The funding per patient in the private sector is significantly higher than in the public sector. Medical aids spend about five times as much per person as the public sector spends on an uninsured person. Despite the progressive nature of healthcare financing, the distribution of benefits is thus still skewed in favour of the wealthiest quintiles that bear lower burdens of disease (Health Economics Unit 2009).

On the other hand, within the private sector the financing is regressive with the poorest 20 percent contributing a significantly higher proportion of their income compared to the richest 20 percent. In this context, it is not clear whether an insurance model on its own will lead to either additional resources or better health outcomes. The need for institutional reforms that link the public and private sectors more closely, to narrow the gap in quality of care, to enable more choice for more people and to jointly raise the quantities of people trained is critical. Hospital management is an area where greater collaboration and partnership could raise standards at minimal extra cost. Policies aimed at reducing the cost of private health care over time are necessary and would also have broader social benefits.

7. The performance of the public service is uneven

South Africa has a progressive constitution, and a body of laws designed to protect and advance citizens' rights. Yet there is often a significant gap between the aspirations set out in official policy and what happens on the ground. The uneven performance of the public service results from the interplay between 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 structures, poor organisational design, inappropriate staffing and low staff morale.

Services such as education, health, social security, infrastructure and a range of municipal services enable people to develop

their capabilities, enhancing both their quality of life and their economic opportunities. Despite the extension of these services post-1994, concerns have been raised about the quality of services and particularly the level of variation in service delivery. In recent years, this has led to waves of service delivery protests.

The effects of poor service delivery are concentrated on the poor and especially on women who are the ones to take on the extra burden of collecting water and maintaining communal taps and toilets, where they do not have private facilities. The provision of decent services is therefore an important means of addressing gender, as well as racial, inequalities. The challenge, given that these levels of variation have been widely noted in recent years, is to focus on the underlying reasons in order to consider how these challenges can best be addressed.

Policy instability

The challenges for South Africa's public service post-1994 have been immense. Organisations that had been carefully crafted over decades to serve the interests of the white minority have had to be reformed to represent and serve the interests of all sections of the population. The apartheid system did not simply use the state to deliver services unequally, delivering first world services for some and services that deliberately constrained capability development for the majority black population. It also used the state as a vehicle for employment creation in order to empower whites and disempower the majority black population. Some form of affirmative action was therefore essential in order to ensure the public service became more representative of South Africa's population. The apartheid state had also fragmented the public structures through the creation of Bantustans, as well as separate ministries serving different racial groups. The systems of national and sub-national government therefore needed to be restructured into a coherent system that could pursue national rather than racial objectives. Rapid progress was made in these efforts to unify the structures of the public service and increase the representivity of its staff. However, 17 years after the end of apartheid, the public sector remains chronically unstable.

Highly visible instances of poor performance create a temptation to look for quick fixes and set up new institutional structures. As a result, there have been multiple initiatives



to reform the ways in which the public service is governed. Too often, these prove to be divisive and destabilising, while doing little to address the underlying issues impeding public sector performance. In most cases, not enough time was given to testing the effectiveness of these changes before further changes were made. Policy cannot be cast in stone; existing policies do need to be reviewed on the basis of a considered assessment of performance, and modified or even overhauled when necessary. But too often new policies have been implemented in an unconsidered fashion, as new leaders seek to make their mark, or as a response to the latest international fad. A multitude of separate initiatives can exacerbate the demands on staff time and lead to transformation fatigue as staff come to expect that initiatives will be transitory and quickly replaced by the next fad. Many of the problems with public sector performance have to do with deeply rooted systemic issues, and there is no 'quick fix' substitute for a long-term and strategic approach to enhancing institutional capacity.

Organisational instability and the political/administrative interface

Many of government's best performing institutions are characterised by the stability of their leadership and policy approach, but the level of political influence over the day-to-day operations of the public service often serves to undermine this stability. Public servants are employees of the state and accountable to elected leaders. The nature of this accountability should be managed in such a way that it does not blur the distinction between political party mandates and the need for professional, non-partisan obligations of the bureaucracy. It is critical for public servants to forge a collective professional identity and loyalty to the values of the Constitution rather than any political party. Political leaders such as ministers, members of the executive council and mayors will often have a short tenure in office before moving on to their next portfolio, but these changes are likely to be less disruptive if the public service is able to retain a degree of continuity.

Yet, senior public servants report to an elected minister not to a head of the public service. As a result, newly appointed political heads frequently replace the administrative heads in their departments, who therefore feel less secure in their jobs, believing that they would not survive a change of political leadership. This creates tension and conflict in the relationship between political and administrative heads. It also creates

scope for undue political interference in the appointment of senior staff, including the deployment of cadres to posts for which they are unqualified and political intervention in operational matters. As a result, changes of leadership are often accompanied by major policy reviews and shifts in policy direction, contributing to instability in the public sector. Inappropriate staffing and the skills deficit

Evidence from across the world suggests that one of the most important factors in the state's ability to pursue its objectives and to be effective at bringing about societal transformation is the people who work in the public service. It is vital that public servants have the skills and motivation they need to do their jobs. Yet, there is a shortage of staff and specialist skills in many aspects of the public service. A Personnel Expenditure Review conducted in 2007 by the Department of Public Service and Administration showed that the public service is short of skilled professionals, especially in health, policing, infrastructure planning, engineering, finance and information technology.

Transformation in the post-apartheid state required that the racial monopoly over skill be challenged and dismantled. Policies designed to improve the representivity of the public service work best when accompanied by effective management, training and recruitment processes. Where management structures do not operate effectively, the need to focus on improving staff skills through mentoring and training is neglected. Additional problems have been created by the decision to scale down or close training institutions such as teacher and nursing colleges following the end of apartheid, which has eroded the state's role in producing skilled professionals. This also applies to the training of engineers, planners and artisans. At the local government level, past practices of engaging professional institutes in the training, selection and development of senior managers have diminished, while bodies like the Institute of Municipal Finance Officers and Municipal Engineers have little influence over appointments to critical positions. The result has been a reduction in the number of professionals available to the state, and a looming crisis in the generational reproduction of professional expertise as the ageing cohorts continue to leave the system.

This skills deficit has an adverse impact not only on front-line service delivery, for instance in schools and hospitals and home affairs offices, but also on the ability of government to engage in long-term planning, coordination across institutions,



run efficient operations, ensure adequate maintenance of infrastructure, establish organisational systems and routines, and manage personnel and industrial relations. Information systems, human resource management and financial management are particularly weak areas, in addition to technical expertise such as engineering and town planning.

Uneven capacity leads to uneven performance

The patchwork of sub-national government structures developed under apartheid has been consolidated into nine provincial governments, six metropolitan districts, and 283 municipalities. On its own, this formal reorganisation could not overcome the damaging institutional legacies of the apartheid era but, with the focus on the complexities of organisational restructuring, there was insufficient policy focus on addressing these deeper institutional legacies, particularly in the former homelands.

Provincial and local governments play a key role in delivering healthcare, education and housing, services that are vital both for human and economic wellbeing. Significant progress has been made in increasing access to these services since 1994. However, there are enormous variations in the ability of provinces and municipalities to deliver these services effectively. A report by the Department of Cooperative Governance and Traditional Affairs concluded that “much of local government” was “in distress”, noting that urban municipalities tend to perform better than those in rural areas and especially those located in the former homelands. Provincial and local governments are therefore least able to deliver services in the poorest and historically most marginalised areas where those services are most needed. This high level of variation in service quality leads to a strong sense of injustice in society.

There are significant differences in the human, financial and other resources available to provinces and municipalities. Despite these differences, we do not have constitutional mechanisms for either asymmetric assignment of powers and functions or for adequate support to be provided by national government. Many short-term responses to skills shortages do little to address long-term capacity constraints. Consultants can be brought in to design and build infrastructure, but without in-house technical expertise provincial and local governments lack the capacity to ensure the work is done to

an adequate standard or to maintain the infrastructure once the work has been completed.

Research done by Municipal IQ revealed serious problems with regard to municipal finance and intergovernmental fiscal issues. Of the municipalities included in the study, only two – Johannesburg and eThekweni – achieved an “excellent” score and two – Cape Town and Ekurhuleni – obtained a “fair” score, while 12 including all the districts and local municipalities studied, achieved a “poor” score. A lack of clarity about the powers and functions of local government exacerbates the financial problems faced by municipalities and is a critical factor impeding progress in service. This has led to municipalities being saddled with a burden of “unfunded mandates” in areas such as housing, libraries, roads, water treatment and other infrastructure. Attention therefore needs to be given to redefining the powers and functions of local government in the areas of housing, libraries, public transport, land use planning and local economic development.

Outside the metros, the two-tier structure of local government is not working as efficiently as the policy makers had intended. This is primarily because the districts have inadequate financial, human and physical resources to play their intended planning and coordination roles. Given the wide variation in financial and administrative capacity at the local government level, careful consideration needs to be given to how we can achieve a better fit between the capacity and functions of local governments.

The erosion of accountability and authority structures

Improving the consistency of public sector performance requires effective mechanisms for ensuring accountability of public servants to their managers, of senior managers to their political principals and to the citizens they serve. Yet, accountability mechanisms are frequently not implemented as managers seek to avoid taking responsibility, while being reluctant to devolve authority to those below them. Staff and trade unions also engage in practices that challenge or undermine the authority of managers. The result, in many cases, is the erosion of accountability and lines of authority, with an adverse impact on organisational performance. In recent years we have seen citizens resorting to protest action, sometimes violent, to draw attention to their demands. This demonstrates that many citizens are not only frustrated but also feel their voice is not being heard through formal channels.



Since 1994, many forums were established to engage citizens, such as Community Police Forums, Drug Local Action Committees, Ward Committees and School Governing Bodies. Citizens are only likely to take such engagement seriously if they believe there is a genuine desire to listen to, and act on, the concerns they are raising.

In an effort to improve performance across departments and encourage collaboration between departments, government has identified 12 “Outcomes” that are presented as the core focus of government activity and are monitored by the Department for Performance Monitoring and Evaluation. The objective has been to improve inter-departmental collaboration and increase the accountability of ministers to the President by requiring each minister to sign a performance agreement. If these objectives are set out and monitored in a straightforward, transparent and easily accessible way, they can help both political leaders and citizens identify where government is falling short of their expectations. However, it is important to recognise that measures of performance can only deliver results if there is a commitment to hold those responsible for services accountable at each level of government.

8. Corruption undermines state legitimacy and service delivery

One of the most striking breakdowns in accountability is corruption. Defined as the misuse of an official position for personal gain, corruption occurs in both the public and private sectors, but it is particularly damaging to good relations between citizens and the state. It undermines confidence in the democratic system by enabling the better off to exert undue influence over the policy process or obtain preferential access to services.

The clandestine nature of corruption makes it inherently difficult to measure. The advent of democracy has enabled much greater coverage of instances of corruption. Civil society and the media have played a prominent role in highlighting cases of corruption. Corruption is widely condemned, but remains a major problem. Most cases of corruption covered in the media are uncovered by government, and so a renewed effort to fight corruption can lead to a perception that corruption levels have increased. Nonetheless, the NPC's interactions with the agencies tasked with investigating cases of corruption make

it clear that levels of corruption are worryingly high. South Africa is ranked 54th out of 178 countries in Transparency International's Corruption Perception Index, which measures perceived levels of corruption, with the 1st country being the least corrupt and 178th the most corrupt. The most recent National Victims of Crime Survey suggested that 3 percent of South Africans experienced corruption in 2007. According to the Special Investigating Unit, it is estimated that 20-25 percent of state procurement expenditure, amounting to roughly R30 billion a year, is wasted through overpayment or corruption.

Corruption can arise from weak systems and institutions inside government, the quality of oversight and accountability institutions, the competence of the audit authorities, and the transparency of procurement, budgeting and payments systems. In some of these areas, South Africa scores well by international standards, or at least as well as other emerging economies. The competence of the Auditor-General is recognised internationally and South Africa was recently voted as having the most transparent budgeting system in the world. Whistle-blowing and anti-corruption hotlines have become a standard and accepted feature of government agencies. Both the Public Service Commission (PSC) and Special Investigating Unit (SIU) have seen a rapid increase in the number of cases of corruption reported. This suggests there are many people who are not prepared to tolerate corruption and who make use of the formal mechanisms that exist to report it.

Despite strengths in some areas, financial auditing and the investigation of corruption have revealed that weak systems make it easier for corruption to occur. Financial systems and procurement processes are often poorly implemented and enforced. The number of qualified audits issued by the Auditor-General, and the fact that these are repeated in many cases year-on-year, demonstrates the problem. Municipalities have been found to be most prone to corruption where there are systemic weaknesses and acute skill shortages. Improving the overall capacity and functioning of the public service, particularly in relation to financial systems and controls, information systems, and overall management capability might be the single most effective way of deterring corruption.

While agencies such as the Auditor-General and the Special Investigating Unit are highly skilled and effective organisations, their capacity is limited. The Special Investigating Unit, for



example, is not able to investigate all the major cases that are referred to it. This is of particular concern because the probability of being caught has a major impact on the level of corruption. The numerous anti-corruption agencies and laws and forums also present their own problems due to overlapping mandates and the lack of strategic coordination of investigating bodies.

Corruption weakens government's ability to deliver services, increase social mobility and overcome inequalities. High levels of inequality can, in turn, exacerbate the potential for corruption. For example, well-connected business people may be able to use their influence to override formal procedures when they come into contact with a relatively weak state. Similarly, if poor people are denied access to services to which they are entitled, their lack of resources and connections may make it difficult for them to demand their rights. The entire country is harmed by corruption, but the costs are not borne equally and fall most heavily on the poor through the impact on the quality and accessibility of public services. The fact that the costs of corruption are concentrated on those with least influence makes tackling corruption more difficult.

Corruption is not only an institutional problem, but also a moral and political one. It will not be easy to eradicate corruption from the public sector if the problem is not addressed at a political level. Political dedication and will are going to be important for improving systems as well as enhancing the capacity for effective investigations and prosecutions. The majority of public servants, public service managers and political leaders abhor corruption and many engage in daily struggles to prevent or reduce corruption. Yet, the perception of high corruption and poor service delivery can undermine confidence in the state and contribute to a breakdown of trust.

Addressing the uneven performance of the public service will not be achieved through multiple new initiatives but rather through a focused and coordinated approach. This will require addressing a set of interrelated issues including instability resulting from repeated changes in policy, under staffing and skills shortages, obstacles to building a sense of professional common purpose in the public service, political interference, lack of accountability, and insufficient clarity in the division of roles and responsibilities. Initiatives typically seek to address individual issues in isolation, but these issues impact on and feed

off one another. Isolated responses easily become fragmented, contradictory or counter-productive, meaning there is a need for a more strategic and long-term approach to enhancing the capacity and performance of the public service.

9. South Africa remains a divided society

We have made significant progress in uniting our country since 1994. Racism and prejudice has declined and we have infinitely more interaction, as equals, between black and white South Africans. Despite this progress, we remain a divided society and the major dividing line in society is still race. To resolve these divisions will take time and a careful balance between healing the divisions of our past and broadening economic opportunities to more people, particularly black people.

Despite progress in uniting our country, deep divisions fuel a cycle of mistrust and short-termism that make dealing with our key challenges difficult and more complex. Trust is an essential element of healing and of nation building; and is also necessary to construct the long-term compacts required to deal with the underlying causes of inequality and exclusion. Societal division impedes the formation of consensus to develop, change or even implement policy. The greater the differences between two groups in society, and the greater the uncertainty about the other group, the larger are the gains to stubbornness, or continued disagreement about collective decisions (see Keefer and Knack 2000).

The dividing lines in our society are complex and evolving. While race is still the key dividing line, issues such as gender and locality are also important factors that explain differences in opportunity. Inequality compounds this division. While we have made significant progress in deracialising the upper end of the income spectrum, poor quality education and high youth unemployment inhibits a broadening of opportunity necessary to reduce inequality and heal the divisions of the past.

The poor performance of some public institutions further exacerbates the division in many ways. The rich are able to purchase private provision of these (health, education, private security). This removes resources and weakens the accountability in public provision.

Crime finds fertile ground in countries with huge inequality and where citizens feel they need not practise good citizenship.



Crime encourages the growth of gated communities. The separate living spaces generate a high degree of relational distance, so people do not see themselves as part of a common citizenry. This, compounded with the legacy of the Group Areas Act and the effects of poor public transport, means the sharing of geographical space across class and race still remain difficult.

These divisions in our society undermine our ability to define social contracts or compacts. Social contracting or compacting occurs where different groups in society rise above their immediate short-term interests, and cooperate in pursuit of a society-wide and longer-term goal. The National Peace Accord, the National Economic Forum, the Convention for a Democratic South Africa negotiations are all powerful examples of social compacting which occurred during our country's transition to democracy. However, South Africans have the capability of pleasantly surprising even themselves. The largely peaceful transition of 1994 is testament to that.

Our democracy and the way in which it was achieved provide the basis for restoring the dignity of all South Africans. Surely, a united nation, able to set aside its differences, to work together for a progressive and noble vision of equity, non-racialism and non-sexism is within our grasp.

A meaningful consensus envisaged in South Africa would build on the explicit social contract embedded in the Constitution, and be anchored on mutual sacrifice and mutual benefit in order to make real the aspiration embodied in the Constitution: "Healing the divisions of the past and establishing a society based on democratic values, social justice, fundamental human rights and an active, responsible and accountable citizenry".

Certainly, the many successful societies that eradicated poverty in a short space of time used a social compact of some sort, through which those at the bottom end of the income pyramid, together with all others, have enjoyed a steady rise in living standards. This kind of progress has given governments the legitimacy to implement difficult socioeconomic policies which, in spite of initial hardships, often has a positive long-term effect on the entire nation. South Africa recognises this and there have been several attempts to create a social consensus, such as the Jobs Summit of 1998, the Growth and Development Summit and, most recently, the Framework Response to the Economic Crisis.

An effective social compact will:

- Build and maintaining trust among all social partners
- Create a shared analysis of the problem and a mutual recognition that all stakeholders need to commit to find solutions
- Define a clear vision of what stakeholders are aiming for; and a set of manageable objectives
- Inspire leaders to accept responsibility and take risks.

At a micro level, the family is the principal agent for socialisation, value inculcation and creating a sense of belonging. The family represents the centre of children's lives. According to the Macro Social report produced by the Presidency in 2006, the two-parent household is on the decline, with an increase in the proportion of both single and extended households in urban and rural areas; marriage rates are falling. Between 1996 and 2001, the number of households in South Africa increased by approximately 30 percent. This far exceeded population growth, which was only 11 percent. This therefore means additional support is needed for this institution, i.e. the family, to help inculcate values embodied in the Constitution, but also to equalise opportunity for all South African children.

For many South Africans, faith is an important element of social capital, and religious institutions are also useful for the social cohesion project because they are a repository of social values. Similarly, other social activities such as sport, recreation, education, work and community organisations are essential building blocks in uniting people by creating a common identity and understanding of their fellow citizens. They are important partners for driving nation building and social cohesion.

Non-sexism is enshrined in the Constitution. In South Africa there exist vibrant gender activist organisations and a woman's ministry as well as legislation such as the Employment Equity Act. There have been successes: in 2010 there was 44 percent of women representation in the legislature and 43 percent of women in Cabinet; at local government level, women constitute 40 percent of elected positions. There has been an increase in the representation of women at senior levels of the public service to an average of 36.1 percent at the end of 2009. Women constitute 26 percent of the higher courts and about 40 percent of the lower courts.

However, patriarchal practices still render the participation, citizenship and voice of women suboptimal. For example, women still earn less than men on average and only 18 percent

of managers are women. Women are expected to conduct their productive and reproductive roles, (child care, caring for the sick, fetching water and fuel etc.) thus reducing the possibility of engaging adequately with the broader economy. Violence against women is rife and the rate of sexual offences is extraordinarily high by international standards with poor conviction rates for such offences.

Much has been achieved but still more work needs to be done to make South Africa truly belong to all who live in it. It should be possible to:

- Navigate the various cultural “norms” and patriarchy
- Eradicate the shadow of the past including social fragmentation and passive citizenry which is beginning to creep into the souls of South Africans
- Create jobs and widen access to the social wage to enable participation and inclusion
- And in doing so make real the aspiration embodied in the constitution *“Healing the divisions of the past and establishing a society based on democratic values, social justice and fundamental human rights”*.

To achieve our social and economic objectives set out in our Constitution, South Africa would have to make faster progress in uniting out people. This requires both better implementation of redress measures and faster expansion of opportunities for historically disadvantaged South Africans through improved education, job creation, career mobility and entrepreneurship. In the absence of progress in improving educational standards and in getting more people into work, redress measures on their own are likely to be ineffective and contribute towards social strife rather than unity.

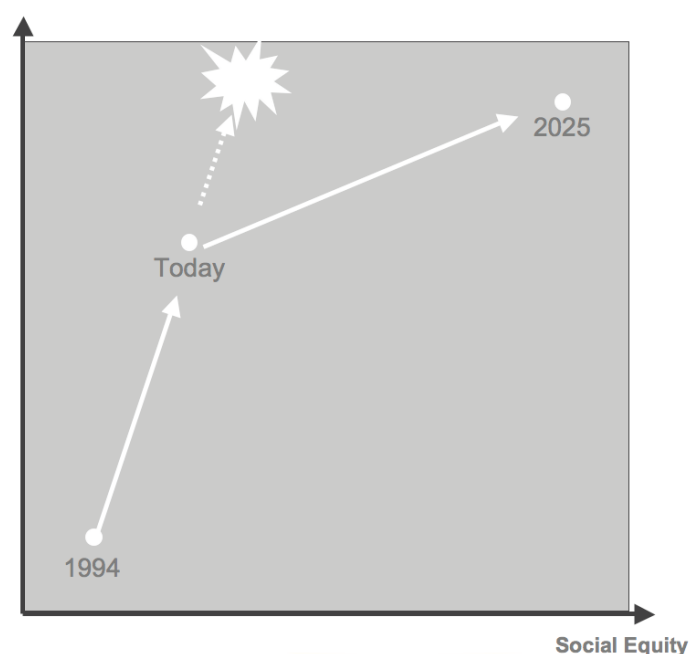
Conclusion

We have listed above a formidable set of challenges. These challenges do not mask the significant progress that we have already made. Our progress had indeed been substantial. Furthermore, our history has provided many examples of South Africans coming together to achieve amazing things: our democratic transition, our constitution, the ending of political violence, the hosting of many international events, regular and credible elections and the decline of ethnic-based politics in our country. We have both the determination and the capability to deal

with the challenges that confront us. These are massive challenges, but they are not insurmountable.

Our society needs to make significant progress in all of these areas if by 2030 we are to be much closer to the promise of an inclusive, just society as envisaged in our Constitution. If we do not tackle these challenges, there is a real risk that the gains we have made will be reversed and our goals would become even harder to achieve.

Economic growth



We need leaders and citizens to commit to a bold programme to build a better future, based on ethical values and mutual sacrifice. The leadership required will think and act long term, rising above short-term personal or political gain. They will think and act in the interests of the nation as a whole, and avoid promoting the interests of one group of South Africans at the cost of others.

The citizens of a South Africa firmly on the road to inclusion, cohesion and shared prosperity will need to fiercely hold to account both public representatives and the public service at all levels. However they will be equally energetic in exercising their responsibilities. All citizens have a responsibility to build family and community, to grow their own skill and productivity base, and that of their children and to join government in the fight against crime and corruption.



Successful countries have what is called a “future orientation”. Their policy bias is to take decisions that lead to long-term benefits, as opposed to short-run solutions that could have negative effects later on. Such countries generally prefer investment over consumption, have high savings rates, sound fiscal policy, high levels of fixed investment, a high degree of policy certainty and clear rules of engagement for the private sector. A clear and predictable policy environment enables businesses to take a longer-term perspective on growth and development. Countries with a future orientation generally spend more on education, and value it more in communities and households.

Such countries continuously invest in their financial resources through high rates of saving. They invest in their human resources through extensive and effective education and skills training. They invest in innovation and technology to ensure their place in an increasingly competitive global economy. They constantly expand, maintain and renew both the physical and human infrastructure that makes inclusive economic growth possible. They constantly deepen social cohesion through ensuring high levels of social solidarity and equally high levels of social mobility.

In countries which fail to do this, powerful groups with vested interests capture public policy. Regulations controlling market access are used to ensure high profits for those granted access, at the cost of both new entrants and also customers. Governments appear to be unable to collaborate and cooperate with powerful vested interests without being captured by them. All governments need to co-operate with powerful sections of society (business, unions, etc) to deliver their political mandates.

In successful societies governments have a clear sense of what they want to achieve, clear guidelines on how to structure relationships with their social partners, and an equally clear sense of the public interest actions they expect from these actors. Furthermore, when social actors lobby in the public interest they do so through public institutions in a process which itself is open and transparent. Over the next 20 years, the ethics, actions and choices of our country's leaders and its citizens, including the key social actors of labour, business and civil society will determine whether we complete the transformation promised in 1994 or step back into a stagnant, divided, second-class country. It is the National Planning Commission's mission to encourage and enable an engagement between our country's leaders and its citizenry

that ensures South Africans realise the promise of our future, as it is so aptly captured in the preamble to our Constitution.



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